

Committee on Legislative Oversight
February 21, 2018

Page 1

COUNCIL OF THE CITY OF PHILADELPHIA
COMMITTEE ON LEGISLATIVE OVERSIGHT

Room 400, City Hall
Philadelphia, Pennsylvania
Wednesday, February 21, 2018
1:25 p.m.

PRESENT:

COUNCILMAN KENYATTA JOHNSON, CHAIR
COUNCILMAN ALLAN DOMB
COUNCILMAN DEREK S. GREEN
COUNCILWOMAN HELEN GYM
COUNCILWOMAN BLONDELL REYNOLDS BROWN
COUNCILMAN AL TAUBENBERGER

BILLS 171118, 171119, 171120, 171121, 171122,
171123, 171124, 171126, and 171127
RESOLUTION 170942

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Committee on Legislative Oversight
February 21, 2018

Page 2

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 COUNCILMAN JOHNSON: Good
3 afternoon, everyone. This hearing is
4 called to order. This is the public
5 hearing of the City Council Legislative
6 Oversight Committee. The purpose of this
7 public hearing is to hear testimony on
8 Bills No. 171118, 171119, 171120, 171121,
9 171122, 171123, 171124, 171126, 171127,
10 and Resolution 170942.

11 I am Councilman Kenyatta
12 Johnson. I am the Chairman of the
13 Council's Legislative Oversight
14 Committee.

15 I recognize the presence of a
16 quorum with the following Committee
17 members: Councilman Derek Green,
18 Councilwoman Helen Gym, and Councilwoman
19 Blondell Reynolds Brown.

20 Today we have several bills on
21 our agenda that have come out of
22 Council's Regulatory Reform Commission
23 that's chaired by Councilman Derek Green.
24 We will be taking testimony from the
25 Administration on those bills before

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 moving to a public meeting to consider
3 action on those bills. Following that,
4 we will be moving back to our public
5 hearing for testimony on Resolution
6 170942.

7 And with that being said, can
8 the Clerk please read the titles of the
9 bills.

10 THE CLERK: 171118, an
11 ordinance amending Chapter 10-800 of The
12 Philadelphia Code, entitled "Safety," by
13 repealing certain provisions of Section
14 10-806 (relating to construction of
15 reviewing stands) and amending other
16 provisions of said Section, all under
17 certain terms and conditions.

18 171119, an ordinance amending
19 Chapter 9-400 of The Philadelphia Code,
20 entitled "Carriers," by repealing certain
21 provisions relating to motor buses, all
22 under certain terms and conditions.

23 171120, an ordinance amending
24 Chapter 9-700 of The Philadelphia Code,
25 entitled "Amusement Buses," by repealing

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 Section 9-704 (relating to motion
3 pictures), all under certain terms and
4 conditions.

5 171121, an ordinance amending
6 Chapter 9-600 of The Philadelphia Code,
7 entitled "Service and Other Businesses,"
8 by repealing certain provisions related
9 to refuse collection, all under certain
10 terms and conditions.

11 171122, an ordinance amending
12 Chapter 10-800 of The Philadelphia Code,
13 entitled "Safety," by repealing certain
14 provisions relating to excavations and
15 obstructions, all under certain terms and
16 conditions.

17 171123, an ordinance amending
18 Chapter 9-700 of The Philadelphia Code,
19 entitled "Amusement Businesses," by
20 repealing Section 9-708 (relating to
21 compulsory vehicular amusement device
22 insurance), all under certain terms and
23 conditions.

24 171124, an ordinance amending
25 Chapter 9-600 of The Philadelphia Code,

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 entitled "Services and Other Businesses,"
3 by repealing Section 9-630 (relating to
4 sale of used cars), all under certain
5 terms and conditions.

6 171126, an ordinance amending
7 Chapter 10-800 of The Philadelphia Code,
8 entitled "Safety," by repealing certain
9 provisions relating to police and fire
10 radio broadcasts, all under certain terms
11 and conditions.

12 171127, an ordinance repealing
13 Chapter 13-700 of The Philadelphia Code,
14 entitled "Garbage Disposal Units," all
15 under certain terms and conditions.

16 COUNCILMAN JOHNSON: Before I
17 ask for the Clerk to call up for
18 witnesses, I want to have the Chair of
19 the Regulatory Review Committee,
20 Councilman Derek Green, to offer a few
21 remarks and then we'll call up witnesses
22 to provide testimony.

23 COUNCILMAN GREEN: Thank you,
24 Mr. Chair. Today's hearing and the
25 legislation that was introduced for

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 repeal are a continuation of an issue
3 that we started last year that was
4 started by the Council President, Darrell
5 Clarke, as well as working in conjunction
6 with our Commerce Director, Harold Epps,
7 who is one of the Co-Chairs along with
8 myself, and the President and CEO of the
9 Greater Philadelphia Chamber of Commerce,
10 Rob Wonderling. This is an initiative to
11 not only take out legislation that has
12 been antiquated that's been in the Code
13 for some time, but also this fostered a
14 unique relationship between the business
15 community as well as the public sector to
16 talk about how we can improve and enhance
17 the business climate in the City of
18 Philadelphia.

19 Since this initiative had
20 started, we have now been working with
21 various City departments to propose
22 legislation and regulations that they've
23 seen that's been antiquated and has
24 impacted their ability to move forward
25 and have better relationships with the

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 business community. Today's legislation
3 is one aspect of that.

4 In our conversations with L&I
5 Commissioner Dave Perri, he has proposed
6 information and legislation that goes
7 along to that degree, and we're using
8 this as a model to talk about other City
9 departments on how they can propose
10 legislation as well as regulations that
11 they believe should be removed from the
12 Code or from our regulatory framework
13 that impacts their ability to do their
14 job and also work with small businesses
15 as well as other businesses throughout
16 the greater Philadelphia community.

17 So this is another step in that
18 goal. The Special Committee, we have, I
19 guess, the next quarterly meeting on
20 March 7th, and we will continue to work
21 as a committee and also with our various
22 subcommittees that are focusing on
23 various industries in the City of
24 Philadelphia to improve and enhance our
25 business climate, so that way, we can

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 have small businesses grow, employ more
3 people in the City of Philadelphia, and
4 get to what I say is the number one issue
5 in our city, which is poverty. And by
6 growing the number of successful small
7 businesses and large businesses in our
8 city, they'll be able to employ more
9 people, reduce our poverty, and we
10 ultimately will be able to reduce taxes,
11 because we'll have a larger base of
12 businesses and we will be able to rely on
13 more businesses and have more money
14 coming to the General Fund and have less
15 taxes.

16 So with that, thank you,
17 Mr. Chair.

18 COUNCILMAN JOHNSON: Thank you,
19 Councilman and Mr. Chairman.

20 Will the Clerk please call up
21 the witnesses for these bills, please.

22 THE CLERK: Jonathan Snyder.
23 (Witnesses approached witness
24 table.)

25 COUNCILMAN JOHNSON: Please

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 state your name and title in the
3 microphone for the record, please.

4 MR. SNYDER: Certainly. Thank
5 you, Mr. Chairman. Jonathan Snyder,
6 Director of Business Financial Resources
7 for the Department of Commerce.

8 COUNCILMAN JOHNSON: You can
9 proceed.

10 MR. SNYDER: Thank you. Good
11 afternoon, Mr. Chairman and members of
12 the Legislative Oversight Committee. My
13 name is Jonathan Snyder and I serve as
14 Director of Business Financial Resources
15 for the City of Philadelphia Department
16 of Commerce. I am here to testify in
17 support of nine bills which repeal Code
18 provisions that have been deemed archaic
19 or no longer necessary. These are Bill
20 No. 171118, repeal of reviewing stands
21 permit; Bill No. 171119, repeal of motor
22 bus carrier license; Bill No. 171120,
23 repeal of motion picture obscenity
24 ordinance; Bill No. 171121, repeal of
25 private garbage collection license; Bill

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 No. 171122, repeal of excavation and
3 obstruction ordinance; Bill No. 171123
4 repeal of compulsory vehicular device
5 insurance; Bill No. 171124, repeal of
6 sale of used cars ordinance; Bill No.
7 171126, repeal of police and fire scanner
8 permit; Bill No. 171127, repeal of
9 garbage disposal unit ordinance.

10 The Special Committee for
11 Regulatory Reform was established in the
12 spring of 2017 by Resolution 170179. The
13 purpose of this Committee is to identify
14 outdated and unneeded provisions in The
15 Philadelphia Code and in administrative
16 regulations and recommend revisions that
17 will make it easier to open and operate
18 businesses in Philadelphia. The
19 Committee's process includes members of
20 City Council and their staff, Department
21 of Commerce leadership, and members of
22 the business community who have been
23 appointed by the Council President.
24 Through dialogue between and among
25 stakeholders, the Special Committee is

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 formulating recommendations that will
3 help improve and modernize Philadelphia's
4 business environment and ensure that good
5 jobs are being created in this city.

6 This past December, the Special
7 Committee identified seven outdated
8 provisions which were repealed thanks to
9 the cooperation between City Council,
10 private employers who serve on the
11 Committee, and multiple City departments.
12 By repealing the nine archaic and
13 outdated Code provisions that we are
14 discussing today, we will continue to
15 streamline the Code itself, making it
16 more current and accessible.

17 The Administration supports
18 these nine bills.

19 Thank you for the opportunity
20 to testify today.

21 COUNCILMAN JOHNSON: Thank you
22 very much.

23 Any questions for our panelists
24 from members of the Committee?

25 (No response.)

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 COUNCILMAN JOHNSON: Okay.

3 Seeing none, thank you very much.

4 MR. SNYDER: Thank you.

5 COUNCILMAN JOHNSON: Is there
6 anyone else to testify on these bills?

7 (No response.)

8 COUNCILMAN JOHNSON: Okay.

9 Thank you very much.

10 This concludes the public
11 hearing on Bills No. 171118, 171119,
12 171120, 171121, 171122, 171123, 171124,
13 171126, and 171127. We will now go into
14 a public meeting to consider the action
15 to be taken on these bills.

16 The Chair recognizes Councilman
17 Derek Green.

18 COUNCILMAN GREEN: Thank you,
19 Mr. Chair. I move that Bills No. 171118,
20 171119, 171120, 171121, 171122, 171123,
21 171124, 171126, and 171127 be reported
22 from this Committee with a favorable
23 recommendation and that the rules of
24 Council be suspended to permit first
25 reading of these bills at our next

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 session of Council.

3 (Duly seconded.)

4 COUNCILMAN JOHNSON: It has
5 been moved and properly seconded that
6 these bills be reported from the
7 Committee with a favorable recommendation
8 and further moved that the rules of
9 Council be suspended to permit first
10 reading of these bills at the next
11 session of Council.

12 All those in favor of the
13 motion will signify by saying aye.

14 (Aye.)

15 COUNCILMAN JOHNSON: Opposed?

16 (No response.)

17 COUNCILMAN JOHNSON: The ayes
18 have it and the motion carries. Those
19 bills will be reported from this
20 Committee with a favorable recommendation
21 with a request that the rules of Council
22 be suspended to permit first reading at
23 the next session of Council.

24 This concludes the public
25 meeting, and we will now return to our

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 public hearing, but I also want to thank
3 publicly the Chairman of the Special
4 Committee on Regulatory Review,
5 Councilman Derek Green, for his hard work
6 on these particular bills.

7 I'm sorry. Councilwoman Helen
8 Gym.

9 COUNCILWOMAN GYM: I also
10 wanted to duplicate your sentiments and
11 just want to thank Councilman Green for
12 his great work on reviewing some of these
13 regulations. It's really important that
14 we keep our laws updated and responsive
15 to these times. So thanks for your great
16 work on that.

17 COUNCILMAN JOHNSON: Will the
18 Clerk please read the title of the
19 resolution.

20 THE CLERK: 170942, a
21 resolution authorizing the Standing
22 Committee on Legislative Oversight to
23 hold hearings to examine progress in
24 implementation of Tax Reform Commission
25 recommendations, the impact of

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 implemented recommendations, and further
3 opportunities for enhancing the
4 competitiveness of Philadelphia's tax
5 structure.

6 COUNCILMAN JOHNSON: Thank you
7 very much.

8 Just before we get started,
9 just briefly, first I want to acknowledge
10 Councilman Allan Domb for being here
11 today as well, who I'm sure will provide
12 some great insight in this discussion.

13 The formation of this
14 resolution which is based upon my brief
15 time serving as a Councilmember and my
16 former life serving as a State
17 Representative and working with members
18 of the business community as it relates
19 to how we can make Philadelphia a more
20 business-friendly and competitive city,
21 particularly looking at our tax
22 structure.

23 We have 17 taxes on the books
24 that some may tell you have a significant
25 impact on why an individual decides to do

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 business or not to do business on this
3 side of City Line Avenue. And so as I
4 decided to move forward as a Councilman
5 of the Second Councilmanic District, I
6 sit on the Board of PIDC, which is the
7 Philadelphia Industrial Development
8 Corporation. We work very closely with
9 Liberty Property Trust and the
10 development that's taking place down at
11 the Navy Yard. I also sit on the
12 Philadelphia International Airport
13 Advisory Board where we're overseeing an
14 \$8.1 billion expansion. I work very
15 closely as the Chairman of the Public
16 Utilities Committee and -- Public
17 Utilities and Transportation Committee.
18 We work very closely with Philadelphia
19 Energy Solutions as well as we have a new
20 casino coming in my district called Live
21 Casino at 10th and Packer, and work very
22 closely with the Phillies, the Flyers,
23 the Sixers, and now the Super Bowl
24 Champion, Eagles, and part of that
25 process has required my office to engage

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 in various dialogues regarding the
3 business environment here in the City of
4 Philadelphia, and oftentimes we get good
5 marks and oftentimes I do hear that we
6 should be receiving bad marks based upon
7 our relationship with the business
8 community and how sometimes the things
9 that we propose could be very regressive
10 and have a significant negative impact on
11 the business environment here in the City
12 of Philadelphia from a tax standpoint.
13 And so we decided in my office in working
14 with my staff to put together this
15 hearing just to provide a platform for
16 those in the business community to come
17 and express their opinion on our tax
18 structure here in the City of
19 Philadelphia, and hopefully we can
20 continue to create a dialogue and some
21 concrete ways how we can improve the
22 business environment here in the City of
23 Philadelphia.

24 So with that being said, I'm
25 going to open it up for any of my

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 colleagues who would like to make a
3 comment.

4 (No response.)

5 COUNCILMAN JOHNSON: Okay. If
6 not, can the Clerk please call the first
7 panel of witnesses, please.

8 THE CLERK: Frank Breslin and
9 Harold Epps.

10 (Witnesses approached witness
11 table.)

12 COUNCILMAN JOHNSON: He needs
13 no introduction, but for the record, sir,
14 can you state your name and your title,
15 both of you, for the record and you can
16 start your testimony after.

17 MR. EPPS: Mr. Chair, I'm
18 Harold T. Epps, the Director of Commerce
19 for the City of Philadelphia.

20 COMMISSIONER BRESLIN: Frank
21 Breslin, Revenue Commissioner.

22 MR. EPPS: Good afternoon,
23 Chairman Johnson and members of the
24 Committee on Legislative Oversight.
25 Again, my name is Harold T. Epps and I am

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 the Director of Commerce for the City of
3 Philadelphia.

4 I am here today to provide
5 testimony regarding Resolution No.
6 170942, which authorizes hearings to
7 examine progress in implementation of Tax
8 Reform Commission recommendations, the
9 impact of implemented recommendations,
10 and further opportunities for enhancing
11 the competitiveness of Philadelphia's tax
12 structure.

13 As you well know, these are
14 topics that I care a lot about and are
15 central to my role as Commerce Director.

16 In fact, I have spent nearly a
17 decade studying and making
18 recommendations related to Philadelphia's
19 business environment and economic
20 competitiveness. Prior to becoming
21 Commerce Director, I experienced
22 firsthand the impact of running a
23 business within the City of Philadelphia.
24 Since coming to Philadelphia in 2008, I
25 have loved living in this city, but have

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 worked in company leadership in other
3 cities throughout the United States and,
4 as a result, I can attest that
5 Philadelphia has a lot of work to do to
6 become more competitive.

7 Even before becoming Commerce
8 Director, I have wanted to contribute to
9 Philadelphia's economic growth, which is
10 why I was honored to serve as Co-Chair of
11 the Mayor's Task Force on Tax Policy and
12 Economic Competitiveness in 2009. The
13 purpose of this Task Force was to examine
14 tax structure and the real estate market
15 and provide recommendations. The Task
16 Force provided numerous recommendations,
17 and I am pleased to report that some
18 progress has been made on these. I've
19 included an addendum with my testimony
20 outlining the progress on each of the
21 recommendations of the 2009 Task Force
22 and will share with you today a sampling
23 of some -- and I just mean a sampling --
24 of some of the key recommendations and
25 progress to date.

2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

No. 1, the recommendation was to reduce the wage tax to 2.7 percent by 2025. The status is, the rates are now 3.9004 percent for residents and 3.4741 for non-residents. And on behalf of the Administration, we are committed to continue these reductions.

Recommendation No. 2 was to reduce the net income portion of BIRT from 6.45 percent to 6 percent by 2025. The 2018 rate is 6.3 percent, and the City again is committed to continuing reductions of BIRT. Further, as of 2016, all businesses receive an exemption on the first \$100,000 in gross revenue.

Thirdly, our recommendation was to adopt a single sales factor apportionment. And the status is adopted in 2017.

The next recommendation was to gradually increase tax revenue from real estate. The Actual Value Initiative, AVI, implemented in 2014. Real estate tax revenue increased from \$403.4 million

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 in 2009 to \$583.1 million in 2017.

3 Realty transfer tax revenue doubled from
4 \$115.7 million 2009 to \$232.9 million in
5 2017.

6 And, finally, the
7 recommendation was to improve tax
8 collection and compliance. The status
9 is, total delinquent principal for active
10 periods has decreased from \$555.8 million
11 in 2007 to \$306.1 million in 2017, a
12 decrease of 44.9 percent.

13 These are some of the examples
14 to speak to the incremental progress that
15 the City has made to improve the business
16 environment. And I should add that these
17 policy changes have been accompanied by
18 positive economic indicators.

19 Philadelphia's population grew from 1.45
20 million in 2009 to 1.57 million in 2017.
21 Unemployment in 2009 was 10.1 percent and
22 now it is at 5.7 percent. And our job
23 growth rates have surpassed the national
24 average for two consecutive years.

25 Despite these positive trends,

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 our poverty rate is stubbornly stuck at
3 25.7 percent, affecting nearly 400,000 of
4 our residents. It is my hope that the
5 increase in tax revenue resulting from
6 these policy changes, a \$1.3 billion
7 increase since the participation in the
8 Task Force, will provide us with
9 financial resources to commit to
10 education and workforce development, the
11 best tools we have for tackling this
12 urgent issue.

13 It is also important that we
14 capitalize on improved revenue streams by
15 improving the health of our General Fund.
16 A healthy General Fund will improve our
17 bond rating, which will lower the City's
18 debt service over time.

19 As a city, we must pick up the
20 pace in making the reforms that are
21 necessary to attract and retain more
22 companies like -- and no day goes by that
23 I don't mention the word Amazon -- so
24 like Amazon and Apple, Five Below, Yards,
25 and Comcast, just to name a few. And as

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 we make the government more attractive,
3 we can attract more talent, more
4 investment and tax revenue. As we
5 streamline and modernize government,
6 investments in technology lead to
7 decreased costs and improved revenue will
8 capture over time.

9 As Commerce Director, I am
10 committed to working with the Council and
11 our colleagues in the Revenue Department
12 and throughout the Administration and
13 others to inform and enact changes that
14 will continue to make Philadelphia a more
15 desirable place to do business and
16 increase our competitive position,
17 nationally and internationally.

18 Thank you for the opportunity
19 to appear before you today, and I am
20 happy to answer any questions that you
21 may have. Thank you very much.

22 COMMISSIONER BRESLIN: I don't
23 have any formal testimony today. My
24 testimony would pretty much echo what the
25 Commerce Director has stated, that many

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 of the recommendations in the Tax Reform
3 Commission have been adopted and we
4 continue to work closely with our
5 stakeholders and with our departmental
6 partners to continue to make progress and
7 make our tax structure more competitive.

8 COUNCILMAN JOHNSON: Thank you
9 very much.

10 What's our current bond rating?

11 COMMISSIONER BRESLIN: I'm
12 sorry?

13 COUNCILMAN JOHNSON: What's the
14 City of Philadelphia's current bond
15 rating?

16 COMMISSIONER BRESLIN: I don't
17 know the bond rating. That would be the
18 Treasurer's Office.

19 COUNCILMAN JOHNSON: Would you
20 happen to know?

21 MR. EPPS: I do not, but I do
22 know it's not as high as we would like it
23 to be.

24 COUNCILMAN JOHNSON: And part
25 of this conversation when we were putting

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 together this hearing also was around our
3 pitch for Amazon, and I remember I would
4 read various sources online while we were
5 going through the process of applying for
6 the RFP for Amazon, and I think -- not I
7 think. We did an excellent job, but this
8 issue around the City of Philadelphia and
9 its competitiveness around our tax
10 structure may be our Achilles' heel.

11 Your experience as we went
12 after Amazon, were any of these types of
13 conversations, did they arise, any major
14 concerns around it, and did it shift how
15 we do business as a city moving forward
16 as it relates to our tax policy?

17 MR. EPPS: So we did a lot of
18 assessment as we prepared the first phase
19 of the Amazon proposal, and our
20 conclusion was the following -- it was
21 backed up by third-party research -- that
22 when it came to assets, location, and
23 affordability, Philadelphia would weigh
24 very favorably in the requirements that
25 the RFP called for. But when it came to

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 state and city business friendliness and
3 tax structure, if those were the deciding
4 factors, then Philadelphia and the State
5 of Pennsylvania would not likely be in
6 the first tier of competitiveness, and
7 that was just what that data says.

8 It was stated earlier we have
9 17 tax categories. The stacking of our
10 city and state taxes on top of one
11 another -- and you'll hear more about
12 that later from some of the other
13 panels -- would not yield Philadelphia to
14 be, again, in the category that would be
15 defined as best in class.

16 COUNCILWOMAN BROWN: That would
17 be defined as what?

18 MR. EPPS: Best in class.

19 There are many other cities and
20 states that have a much more competitive
21 business and tax structure than
22 Philadelphia and the State of
23 Pennsylvania.

24 COUNCILMAN JOHNSON: Is the
25 Administration currently looking at it as

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 a lesson to see if we can begin shifting
3 and/or reforming our current tax policy
4 moving forward just based upon what we
5 learned from Amazon, from the Amazon
6 pitch, to shift how we do business moving
7 forward?

8 MR. EPPS: I would refer back
9 to when I first sat here, the first time
10 in 2009, what we said was that our tax
11 structure needed to continue to be
12 streamlined and improved, and what I
13 would say a decade later -- and I had no
14 idea at that point I'd be doing this job,
15 by the way -- we have made some progress,
16 but not nearly fast enough. One of my
17 favorite lines is, everything about
18 Philadelphia is going in the right
19 direction, we just need to go faster.
20 And so our wage tax, our BIRT tax, our
21 categories of tax, again, need further
22 rapidification and streamline. Taking
23 policies off the books, all of that
24 helps. We just need to do more and
25 faster.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 COUNCILMAN JOHNSON: Thank you
3 very much.

4 Councilwoman Blondell Reynolds
5 Brown.

6 COUNCILWOMAN BROWN: Thank you,
7 Mr. Chairman.

8 Let me seize the moment also to
9 tip my hat to Councilman Green in
10 tackling this labor-intensive task to
11 take a laser beam look at all of the
12 regulations and then figure out how we
13 can streamline it in a way that is
14 appropriate.

15 Do you agree, Mr. Epps, with
16 Chairman Kenyatta Johnson's perspective
17 that our Achilles' heel may be, could be
18 our city's tax structure at the end of
19 the road when Amazon makes its decision?
20 Based on the submission, do you believe
21 or do you think that we'll be told what
22 may take us out of the running, because
23 we want to speak in the affirmative and
24 see the glass as half full for as long as
25 we can.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 MR. EPPS: I cannot speculate
3 on what Amazon will or will not tell us.
4 They've been very, very protective about
5 what they tell us and when they tell us,
6 but I can only say that we're not sure
7 exactly what their final decision-making
8 criteria will be. But when we just do
9 the analysis of what they put in the RFP,
10 they had a category called incentives,
11 they had a category called taxes. If you
12 just compare us against the other 17
13 remaining -- 19 remaining municipalities
14 and you just did a scoring, a grading,
15 that's where we don't fair very well.

16 But we don't know then, turn
17 around to say, we don't know where that
18 would be in the seven, eight, nine
19 different categories that they would
20 prioritize. Again, if they prioritize
21 location, affordability, talent, we will
22 rank very high.

23 COUNCILWOMAN BROWN: Okay.

24 MR. EPPS: Put Amazon aside.
25 As we do the Commerce work on a daily

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 basis about retaining and recruiting
3 businesses, we win our fair share, but
4 when we lose, often it is because of our
5 tax and the reputation that we carry
6 about not being very business friendly.
7 So we have data that tells us from others
8 that businesses have not chosen to come
9 here because of the tax structure and/or
10 because of our reputation of being
11 non-business friendly.

12 COUNCILWOMAN BROWN: Shift your
13 thinking to business corridors, which are
14 major engines for neighborhoods across
15 the ten councilmanic districts. Of the
16 menu of taxes, which ones might you ID as
17 most onerous for those small businesses
18 on business corridors, whose challenges
19 are very different than your medium to
20 large size businesses, and that's
21 relative depending upon who you're
22 talking to.

23 MR. EPPS: And for them, I
24 would say it does not start with tax. It
25 starts with complexity. It starts with

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 how easy it is to get their business
3 open, how easy it is to get alignment
4 across our different departments of what
5 the criteria or to stay open, the issues
6 of enforcement. And then when it comes
7 to tax, I would speculate it's probably
8 BIRT.

9 COUNCILWOMAN BROWN: You would
10 speculate it is?

11 MR. EPPS: BIRT, business
12 income receipts tax.

13 COUNCILWOMAN BROWN: Okay.

14 MR. EPPS: But, again, it
15 starts with -- the work that we've been
16 doing and the subcommittees that we
17 formed already tell us that -- and when
18 we travel the world getting benchmark
19 data, we are a complex city with a lot of
20 regulatory requirements to get open, and
21 then we have inconsistent and misaligned
22 enforcement to stay open.

23 COUNCILWOMAN BROWN: Last
24 question. So given that reality that
25 currently exists, what measures, what

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 nuances or tweaks have you made in the
3 Department of Commerce that directly
4 affects that scenario you just
5 articulated?

6 MR. EPPS: Well, what Commerce
7 has done is initiated and lead the
8 assembly of the forums and the tables and
9 the task force to get at this. One
10 department can't do it. It's L&I, it's
11 Health, it's Revenue, it's Commerce. We
12 all have to be on the same page.

13 Councilman Green, CEO
14 Wonderling, and Director Epps, we lead
15 this cross-functional task force that's
16 got a lot of subcommittees that are
17 making recommendations on a daily, weekly
18 basis to get us more aligned, more
19 simplified, and more competitive. And
20 that's the -- more than a nuance and a
21 tweak, those are the kind of
22 interventions that we believe will yield
23 us outcomes.

24 I'll give you one example. It
25 takes us three, four, five months to get

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 a business open when some other people
3 can do it in 30 days.

4 COUNCILWOMAN BROWN: I hear
5 that often from contractors from
6 Montgomery County, that the nightmare
7 that they have to endure when they come
8 downtown to our City agencies.

9 Thank you very much.

10 MR. EPPS: And businesses have
11 a choice to make. That's the thing we
12 always have to -- you mentioned City Line
13 Avenue. I can be on this side of City
14 Line and I got a 3.7 percent wage tax.
15 On this side I don't have one. Over here
16 I can get open in 30 days. Over here
17 it's going to take me five or six months.
18 So which side do I choose to go to? The
19 one that's going to get me in business
20 faster.

21 COUNCILWOMAN BROWN: Well, a
22 year from now we'll look to you and
23 Councilman Green to hear about the
24 enormous progress you've made in making
25 life better for those businesses who want

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 to do --

3 MR. EPPS: That is our intent.

4 COUNCILWOMAN BROWN: Thank you
5 very much.

6 MR. EPPS: You're welcome.

7 COUNCILMAN JOHNSON:
8 Councilwoman Gym.

9 COUNCILWOMAN GYM: Thank you,
10 Mr. Chairman.

11 And thank you, Mr. Epps. I
12 think we had a really good conversation
13 this morning that talked a lot about the
14 ways in which we can take a look at a
15 number of factors that are important to
16 business attraction. So obviously there
17 are different ways in which we categorize
18 things. I personally see taxes as one
19 aspect of it, but it is really important,
20 as you know, in our city that as we look
21 to attract jobs, we are a city that is
22 the largest high poverty city in the
23 country, that we want to make sure that
24 we attract businesses and jobs without
25 exacerbating poverty or rising income

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 inequality at the same time, and we are
3 certainly seeing that in Philadelphia
4 right now where we do see tremendous
5 growth at the top and not so much at the
6 base. And I think that there's been a
7 lot of discussion that you and I had
8 about the ways in which defining what
9 makes a business-friendly environment can
10 extend far beyond the things that
11 directly touch business, like taxation
12 and other types of things, but also
13 matter a lot, for example, about public
14 investments around our schools and
15 transit, the ability for employers to
16 feel that they have a qualified
17 workforce, that there is good
18 infrastructure in our city that makes it
19 attractive to their employees to not only
20 work here but to attract more here and
21 also to settle down and feel like they
22 can raise a family.

23 So you talked a little bit
24 about that, but I was wondering if you
25 could -- you and I talked about that

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 rather this morning, and I think you
3 alluded to it, that workforce
4 development, other types of things,
5 investment in education are also very
6 strong indicators of what makes a
7 business-friendly environment. And we
8 certainly know that poverty is a
9 dissuader to a business-friendly
10 environment. Income inequality is not a
11 great attractor for businesses as well.

12 So could you speak a little bit
13 more to that and how you view that as we
14 continue to talk about this issue.

15 MR. EPPS: So my view, again,
16 having lived in six different states,
17 some good, some bad, is that Philadelphia
18 after 40 years of decline is on the rise
19 as it relates to population and
20 employment, two critical indicators, and
21 the poverty number is not following suit.
22 My belief, my perspective on that is
23 because we've had decades of
24 underinvestment in our education system,
25 and as a result, we now have a high cost

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 of what I call -- this is the Mayor's
3 word -- the misery index. So we have a
4 disproportionate amount of our budget
5 that goes into health and human services
6 and areas that don't get you a return.
7 So we've got to solve the education
8 dilemma, and that will be a long-term
9 investment.

10 In one of the graphs that's in
11 my presentation that all of you have seen
12 or will see when I come visit is this
13 correlation between two- and four-year
14 degree attainment rate and poverty rate.
15 The higher your degree attainment rate,
16 the lower your poverty rate. And that's
17 the biggest challenge Philadelphia faces,
18 and the more we can solve that, the more
19 we can get businesses to come to
20 Philadelphia. We see it every day, that
21 we get asked as much about talent and
22 workforce as we do about taxes.

23 COUNCILWOMAN GYM: That's very
24 helpful.

25 MR. EPPS: We get asked -- so

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 to me it's the T and the T. It's the
3 talent and the taxes.

4 But we should not let two years
5 of positive trend -- the last two years
6 we've outpaced the national average in
7 job growth, but that's still not an
8 indicator for us to get lazy. We must
9 improve the tax and business structure,
10 and while we are seeing an uptick in
11 revenue, we must invest in education such
12 that -- I'll just use my favorite
13 reference. By the time we get to the
14 sesquicentennial in 2026, that we've got
15 a much better educated and trained
16 workforce than we have today. And it's
17 going to take us that long, but we need
18 to make incremental gains every year in
19 our talent while continuing to reduce the
20 gap between us particularly and our
21 suburban counties in our tax structure.

22 COUNCILWOMAN GYM: Thank you.

23 COUNCILMAN JOHNSON: So you
24 just touched on something. I'm going to
25 just make a brief statement. When you

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 talk about the rise in talent and then
3 you said correlation of poverty going
4 down, and I would think that we would be
5 forward-thinking for the future, because
6 we have some of the best eds and meds
7 institutions in the region, if not the
8 eastern seaboard. And so hopefully there
9 will be another conversation down the
10 line on connecting that too. Because, I
11 mean, again, that's a tale of two cities.
12 You got Penn, you got LaSalle, you got
13 Temple, Philadelphia University, and at
14 the same time, a lot of these
15 institutions are within areas of high
16 poverty, to be quite frank with you. But
17 I like when you talk about the number
18 shows the higher level of attainment of
19 education, the lower the poverty rate
20 goes.

21 Chairman Green.

22 COUNCILMAN GREEN: Thank you,
23 Mr. Chair.

24 Thank you, Commerce Director
25 Epps, Commissioner Breslin for your

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 testimony. When I think about this
3 issue, it makes me think, reflect on
4 something personal. As we get more
5 seasoned, as my father would say, and
6 sometimes as we as adults, we look at
7 ourselves in the mirror, we think we're
8 still in the same age or size we were
9 when we were an undergrad, and as you go
10 a decade, two decades, three decades, you
11 tend to add additional girth to your
12 weight, but it didn't happen overnight.
13 It happened over time.

14 And so when you look at this
15 issue in reference to taxes and you look
16 at the history of taxation in the City of
17 Philadelphia, we had certain taxes that
18 were implemented and continued to grow
19 over time. And so as a result and
20 because of the revenue needs we have as a
21 city, the challenges that are occurring
22 where we can't rely on the federal
23 government or the Commonwealth for
24 assistance, we have to make changes. And
25 although sometimes we'll make those

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 changes quickly, like some people who
3 want to take a Hydroxycut or some other
4 type of quick diet pill to lose weight,
5 that's not realistic, because what
6 happens, that you get back to where you
7 were in a short period of time.

8 So I say that because I know
9 we're making improvements on taxation and
10 we're doing some things, but we need to
11 do more. I think some of the other
12 challenges that we don't talk as much is
13 the hard work. So when I some years ago
14 lost a significant amount of weight, part
15 of that was because I'd get up early in
16 the morning, quarter of 5:00, to run. So
17 some of the things I look in our business
18 climate is that -- and you touched on it
19 a little bit, and I want to get your
20 thoughts on what we as a city can do, and
21 when I say "city," I'm talking not only
22 the legislative branch but also the
23 executive branch. How can we make the
24 process of doing business in the City
25 easier? And I think it's somewhat human

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 nature, if you tell someone that to get
3 to this location, if you want to go from
4 A to B, but you've got to make a left
5 here, then make a right and then go three
6 miles and then go two steps, go over a
7 bridge, your human reaction is to kind of
8 step back. That's like very complicated,
9 and decide, well, I'll go a different
10 route. And that's similar to what we
11 have here in the City of Philadelphia.
12 And I can talk to my own experience of
13 not only representing small businesses
14 but actually having a small business and
15 the challenges I had in just trying to
16 get just a tax ID number and a tax
17 account and all the challenges. And I
18 can only imagine if you're a young person
19 coming out of Holy Family or Lincoln
20 University or Simon Gratz trying to start
21 a business, or Wharton, those challenges.

22 So what type of steps can we
23 take as a city to really drill down on
24 the process or processes of starting a
25 business or maintaining a business in the

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 City of Philadelphia? Because I think
3 that's the thing that -- that's the real
4 heavy work that we don't do. We have so
5 many silos in the City of Philadelphia
6 between at times, well, this is a Revenue
7 issue versus this is a Commerce issue
8 versus a Health Department issue, and
9 from an out-person that's outside of City
10 government looking in, it's all the City,
11 and we -- I look at the City, I guess
12 because I started my career as a banker,
13 from a small business perspective. I
14 look at the City of Philadelphia. We are
15 in the customer attraction and retention
16 business. We need to retain
17 constituents, retain businesses, and we
18 need to attract constituents and attract
19 businesses. And I think one of the
20 things that I would like to see us going
21 forward is having a real strategic,
22 almost like a strike force like you have
23 in any type of health issue or military
24 issue that can really get to the crux of
25 why is it so hard for a business to get

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 started in the City of Philadelphia and
3 also why it's so hard for a business to
4 maintain itself in the City of
5 Philadelphia and how we can cut down some
6 of those processes.

7 So I'm curious on your
8 thoughts. You don't have to answer
9 today, because it's not a quick answer,
10 but I think that's something that we as a
11 city really need to drill down, because
12 that to me is really the heavy lift. We
13 can continue to work on the tax policy,
14 but the heavy lift is really how do we
15 make us more business friendly going
16 forward.

17 MR. EPPS: So because of our
18 legacy circumstance, my favorite comment
19 would be, we got to recognize that this
20 is a marathon, not a sprint. It doesn't
21 matter whether it's education, talent or
22 taxes, we got to look at this as a decade
23 kind of initiative.

24 Tell you a quick story. After
25 I left the Task Force, I served in the

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 private sector for the last
3 Administration on the Continuous
4 Improvement Task Force. After two years
5 we quit because we saw no action.

6 COUNCILMAN GREEN: You saw?

7 MR. EPPS: We saw no action.

8 COUNCILMAN GREEN: Right.

9 MR. EPPS: So the challenge
10 that we -- it doesn't matter whether
11 we're the legislative body or the
12 executive body, we must realize that this
13 is a long-term initiative. We want to
14 stay the course. And so I happen to as
15 Commerce Director co-chair the Education
16 and Workforce Task Force, co-chair with
17 you and CEO Wonderling the Tax Regulatory
18 Task Force, and I can guarantee you as
19 long as I'm here, we will stick with it,
20 because we don't have the ability to lose
21 20 pounds overnight. This guy right here
22 to my left will tell you that I often say
23 we need to move faster, and he reminds
24 me, we still got to balance the budget.

25 So we can only move at the pace

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 that we can find the equation.

3 But let me just answer your
4 question this way: We need to evaluate,
5 we need to streamline, we need to
6 eliminate, and we need to automate. And
7 the work that we're doing together will
8 provide opportunities for all of those to
9 take costs out as we go, but, again, we
10 won't go as fast as we'd like to go
11 because I don't think we'll be able to
12 find the revenue in other places to make
13 it up as fast.

14 COUNCILMAN GREEN: And I
15 understand that. That's part of the
16 reason what the challenge is with, you
17 know, if you reduce taxes, you got to
18 make it up. So you kind of as the
19 economy goes and when we have a boom
20 economy, you can do more from a
21 reduction --

22 MR. EPPS: We can take costs
23 out.

24 COUNCILMAN GREEN: Right. But
25 I guess what I really want to drill down,

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 I think just like we did with Amazon and
3 we did the hearings that I held in the
4 community hall about the Amazon
5 initiative where everyone was on board
6 and that was kind of a moonshot approach,
7 I think in this perspective, it's kind of
8 similar, that we need to identify a
9 timeline and then devote resources in
10 various departments to have people to
11 meet on a regular basis to really get to
12 the crux. And it doesn't have to be
13 another commission. It doesn't have to
14 be another initiative. It's more of just
15 delving resources in those who have the
16 expertise and the background, especially
17 that middle management level, that can
18 say these are the issues that I confront
19 with every day and how do we kind of
20 drill down that stuff. And I think
21 that's something where I think going
22 forward, we need to really devote
23 resources from a human resource
24 perspective to really focus on that, and
25 then as we're doing that, we can then

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 market and communicate to the business
3 community, not just locally but around
4 the nation, around the world, of how
5 we're making changes to our business
6 climate to make us more business friendly
7 going forward. Because that's what other
8 cities have been doing.

9 I know you're doing an
10 initiative to do a better job of us as a
11 city to market to business communities
12 about why Philadelphia is open for
13 business, which is great because we have
14 not done that historically like we do in
15 the hospitality perspective, but trying
16 to really identify resources to really
17 focus on the heavy lift I think is
18 something that's important. I know we
19 have a challenging budget structure, but
20 things that are important we find ways to
21 get the resources.

22 MR. EPPS: So I agree 100
23 percent. The only thing that I would add
24 to it is what we've learned is when we
25 attempt to do that only internally, we

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 sometimes miss the unintended
3 consequences. So that is why the
4 roundtables, the task forces, the
5 consortiums that include your customer is
6 important, so when you make the change,
7 you or they help you think through the
8 consequences but, more importantly, the
9 unintended ones that come out of the
10 change that you make, because sometimes
11 just internally you miss the bigger
12 picture. But I completely agree with
13 you.

14 COUNCILMAN GREEN: Thank you.

15 COUNCILMAN JOHNSON: Thank you.

16 Councilman Domb.

17 COUNCILMAN DOMB: Thank you,
18 Mr. Chairman.

19 I was just looking up -- by the
20 way, thank you, Commissioner Breslin,
21 Director Epps. You guys are doing a good
22 job, by the way.

23 MR. EPPS: Thank you.

24 COUNCILMAN DOMB: I was looking
25 up our bond rating. Just so you know, I

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 think that Matt Stitt last year gave us a
3 presentation on the 20 cities across the
4 country similar to Philadelphia and where
5 we stood on bond rating, and I think we
6 were at three or four towards the bottom
7 of the ratings on bond ratings. So we
8 were not that great, but I think the
9 three issues that he focused on or that
10 the bond rating people focused on, number
11 one, of course, is the underfunding of
12 our pensions. Number two is reserves,
13 cash reserves. And I think Rob Dubow has
14 done a pretty good job in the last six
15 months building up those reserves, which
16 is good. And I think three is
17 delinquencies, and I know you've
18 addressed that. I want to have a few
19 other items I just want to bring up and
20 see what your thoughts are.

21 I've only been here two years
22 and two months.

23 MR. EPPS: Same here.

24 COUNCILMAN DOMB: Same as you,
25 right. What I see is roughly we have a

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 real estate inventory that was 1.3
3 billion of value last year, of which we
4 billed 91 billion, because the rest is
5 non-profit, we don't bill it, almost a
6 third. And that produced revenues of
7 about 1.3 billion, of which the City gets
8 45 percent and the school system gets 55
9 percent. That's where your incomes came
10 from. But we don't bill over 40, 45
11 billion of real estate, keep that in
12 mind.

13 So you have a store called the
14 City of Philadelphia where one out of
15 three customers come into the store and
16 don't really pay for services. I'm just
17 calling it the way it is. The only
18 services they really pay for are wage
19 taxes. There's no net profits, there's
20 no BIRT taxes, there's no real estate
21 taxes, which is I love eds and meds. I'm
22 just telling you the way it is.

23 So that's on one end of the
24 spectrum. On the second end of the
25 spectrum, you have a city that has 26

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 percent or 25.7 percent of our population
3 in poverty, which, as you said, is a big
4 strain on the budget. So you have these
5 two things pulling us, and one of the
6 problems is that the business community
7 and the individuals get caught in the
8 middle of that, and that's why the tax
9 structure probably is the way it is. And
10 the only way to really get out of that,
11 we want to encourage more eds and meds,
12 but we need to take people out of
13 poverty, number one, and bring in more
14 people and expand the base. But
15 otherwise we're going to be in the same
16 situation.

17 Having said that, though,
18 there's a lot of positive things that are
19 going on that I would like to see us
20 promote more than we are. One of them
21 was, which I love this fact, this
22 Innovation Magazine I mentioned in
23 Council on Thursday. We moved as a city
24 to number three in the country, up five
25 notches, in the tech startup world. Only

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 Boston and San Francisco are ahead of us.

3 We're number three. That's amazing,

4 amazing. We were eight a year ago.

5 We're now number three. We should be

6 promoting that.

7 I think I've been told that
8 either one or two for cancer research in
9 the country. Amazing. We need to
10 promote those things. A lot of
11 businesses are successful because they
12 promote. The City has got to do the same
13 thing. We have to promote more. We
14 should spend more money for marketing the
15 City.

16 We've come off four big events.
17 Every one of them, no issues. It's
18 amazing. DNC, right? I think there was
19 the Pope, Super Bowl, right, and the NFL
20 Draft.

21 MR. EPPS: We planned that one
22 too.

23 COUNCILMAN DOMB: Yeah. And
24 the City did a great job.

25 And then the millennials that

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 have moved here in the last ten years,
3 100,000 of them. We're killing it with
4 that. I think the last 12 months we had
5 the highest percentage of millennials
6 move here. But one of the statistics
7 that I like the best is that not in need
8 of college graduates. I think it was 12
9 to 14 years ago, meaning parents not from
10 this area, 24 percent who went to college
11 stayed here. At the time, Boston had 49
12 percent. They were killing us. We wrote
13 articles about what we call the brain
14 drain. We would educate them and they
15 would leave.

16 Today Boston is, I think, 51
17 percent. I just saw the statistic that
18 we are 67 percent. That's amazing.

19 So, I mean, I don't think we're
20 promoting these things, but I think we
21 need to promote more, because that will
22 attract more business. I'm not sure it's
23 from Commerce or where it comes from or
24 you need more money for it, but that's an
25 investment that we should make.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 On the issue with poverty, this
3 took a long time for us to get to this
4 level, and I agree 100 percent with what
5 you said, we're not going to get out of
6 it overnight. It's going to be a long
7 haul. I'm just a big believer in making
8 sure we teach financial literacy from
9 kindergarten through 12th grade, every
10 class. We must teach financial literacy.
11 You're not going to break that cycle.
12 And technology K through 12.

13 Dr. Hite tells me 91 percent of
14 our kids in public school have one
15 parent, one parent, and 88 percent are in
16 poverty in the public schools.

17 So financial literacy and tech.

18 On the last piece, I just want
19 to mention, Councilman Green, your dad is
20 absolutely right. I will say that on the
21 subject of girth, I wrestled in high
22 school at 157. I think I've added a full
23 body since that time.

24 Anyway, thank you for being
25 here and thank you for listening.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 MR. EPPS: If I may, can I
3 respond to Councilman Domb about the
4 marketing piece. So, again, a ten-year
5 perspective -- since I didn't go to high
6 school here, I guess I'll never be a
7 real, real, real Philadelphian, but
8 anyway, I call it home anyway. This
9 whole notion of the Quaker understated
10 environment I think is one of the reasons
11 that we don't have a history of promoting
12 ourselves, contrary to the other place I
13 used to live called Boston where they
14 think highly of themselves.

15 But all that being aside, we
16 out of Commerce are leading that -- the
17 Amazon proposal reinforced our need to
18 get even more aggressive about telling
19 our story and marketing. And so we have
20 another group of people around the table,
21 all the external-facing people, led by my
22 Chief of Staff, Sylvie Gallier Howard,
23 that is developing the strategy to
24 elevate the branding and marketing of the
25 City, and the issues around tech, the

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 issues around cancer research and all the
3 other unique assets of Philadelphia will
4 be highlighted in the new marketing
5 strategy that will unfold itself between
6 now and the end of June. So we're,
7 again, working on it, because we fully
8 recognize its importance.

9 COUNCILWOMAN BROWN: Point of
10 information. Thank you, Mr. Chairman.

11 I look forward to that
12 narrative, because we really do need to
13 change our narrative and how we celebrate
14 the City.

15 MR. EPPS: Absolutely.

16 COUNCILWOMAN BROWN: And we,
17 all of us, have a say and a stake in
18 that.

19 MR. EPPS: You know the
20 marketing campaign from 30 years ago of
21 Philadelphia?

22 COUNCILWOMAN BROWN: Please.

23 MR. EPPS: Philadelphia is not
24 as bad as Philadelphians say it is. That
25 was the City's motto.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 COUNCILWOMAN BROWN: There you
3 go.

4 MR. EPPS: Hey, I didn't make
5 that up. I got a T-shirt that says it.

6 COUNCILWOMAN BROWN: Councilman
7 Domb, where does Boston stack with
8 regards to their menu of taxes?

9 MR. EPPS: You will hear that
10 later. One of the panels will report on
11 that.

12 COUNCILWOMAN BROWN: All right.
13 Because when I hear the fact that more
14 millennials have come and stayed here
15 than Boston --

16 MR. EPPS: It's affordability.

17 COUNCILWOMAN BROWN: -- the
18 follow-up question for me is, and so what
19 is the tax structure as it relates to
20 Philadelphia, comparative to
21 Philadelphia?

22 MR. EPPS: What is it?

23 COUNCILWOMAN BROWN: Yes.

24 MR. EPPS: It's better. And
25 one of the panels will walk you through.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 It's better. That's kind of -- again, I
3 spent a third of my life in Boston, and
4 as expensive as this city is, it's
5 embarrassing that our tax structure would
6 be more expensive than Boston's.

7 COUNCILWOMAN BROWN: Okay. All
8 right, then. Thank you.

9 MR. EPPS: But its housing cost
10 is through the moon.

11 COUNCILWOMAN BROWN: Got it.
12 Thank you. Thank you both.

13 COUNCILMAN JOHNSON: Councilman
14 Green.

15 COUNCILMAN GREEN: Thank you,
16 Mr. Chair.

17 And thank you, Councilman Domb,
18 for your comments. I definitely agree
19 with you on the marketing aspect. As I
20 was saying earlier, that's something that
21 I've been pushing for some time. I truly
22 believe in the phrase that a friend of
23 mine who used to work for P&G said,
24 perception is reality.

25 And so from the perspective of

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 an initiative that you're working on from
3 a marketing perspective, in this upcoming
4 budget are there any dollars associated
5 with that proposal or initiative that
6 we're talking about in the budget coming
7 up?

8 MR. EPPS: We have proposed
9 some, yes.

10 COUNCILMAN GREEN: Okay. Good.
11 Because I think that's something -- if
12 you look at -- and I had this
13 conversation with Meryl Levitz before I
14 even got sworn in, is that when GPTMC,
15 which I'll still use that acronym because
16 it took me ten years to be able to say it
17 properly, which is now Visit
18 Philadelphia, when they got started over
19 25 years ago, we really didn't have any
20 type of hospitality perspective in the
21 City of Philadelphia, and if you look at
22 our room rental rates, to be able to have
23 a Philadelphia hospitality improvement
24 levy that we have now to go after these
25 large initiatives in the City, we would

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 not have been able to have that but for
3 organizations like GPTMC, the Convention
4 and Visitors Bureau being able to work
5 collectively together to really market
6 the City.

7 And so the same perspective on
8 the business side, I'm glad you're saying
9 that we'll have some dollars in the
10 budget or a proposal to go forward with
11 that, because that perception is reality
12 and as all these millennials, they see
13 the City of Philadelphia, they hear about
14 what's going on, we have to prime the
15 pump and continue that perception to
16 truly make it a reality going forward,
17 which ultimately will impact our General
18 Fund and poverty.

19 MR. EPPS: Using the Northeast
20 Amtrak corridor as your reference point,
21 Philadelphia asset-wise and cost-wise has
22 a great advantage over DC, New York, and
23 Boston. We must seize the moment. This
24 is our time, and we must make sure we've
25 got the taxes and the talent and the

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 business environment to seize it. And
3 basically what we're here today to say
4 is, we must continue the journey. This
5 is a marathon, not a sprint. Going in
6 the right direction, not fast enough.
7 And we all must be rowing together.

8 The other thing we learned
9 about the Amazon proposal is, we got such
10 a great outcome because we all worked
11 together.

12 COUNCILMAN JOHNSON: Thank you
13 very much for your testimony.

14 Can the Clerk please call the
15 next panel, please.

16 THE CLERK: Jeff Hornstein,
17 Robert Inman, and Mark Stier.

18 (Witnesses approached witness
19 table.)

20 COUNCILMAN JOHNSON: Just
21 please state your name for the record and
22 begin your testimony.

23 MR. HORNSTEIN: Thank you. I'm
24 Jeff Hornstein, the Executive Director of
25 the Economy League of Greater

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 Philadelphia. Good afternoon. By the
3 way, for the record, our bond rating is
4 A-plus in most categories right now,
5 which is pretty good, but not great.
6 It's investment grade, but well above
7 junk.

8 Good afternoon, Chairman
9 Johnson, other members of the Committee.
10 Thank you for the invitation to be here
11 today. As I said, I'm Jeff Hornstein.
12 I'm the Executive Director of the Economy
13 League of Greater Philadelphia. For
14 those of you who are unfamiliar with the
15 Economy League, we are a 109-year-old
16 non-profit civic leadership organization
17 that produces impactful research and
18 insight, convenes cross-sector leaders,
19 and serves as a civic incubator to devise
20 shared solutions to our region's
21 challenges. And our real wheelhouses are
22 education and talent development,
23 business growth and job creation, and
24 infrastructure. So those are the places
25 where we've developed a deep bench of

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 expertise.

3 A couple caveats. I've been at
4 the Economy League for exactly three
5 weeks. The Economy League has also not
6 done research on tax policy issues for a
7 few years, but has a long history of
8 insight into tax policy. However, as
9 many of you know, I ran the Controller's
10 Policy Unit for five years. So much of
11 what I'm going to say today comes from
12 work done in those years and should not
13 be considered the official position of
14 the Economy League. That's a disclaimer.

15 That said, our organization has
16 a highly skilled team of analysts who are
17 at this Council's disposal. So my
18 purpose today is to raise a few questions
19 that can be further pursued.

20 As I like to say, Philadelphia
21 has four core challenges: jobs, jobs,
22 jobs, and schools, obviously
23 interdependent. The real question in my
24 mind is what role tax policy plays in
25 addressing those challenges.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 So my key points today -- I'm
3 not going to read this whole thing.
4 Number one, tax policy is not the primary
5 driver of economic growth or business
6 location decisions. As you can see in
7 the slides that we put together, the
8 primary reason for domestic relocation,
9 taxes are pretty far down on every survey
10 of corporations. Within the region, it's
11 likely more of a factor, but it's not the
12 primary driver.

13 As worker preferences shift
14 towards more amenity-rich, easily
15 accessible workplaces, Philadelphia has a
16 compelling value proposition -- I think
17 that's what Harold was just getting at --
18 that at least partially offsets its
19 higher tax burden compared to suburban
20 locations. We've seen this manifest
21 itself with Vanguard and Bentley's
22 opening gateway offices in the City.
23 They want access to talent, and talent
24 wants to be in places like Center City
25 and University City. That's why, as

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 Councilman Domb said, we've led the
3 nation in millennial attraction. Talent
4 wants to be here.

5 It's amazing to me having gone
6 to college in the Boston area and
7 graduate school here that now we are
8 outperforming Boston in terms of college
9 student retention. To give a little plug
10 to my organization, in the past the
11 organization that became Campus Philly
12 was sort of incubated in the Economy
13 League.

14 The second point I want to make
15 is that the tax burden for Philadelphia
16 residents is relatively high compared
17 with peer metros and is not a plus in
18 talent attraction for an increasingly
19 knowledge-based economy. So we come in
20 at about fourth for a family earning
21 \$100,000 a year. So that's an important
22 point.

23 Third, and very relevant to the
24 real meat of what I want to say, is that
25 for low-income Philadelphians, the

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 household tax burden is among the most
3 regressive nationally. So if you look at
4 our third slide, the family earning
5 \$25,000 per year, Philadelphia is far and
6 away number one in terms of tax burden,
7 which keeps people in poverty.

8 The volatility of our revenue
9 streams, as I think we all know,
10 dependent largely on wages, business
11 profits, and consumption, present
12 significant future risk during our next
13 economic slowdown. I was at an event
14 this morning with some economists, and
15 people see growth for the next few years,
16 but everyone knows recession is going to
17 happen at some point. We have
18 essentially no reserve funds and a
19 looming School District budget crisis.
20 So those are the things we have to
21 prepare for.

22 There are many ideas to address
23 some of these shortcomings. But, again,
24 despite our well-known tax structure
25 issues, the City is adding jobs and

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 growing.

3 So on the plus side, we've seen
4 job growth in the past decade. We're
5 over 700,000 jobs for the first time
6 since the '80s. Population is up.
7 School performance is trending
8 positively, but there really are two or
9 maybe three different Philadelphias. On
10 the one hand is the growing dynamic core
11 from the Delaware River to 40th Street,
12 Girard to Tasker, which we might call
13 Boston-adelphia, and hopefully one day
14 Boston will be calling its growing piece
15 as Phila-Boston or something. In this
16 part of town, educational attainment is
17 high, unemployment is very low, incomes
18 are high, property values and thus
19 wealth -- and that's important -- are
20 steadily rising. In some, life is good
21 in Boston-adelphia. It's Paris at half
22 the cost.

23 In this part of the city,
24 especially on its edges, people worry
25 about gentrification, about the rising

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 cost of housing forcing historic
3 residents from their homes. But the much
4 larger part of our population lives in
5 what we might call the Detroit-adelphia,
6 where job growth is anemic, educational
7 attainment is low, the unemployment rate
8 is high, labor force participation, a
9 very important indicator, is low,
10 particularly for those with barriers to
11 entry into the labor market. Incomes are
12 low and flat, and property values and,
13 therefore, wealth are actually declining
14 in real terms.

15 In this part of the city, what
16 we might call de-gentrification is a much
17 bigger threat than gentrification. And
18 as many of you know, I worked for SEIU,
19 the janitors' union, for many years. A
20 typical member of SEIU owns a home in a
21 de-gentrifying neighborhood where a home
22 purchased for \$50,000 25 years ago is
23 still worth \$50,000 or less today. So
24 de-gentrification, lots of causes,
25 federal policy, massive disinvestment in

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 low-income neighborhoods, particularly
3 those populated by people of color, has
4 destroyed billions of dollars of wealth
5 in working-class and minority wealth.
6 But I digress.

7 For the better part of two
8 decades, we have focused on macro factors
9 like tax policy. Some have argued that
10 but for the wage tax, we'd have tens of
11 thousands of additional jobs. Others
12 have argued that but for the BIRT, we'd
13 have tens of thousands of additional
14 jobs. Maybe. But despite our anomalous
15 and uncompetitive tax structure,
16 Philadelphia is growing. We've cut the
17 wage tax responsibly in the past decade.
18 We've almost fixed our broken property
19 tax assessment system, and we exempted
20 the first hundred thousand dollars of
21 business income from BIRT. In my view,
22 before we go further with so-called tax
23 reform, we ought to do a deep dive into
24 the impact of these changes.

25 So to put my cards on the

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 table, I'm not one who believes that tax
3 policy is a panacea. I personally think
4 that micro strategies, the workforce
5 strategies like the one the City unveiled
6 last week, which the Economy League
7 played a role, or the one announced by
8 University City District in University
9 City Science Center last week or growth
10 strategies designed to leverage the
11 purchasing power of our eds and meds
12 institutions, to speak to the Chairman's
13 point about our eds and meds institutions
14 being these islands of prosperity in seas
15 of poverty, and to Councilman Domb's
16 point about the eds and meds institutions
17 not paying certain types of taxes.
18 Harold Epps and I have designed this
19 thing called the Anchor Procurement
20 Initiative to get these institutions to
21 localize more of their procurement
22 dollars to create jobs for people in the
23 neighborhoods, and the Economy League is
24 now taking that project over. We're
25 going to officially launch in the very

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 near future, with support from these
3 institutions. And these are, in my mind,
4 better targeted to address the very real
5 structural inequities in our economy than
6 tax policy changes.

7 That said, there has been a
8 healthy debate over the past decade about
9 which components of our tax structure are
10 holding back faster growth. Would we
11 indeed have tens of thousands of new jobs
12 if we'd only lowered the wage tax faster
13 and more dramatically? Would business
14 growth have been more robust? Would we
15 have retained more startups if we'd
16 aggressively lowered one component or
17 another of the BIRT? These questions
18 have surely provided fodder for a cottage
19 industry of econometric modelers for
20 quite some time.

21 I'd say this for the record:
22 Absolute tax rates matter much less than
23 relative ones, relative to contiguous
24 jurisdictions in our metro, relative to
25 peer cities. By these measures,

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 Philadelphia's tax structure has gotten
3 more competitive, partly because the
4 metros raised taxes as we have lowered
5 them.

6 So our tax mix has three
7 fundamental problems. It's heavily
8 dependent on volatile revenue streams.
9 It's anomalous and uncompetitive both
10 regionally and nationally. None of our
11 peer cities tax the way we do, and our
12 tax rates are generally higher than our
13 nearest neighbors. However, the tax gap
14 is shrinking, and it's regressive; that
15 is, its burdens fall on entities
16 regardless of their ability to pay.
17 Partly a Pennsylvania problem since we're
18 a flat tax state, but partly due to the
19 type of taxes we rely on.

20 Thus while our economy is built
21 on a pretty stable base at the moment,
22 eds, meds, and beds, in Meryl Levitz's
23 favorite phrase, our tax structure is
24 not. It depends on a highly volatile
25 revenue stream. But with an eds and meds

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 base, we can count on some steady level
3 of wage tax, which is why I've never
4 actually thought as much of a job killer
5 as some of my peers.

6 Our great hospitals and
7 universities are going to attract top
8 talent, and the 4 percent wage tax levied
9 on these highly paid individuals is more
10 than offset by the great value
11 proposition that is contemporary
12 Philadelphia. Penn competes for talent
13 with Princeton, Harvard, and Columbia,
14 all in places where the overall tax
15 burden and cost of living is much higher.

16 So to say BIRT is a drag on
17 growth, I don't think anyone doubts that.
18 More specifically, I think the evidence
19 suggests the net income side of BIRT is
20 the core problem. Once Penn or Jefferson
21 or Drexel postdocs or faculty decide to
22 commercialize their research, they have
23 strong financial incentives to move the
24 company across City Line as soon as it
25 gets profitable and is subject to our

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 highly anomalous and steep 6.4 percent
3 corporate income tax. I have personal
4 stories I can tell about that. And we've
5 created all these fixes to try and avoid
6 that. We've created our own little
7 Cayman Islands, Keystone Opportunity
8 Zones, which are useful, but they are a
9 symptom of a problem.

10 So, again, we have no rainy day
11 fund. We have a looming School District
12 crisis. So we need to be responsible
13 with how we deal with our tax issues.
14 Some have argued that really incremental
15 change isn't going to really make the
16 difference. That may be so, but major
17 change is also going to put us in a hole
18 that's too deep for us to dig out of any
19 time quickly.

20 So we can talk about fixes, but
21 I would say that the City is growing. It
22 is adding jobs. I've never believed the
23 tax policy is a panacea, and there are
24 other strategies for jobs and growth, and
25 I'm proud that the City is actually

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 starting to take these strategies very
3 seriously. Workforce strategy, anchor
4 procurement stuff, business development
5 programs like those at The Enterprise
6 Center, many others in the City, the
7 business attraction strategies pursued by
8 the smart folks at Commerce and PIDC, I
9 think we're moving in the right
10 direction. We all need to row in the
11 right direction. And I echo what Harold
12 said, that this Amazon bid led by Sylvie
13 and Anne Nevins and a lot of other really
14 smart people has made the City kind of
15 realize that everyone has to row in the
16 right direction.

17 These are all relatively kind
18 of high-level thoughts based on years of
19 working on and thinking about City tax
20 policy. The Economy League is happy to
21 work with Council to perform any sort of
22 work you need in this arena.

23 Thanks.

24 COUNCILMAN JOHNSON: Thank you
25 very much for your testimony.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 PROFESSOR INMAN: Thank you.

3 My name is Bob Inman. I'm a Professor at
4 the Wharton School --

5 COUNCILMAN JOHNSON: Bring the
6 microphone a little closer to you,
7 please.

8 PROFESSOR INMAN: Surely. Is
9 that better?

10 COUNCILMAN JOHNSON: Yes.

11 PROFESSOR INMAN: My name is
12 Bob Inman. I'm a Professor in the
13 Finance Department and the Economics
14 Department at the Wharton School at
15 University of Pennsylvania, and it was a
16 treat for me to see Harold Epps after six
17 or seven years. We were on -- I was one
18 of the members of the Tax Commission, and
19 will certainly echo his conclusions from
20 that Commission, and I too am delighted
21 that the direction that the City has been
22 pursuing over the last seven or eight
23 years has been consistent with the
24 recommendations of the Commission.

25 I'm not sure my comments have

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 been shared with you, as I had a little
3 outline. I'm not sure you have that, but
4 very simply what I'd like to do is stress
5 three things generally about tax policy
6 and then apply those principles, if I
7 could, to the Philadelphia setting and
8 give you perhaps a sense of where we
9 stand against the backdrop of economic
10 performances as evaluated by economists
11 more generally.

12 I'll begin by saying what I
13 think we all know, is that the City of
14 Philadelphia nationally and both
15 regionally is one of the highest taxed
16 locations in the area. So competitively
17 this is a big issue for us. But I'm also
18 very sensitive to the comments that have
19 been made earlier about the fact that not
20 only do we need to think about our
21 revenue side, but we need to think about
22 our service side, and it will be a
23 balancing act that we'll have to play.

24 I take to heart Councilman
25 Green's comment about wanting to be

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 attractive to customers, and in some ways
3 what the economists will do with tax
4 policy is to turn it in the price of
5 coming into the City. Think of it as an
6 entry fee, if you will, for coming into
7 the City. And what you'd like to do is
8 have low costs and high-quality services,
9 and the side of the equation that I'm
10 going to talk about will be the cost
11 side, the tax side.

12 So principle number one, which
13 I think is the obvious one, is, there is
14 no perfect tax. Every tax is going to
15 have a consequence, whether it's a tax on
16 property, a tax on jobs, a tax on sales.
17 It will have implications for how
18 individuals, businesses, and families
19 make their decisions. So the question
20 is, how much do these decisions change
21 ultimately in response to the tax.

22 Households and consumers, we're
23 going to be interested in what happens as
24 we tax them, what happens to their
25 consumption, particularly their housing

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 consumption when we look at the property
3 tax and their work decisions. So these
4 will be the focus for taxes on families.

5 When you tax businesses,
6 there'll be two big implications. First
7 off, how do they make their decisions on
8 hiring people and investing, and then the
9 second big decision is, do I want to be
10 here or not be here. And businesses
11 clearly have that choice.

12 I do agree with the comment
13 made by my colleague earlier about the
14 fact that in comparing cities against
15 Chicago versus Philadelphia, Baltimore
16 versus Philadelphia, taxes won't be on
17 the top of the list. What firms are
18 going to be looking at is access to
19 quality of labor, can I move my goods and
20 services quickly, what's the highway --
21 indeed, Amazon's stress on the transit
22 network -- I think will be the main
23 things.

24 But once the decision is to
25 move into a region -- and by "region," I

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 would move us and think about this from a
3 firm point of view as the East Coast
4 corridor. We're competing against
5 Washington, DC, Baltimore, New York City
6 and, to some degree, Boston, particularly
7 on the meds and eds front. So a region
8 is not just from a resident point of
9 view. Clearly will be the five county
10 and New Jersey regions. But from the
11 point of view of firms, I think we want
12 to think of the East Coast corridor as
13 really our competitive alternatives. And
14 there actually we rank pretty poorly in
15 terms of our tax rates compared to
16 others.

17 So the question is, how can we
18 adjust this tax system? Clearly we don't
19 want to drive it down -- on business,
20 drive it to zero, because the
21 consequences for services are going to be
22 significant. We're trying to balance the
23 costs and the benefits.

24 So what I'd like to do is give
25 you a sense at least of what economists

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 have said about the relative cost of
3 using different taxes. And the top of
4 the list in terms of the one that an
5 economist would feel is the most damaging
6 to the performance of the business side
7 of the equation will be the non-resident
8 wage tax. What this tax does effectively
9 is gets shifted back onto labor and the
10 cost of labor for businesses. So if I'm
11 going to tax a worker who has a suburban
12 alternative, that worker is going to say
13 to me, Why should I work for you when I
14 can work in the suburbs and not pay the
15 differential wage tax.

16 And so in the case of the 3.4
17 percent residential wage tax -- and,
18 interesting, if you look at a map and ask
19 the question, what suburbs have an income
20 tax, they're not next to Philadelphia,
21 because obviously that gives them a
22 competitive advantage not to have that
23 tax. And so if you had an offset I pay
24 the Philadelphia non-resident tax, will I
25 get a 1 percent relief if my suburban

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 community had a 1 percent income tax. So
3 they're not going to do that.

4 So what you do is, you really
5 do see the incentive effects of the
6 non-resident tax here pretty directly,
7 and it's ultimately borne by the labor
8 costs of the firm. And so what that
9 does, of course, if labor is 60, 70
10 percent of the cost of the business, and
11 particularly service businesses, then
12 you're really going to drive up your
13 cost. That's going to reduce your
14 profits and it's going to make the
15 location in the City much less
16 attractive.

17 So my work on the impact of the
18 wage tax, and particularly the
19 non-resident wage tax, suggests it's been
20 one of the main drivers over the years
21 for the loss of our jobs. Happily we've
22 been lowering it, and that's been, I
23 think, an important source of at least
24 our ability to compete and in some sense
25 also increase our job performance

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 recently. So the worst of the list is
3 the non-resident wage tax.

4 If you wanted to put a price
5 tag on that -- and I won't bore you with
6 the details -- it would be for every
7 dollar you raise, you basically lose 36
8 cents in profits, jobs, and economic
9 activity within the City. So if you
10 thought of the price, you're going to be
11 paying \$1.36 for a dollar of revenue with
12 that particular tax.

13 Next on the list are going to
14 be property taxes on new construction.
15 This is a very elastic decision. Do I
16 bring my construction activities into the
17 City or go to the suburbs. And there the
18 wage -- I'm sorry; the property tax will
19 have a fairly strong effect. And so if I
20 were going to put a marginal price on
21 that, it would be on the order of \$1.20
22 to \$1.25 for raising a dollar of revenue.

23 Next on the list is the gross
24 receipts tax. It is particularly
25 damaging for new firms, because it's a

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 tax on revenues or cash flow, not a tax
3 on profits. And so you've got a startup
4 company that's trying to put it together,
5 has good cash flow, but no profits just
6 yet. They're still going to pay this
7 tax. So one of the drivers of and one of
8 the big disadvantages for new firms in
9 the City of Philadelphia is the gross
10 receipts tax. And I estimate the
11 marginal cost of that is around 20 cents
12 on the dollar. So if I raise a dollar,
13 I've cost essentially economy \$1.20 in
14 that regard.

15 We move into the better taxes.
16 The retail sales tax is not that bad.
17 It's around 7 cents on the dollar. And
18 the tax that indeed was the foundation
19 for the recommendations that Mr. Epps
20 mentioned with regard to the Tax
21 Commission's recommendations to raise the
22 property and lower the wage, the property
23 tax on existing property is pretty good,
24 because families will indeed make
25 decisions maybe to postpone repairs, but

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 they're not making the decision to build
3 or not build. Firms will make decisions
4 to postpone repairs, but not the decision
5 to build or not build. And the cost
6 there is around 10 cents on the dollar.

7 And the best of the bunch is
8 the resident wage tax in terms of its
9 economic consequence, because residents
10 are here and the decision that they're
11 altering is their labor decision, and
12 most people are going to work, so that's
13 not going to have a big effect.

14 I do want to emphasize this
15 point, though, that residents are going
16 to pay -- it turns out the costs are
17 about \$1.05. So they're going to pay
18 \$1.05, but you better give them back
19 \$1.05 or better in benefits, otherwise
20 they will relocate. So that's the
21 benefit-cost thing families are going to
22 be doing, and that will get to the points
23 that we've been talking about about
24 quality of schools and quality of
25 services.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 So all of this in the mix I
3 think is important. I think where I come
4 down is, I want to move towards those
5 taxes that have low costs per dollar
6 raised, and that for me would be moving
7 away from the non-resident tax and the
8 taxes on new property and towards
9 things -- and the gross receipts, and
10 towards resident tax on existing
11 property. Not always possible to make
12 these distinctions, but on existing
13 property and on resident taxes. That
14 would be my move in the mix.

15 When I teach this stuff to
16 students, they typically -- I give them
17 all the numbers and, of course, they sort
18 of dutifully write them down and then
19 forget them, and I want them to leave the
20 class with remembering something that
21 maybe will stick with them, and for me
22 the message is, resident taxes for
23 resident services. Business taxes for
24 business services. And what that
25 approximates is a benefit principle. So

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 if I'm a resident and I pay a tax, I want
3 to see benefits as compensation. If I'm
4 a business, I want to pay a tax and see
5 benefits as compensation. And so I want
6 to link my taxes as closely as possible,
7 my resident taxes to quality of
8 education, my business taxes to the
9 provision of business services. That
10 kind of tie-in I think is going to really
11 help us in a competitive environment.

12 I'm quite supportive of this
13 proposal that's now before the State
14 Legislature, the Levy-Sweeney proposal,
15 on being able to separate the resident
16 and commercial property taxes. I think
17 it will give us another degree of freedom
18 in being able to design a competitive tax
19 structure.

20 I'll make just one very fast,
21 quick ending comment. Fairness is
22 important, and I think the assessment
23 initiative, the AVI initiative, was a big
24 step in the right direction. I think we
25 want to have broad-based taxes rather

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 than targeting particular things, and
3 uniform tax rates. I think it's very
4 difficult for a city to have aggressive
5 progressive taxes, as New York City is
6 finding out at this moment. Progressive
7 taxes by cities is really not an
8 economically feasible strategy, but
9 uniform rates I think is certainly
10 feasible, and my recommendations I think
11 would be from a competitive point of view
12 with respect to business is, the
13 non-resident gross receipts and towards
14 property taxation, and with the
15 splitting, leave it to you to make this
16 difficult balancing act that will involve
17 both jobs and efficiency, but also
18 fairness as well.

19 Thank you.

20 COUNCILMAN JOHNSON: Were your
21 students the ones who submitted the
22 presentation for Amazon? Any of your
23 students participate in the --

24 PROFESSOR INMAN: Yes, they
25 did, as a matter of fact.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 COUNCILMAN JOHNSON: They
3 suggested we give Amazon a billion dollar
4 tax break.

5 PROFESSOR INMAN: No. That was
6 not my favorite proposal. You were there
7 actually, weren't you? Yeah.

8 Can I just say maybe off the
9 record? That was the MBAs, not the
10 undergraduates.

11 COUNCILMAN JOHNSON: My good
12 friend, Mark Stier. Go ahead, Mark.
13 Please state your name and your title for
14 the record, please.

15 MR. STIER: I'm Mark Stier.
16 I'm the Director of the Pennsylvania
17 Budget and Policy Center. Councilman
18 Johnson, members of the Committee, thank
19 you for inviting me to testify today.

20 There's much to be said, both
21 positive and negative, about the Tax
22 Reform Commission and its recommendations
23 and their implementation, but I want to
24 focus on the central thrust of those
25 recommendations, which was a proposal to

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 make Philadelphia's tax structure normal;
3 that is, to make a radical change in its
4 historical tax system in which relatively
5 more revenue comes from wage and business
6 taxes and relatively less from property
7 taxes than other large cities.

8 The Commission argued for
9 substantial cuts to what was then called
10 the gross receipts tax and the wage tax
11 and held that economic job and wage
12 growth generated by those cuts would lead
13 to higher property values, and if
14 property tax rates were not reduced,
15 higher property tax revenues with the
16 resulted City revenues as the sum would
17 be higher.

18 The Commission came into an
19 existence at a moment in our political
20 history when its recommendations were
21 pretty much conventional wisdom, and that
22 conventional wisdom was reinforced
23 because there really weren't clear
24 alternatives being presented at that time
25 to how to create economic growth and job

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 creation in the City. Indeed, for most
3 of my 21 years living in Philadelphia,
4 the voices who have blamed our taxes for
5 wage and job loss were not answered by a
6 clear alternative.

7 That conventional wisdom took
8 hold even though there were people,
9 including my predecessor at the
10 Pennsylvania Budget and Policy Center and
11 the Keystone Research Center, who point
12 out at the time that the arguments for
13 the Commission's proposals were somewhat
14 flawed.

15 First we pointed to an enormous
16 body of empirical evidence that cast
17 doubt on the impact of relatively small
18 variations in tax policy on the decisions
19 of businesses to locate in one
20 jurisdiction or another. This conclusion
21 may seem counterintuitive, as just
22 everyone seems to know that taxes are
23 really important in the decisions of
24 businesspeople. Yet that intuitive
25 conclusion forgets some key features of

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 economic life that once one stops and
3 thinks about it should also seem
4 intuitive. Taxes are a cost of doing
5 business. Businesses pay some taxes no
6 matter where they locate, but for most
7 businesses, taxes are a much smaller cost
8 of doing business than labor costs, and
9 for manufacturers, the cost of raw
10 materials and energy.

11 The best research we have
12 suggests that all state and local taxes
13 together account for only 1.9 percent of
14 total business costs. That's not
15 nothing, but it's not an overwhelming
16 factor.

17 Second, we point out 15 years
18 ago that the econometric studies most
19 often cited in support of cutting wage
20 and business taxes were flawed. Stephen
21 Herzenberg then and now, the Executive
22 Director of the Keystone Research Center,
23 wrote in 2002, the flaws that -- in
24 seeking to explain what drives changes in
25 the tax base, Econsult and others did not

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 consider any other factors besides tax
3 changes that might be expected to impact
4 the tax base. If these excluded factors
5 are correlated with changes in taxes,
6 excluding them from the model can result
7 in tax changes appearing to have a bigger
8 impact than they actually do.

9 There's really no reason to
10 doubt that many of these factors affected
11 Philadelphia's economic growth during the
12 time that wage and business taxes were
13 increasing. Some of them were
14 Philadelphia-specific, including
15 Philadelphia's greater dependence on
16 manufacturing jobs relative to other
17 cities, the racial strife in our city,
18 the historically high rate of crime in
19 Philadelphia compared to other cities.
20 Others were general and affected urban
21 areas to one degree or another, including
22 redlining in black neighborhoods, white
23 flight from cities, the decline of
24 federal investment in cities, and the
25 rise of investment in suburbs. All these

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 factors, and no doubt others, help to
3 create a cultural mood in America that
4 held up suburban life as an ideal. That
5 ideal itself became a further barrier to
6 economic growth in cities like
7 Philadelphia in the '60s and '70s and
8 '80s.

9 In recent years, however, that
10 ideal is overcome by another cultural
11 shift, especially among millennials and
12 returning baby-boomers. Councilman Domb
13 pointed to some of the evidence a few
14 minutes ago. The arts, culture,
15 restaurants, and streetscapes of our
16 cities have taken on a whole new appeal,
17 and all the attractions of urban life
18 have been multiplied as the population of
19 our urban areas, including Center City
20 and nearby neighborhoods, take off.

21 Now, there's an underlying
22 economic basis to this new trend in the
23 growing fields of healthcare, education,
24 and technology. Personal interaction is
25 extremely important, and that's made

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 cities economically more attractive, and
3 that in turn has created a whole new
4 cultural mood about cities.

5 That Philadelphia has been
6 growing much faster in recent years
7 despite relatively small changes in taxes
8 suggests that the role taxes play has
9 always been overestimated and that these
10 cultural factors and material economic
11 factors based on technology have been far
12 more important.

13 To these two points we made 15
14 years ago, I want to add three more
15 quickly today. One is that there's some
16 reason to believe that the proponents of
17 making Philadelphia's tax structure more
18 normal may have had it totally backwards.
19 To the extent that taxes play a role in
20 stimulating our stifled job growth,
21 Philadelphia's relatively old property
22 values, property tax, and housing costs
23 may be an advantage, not a disadvantage.
24 This is true for two reasons.

25 First, property taxes are

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 likely to be as great or greater burden
3 on economic development than business
4 taxes or wage taxes. After all, new
5 businesses may, as Mr. Inman pointed out,
6 not pay profits tax. They do pay the
7 gross receipts tax, but they also pay
8 property taxes, whether they're
9 profitable or not. This claim is
10 supported by a fasting report last year
11 by Michael Mazerov and Michael Leachman
12 of the Center for Budget and Policy
13 Priorities, which reached two key
14 conclusions about the source of new jobs.
15 The vast majority of jobs are created by
16 businesses that start up or are already
17 present in a state or locality, not by
18 the relocation or branching into a state
19 or locality by out-of-state firms. And
20 during periods of healthy economic
21 growth, startups and young, fast-growing
22 companies are responsible for most jobs.

23 What we need to do is make
24 Philadelphia an attractive place for
25 startups and new businesses and worry

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 much less about whether people want to
3 move into the City -- rather existing
4 businesses want to move into the city.
5 And property tax rates are very important
6 in those decisions, because, again, those
7 are taxes that businesses pay whether
8 they're making profits or not.

9 Not only do low property values
10 and taxes contribute directly to job
11 growth, they also account for one of the
12 other widely recognized factors that
13 makes Philadelphia an attractive place to
14 live, especially for millennials, as we
15 heard, have been coming here in large
16 numbers and staying here. And that's the
17 lower cost of housing than in New York,
18 Boston, and Washington, DC. It may be
19 that Philadelphia's unique tax structure,
20 which many blame for the decline in
21 manufacturing and other jobs, turned out
22 to make our city well suited for taking
23 advantage of the cultural and economic
24 shift back to the cities. It would be a
25 terrible irony of history if at this

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 moment a continuing effort to cut wage
3 and business taxes and raise property tax
4 revenues undermined rather than
5 stimulated economic growth in the City.

6 Another point I want to make
7 that's new is that any concentration of
8 tax policy should pay more attention to
9 distributional effects than the Tax
10 Reform Commission did. The shift from
11 wage and business taxes to property taxes
12 was sometimes pointed out by some people
13 to have a negative distribution effect
14 and that it would harm low-income
15 families more than high-income families.
16 I don't know that anyone has ever really
17 studied this in detail, but as we rethink
18 the Tax Reform Commission's
19 recommendations, I think it's something
20 that needs to be considered. This whole
21 idea of shifting our taxes to make
22 Philadelphia look more normal may
23 actually hurt our low-income residents in
24 a very unfortunate way.

25 Finally, I want to make a last

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 point to which I cannot do justice today,
3 but simply that we have a lot of
4 alternatives to economic growth strategy
5 and job creation strategy that weren't on
6 the table 15 years ago. Councilman Green
7 has been very aggressive in pointing out
8 the complexity of starting a business
9 here and addressing those. That's an
10 important strategy. The procurement
11 strategy Jeff Hornstein talked about is
12 really important.

13 I think Mayor Kenney and
14 Council has been recognizing probably the
15 most important long-term growth strategy
16 for the City, which is to invest in pre-K
17 and K to 12 education. While the
18 research that attributes variations in
19 economic growth to small changes in taxes
20 is not that strong, the research that
21 points to the close connection between
22 levels of public investment and education
23 and economic growth in fact is very
24 strong.

25 Another economic development

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 strategy we ought to be considering and
3 adopting here to a greater extent is
4 investing more in our lagging commercial
5 corridors. This strategy, which New York
6 used to great effect, recognizes that
7 there's a lot of buying power even in
8 low-income communities, but many of our
9 commercial corridors are still suffering
10 from disinvestment that took place
11 decades ago. A target strategy of
12 commercial corridor rehabilitation,
13 business group, and opening of government
14 offices might create more vibrant
15 commercial corridors and the jobs that go
16 along with them.

17 And, finally, I want to briefly
18 mention one final point and, that is, to
19 take advantage of this moment in the
20 history when our city is becoming so much
21 more attractive and we see residential
22 construction in so many neighborhoods, to
23 revisit our Zoning Code and carefully
24 allow for much higher density and higher
25 building in selected neighborhoods.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 Higher density development would have a
3 number of beneficial effects in the City.
4 It would keep housing costs from
5 spiraling, even as property values and
6 property taxes continue to increase. If
7 combined with inclusionary zoning
8 policies, that condition higher density
9 development on the version of affordable
10 housing, it would address the
11 gentrification problems we see in many
12 neighborhoods. It would increase the
13 demand for public transit, which would
14 not only help keep SEPTA stable but might
15 even allow SEPTA to expand in certain
16 areas. And if local neighborhoods were
17 allowed to benefit from some of the
18 increased tax revenues that came along
19 with higher density development, it could
20 provide much-needed public amenities in
21 many parts of the City where the higher
22 density development took place.

23 This is a long subject, as a
24 professor of mine used to say, and I
25 can't go into the detail here, but we

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 will be putting out a paper in the next
3 month or two that addresses this strategy
4 of using high-density development and
5 building Philadelphia up as a way to
6 generate more jobs and more economic
7 growth.

8 Thank you.

9 COUNCILMAN JOHNSON: Thank you,
10 Mark.

11 I'm going to pass the
12 microphone along to my two colleagues. I
13 just wanted to say one brief thing, and I
14 would love to have a follow-up
15 conversation with you regarding building
16 up in terms of density. And I heard you
17 say selected neighborhoods, right?
18 Because oftentimes zoning up, the
19 consequence, which it could be positive,
20 but also -- again, I'm a lifelong Point
21 Breeze resident. The unintended
22 consequence is you totally remove the
23 people who always live in a particular
24 neighborhood because they can't pay the
25 property taxes, but I did hear you curve

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 and say if the revenue from zoning up the
3 development project could be put back
4 into the actual community to kind of help
5 stabilize the neighborhood, you can have
6 a mixture of individuals who always lived
7 in the neighborhood with new residents
8 and also maintain the actual, I call it,
9 neighborhood culture of the neighborhood
10 to kind of keep the diversity there, I
11 think it would benefit everyone. But I
12 would love to have that continued
13 conversation, because that's kind of like
14 the crux of my existence with the
15 changing district, which I welcome, but
16 nevertheless, it's one of those key areas
17 that we try to find ways in terms of
18 inclusionary housing and different ways
19 around public policy to help people stay
20 inside their homes, but also welcome the
21 new development that comes along with it.

22 MR. STIER: Can I just --

23 COUNCILMAN JOHNSON: Sure.

24 MR. STIER: I think -- the
25 gentrification issues have long concerned

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 me, and I've walked neighborhoods and
3 talked to folks in gentrifying
4 neighborhoods, and people always said, I
5 don't mind new people coming in, I just
6 want to be able to take advantage of the
7 new development. And I think allowing
8 some up-zoning, increased density, but
9 directing those revenues back to
10 community amenities and maybe even some
11 kind of homestead provisions to keep
12 taxes lower for the people who have been
13 living in those communities could be a
14 win-win for everyone.

15 MR. HORNSTEIN: Part of the
16 issue is we can't use TIFs here to the
17 extent that they are used in other
18 cities.

19 COUNCILWOMAN BROWN: I want to
20 thank you all for your very informative
21 testimony and let you know how much I
22 respect your knowledge around this issue.

23 Dr. Inman, you've been a real
24 think tank for Council for many, many
25 years around the issue of taxes, and know

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 that I appreciate that, as well my office
3 has leaned on you in the past for the few
4 tax measures we've put forth.

5 I was struck by your statement
6 that it's helpful or it's useful when the
7 resident tax has resident benefits and
8 when the business tax has business
9 benefits. Can you speak to or ID a
10 municipality that actually gets this
11 right?

12 PROFESSOR INMAN: Can I give
13 you a specific city that does it? No.
14 Can I give you what would work for me? I
15 think, for example, the resident wage tax
16 and the resident property tax tied to the
17 quality of the educational package and
18 the resident-specific services is
19 something that ought to be sought
20 directly. I'm quite attracted to the
21 proposal that was just offered about high
22 density. What one could do with a
23 proposal like that is think of a land
24 tax, because the high density comes in,
25 the value of the property goes up, tax

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 the incremental increase in property. It
3 won't affect the final development, but
4 it will be resources available for the
5 community and the neighborhood, if that's
6 where you choose to spend them.

7 So the combination of a
8 high-density development, a targeted land
9 tax, a TIF, and your choice as to how the
10 funds get allocated, but reallocated to
11 the neighborhood, homestead exemption, is
12 all a package that could be very
13 attractive.

14 On the business side, I am a
15 big fan of user fees.

16 COUNCILWOMAN BROWN: A big fan
17 of?

18 PROFESSOR INMAN: User fees.
19 So a firm locates and the firm is using
20 trash. Charge them for the trash pickup
21 service. A firm locates and the firm
22 needs extra police services. Charge them
23 for the extra police services. In other
24 words, try as carefully as you can to
25 charge the business for the specific

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 services that the business is using.

3 Clearly, we do that with water and such.

4 The tough ones are the
5 employees of the business use the City
6 roads and drive in. What do you do about
7 that? I like garage taxes, for example.

8 COUNCILWOMAN BROWN: Garage
9 taxes?

10 PROFESSOR INMAN: Garage taxes
11 for folks who are driving in to the City
12 for business. That certainly is a
13 strategy that can begin to tie benefits
14 more directly to tax revenues.

15 You're still going to have to
16 have general taxes, but I think the
17 Levy-Sweeney proposal gives you the
18 flexibility to target the tax structure
19 to the business side separate from the
20 residential side. Exactly how you do
21 that I think is, again, conditional.

22 There is the issue and the
23 controversy about the billion dollar
24 subsidy to Amazon. I'm not in favor of
25 that, but tax abatement strategies on

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 particular attractive business
3 opportunities is certainly something that
4 I don't personally have objection to.
5 Tax abatement strategies for each and
6 every property I think is sort of nutty
7 and very confusing, but I think certainly
8 targeted tax strategies for projects that
9 look really attractive. And I would
10 stress this: Projects that have
11 widespread benefits, what economists call
12 agglomeration benefits. So if the
13 project is attractive but then helps
14 stimulate businesses around it, that's a
15 real plus. And the neighborhood
16 procurement, Procure Philadelphia kind of
17 strategy, I think is very attractive as
18 well.

19 COUNCILWOMAN BROWN: Wow.

20 Thank you very, very much for that Cliff
21 Note version on taxes.

22 One follow-up, I will be
23 curious to hear the leaders in the
24 parking industry around your idea of a
25 garage tax.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 And now I can't find my other
3 question. Thank you very, very, very
4 much.

5 Thank you, Mr. Chairman.

6 COUNCILMAN JOHNSON:

7 Councilwoman Gym.

8 COUNCILWOMAN GYM: Thank you
9 very much.

10 First of all, Professor Inman,
11 it's been a pleasure to see you. I was a
12 student in one of your classes back at
13 Penn back in the day for a while. So
14 it's always great to see you, and
15 appreciate the wisdom that you brought
16 in.

17 I'm also struck because --
18 struck by some of your testimony. I
19 think that the Councilwoman alluded to it
20 as well, by the idea that business and
21 residential life are somehow separated,
22 and I think that you get a little bit to
23 the complexity of that when you talk
24 about like, well, what if we were to
25 eliminate the non-resident wage tax

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 structure. That would then push us
3 towards a user fee, but then when you
4 start to think about the ways in which
5 businesses actually use our city,
6 including transit, they certainly rely on
7 our school system to educate their future
8 employees and labor. They will more than
9 likely hang out at a park for lunch and
10 utilize that. That crime matters, public
11 safety, and the use of our Fire
12 Department and our City services. It
13 becomes almost impossible to really flesh
14 out the idea that somehow residents and
15 business life is separated. So I'm
16 wondering, you know, about teasing that
17 out at some point.

18 We have some great people in
19 this room in particular who are business
20 leaders who are devoted to the quality of
21 residential life in the City of
22 Philadelphia, and I think that they
23 recognize how while we can have a healthy
24 debate about the ways in which taxation
25 can be burdensome on one end, its

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 benefits cannot -- that the benefits of
3 it cannot be separated from the cost of
4 it as well. So I think you understand
5 that as well, but it's in part why I was
6 questioning a little bit your number on
7 the non-resident wage tax of a 1.36, that
8 somehow that -- would the elimination
9 actually result in people coming to live
10 in the City, when in fact like your
11 research would show that relative tax on
12 living here in the City would probably
13 dissuade people perhaps from being
14 residents.

15 So like I value this
16 conversation so much, and I think it's
17 very complex, but I do hope that there is
18 an attentiveness about how business life
19 and residential quality of life should
20 not necessarily be separated. It's hard
21 to do that with taxes, but I think we're
22 trying to draw some sort of -- we're
23 wanting to draw some lines better. But
24 did you want to speak to that a little
25 bit more?

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 PROFESSOR INMAN: Just really
3 quickly, I absolutely agree with -- one
4 clarifying comment, and then I really do
5 agree with your comment about the fact
6 that the non-resident is enjoying the
7 police officers from 8:00 to 6:00 during
8 the day and the non-resident worker is
9 getting services, and the question is
10 should they not pay for them, and the
11 answer is, yes, they should pay for them.
12 And then the question is, how do you get
13 them to pay for it. You're not going to
14 have a little fee. Are you going out to
15 the park? Give me a dollar. You're not
16 going to do that.

17 I think the real issue --
18 you're never going to nail down the exact
19 number. So literally if you came to me
20 and said, give me a non-resident -- we
21 don't want it to be zero. I do not want
22 the non-resident wage tax to be zero.
23 You say to me, give me a number. I got
24 to make policy. That's your job. I'd
25 say 1 percent. Okay? And so what does

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 that mean? A person who is making
3 \$100,000 contributes \$1,000 a year
4 towards City services, which has police
5 officers, maintenance of parks, picking
6 up the trash, et cetera, et cetera. It's
7 the extra \$3,000 that becomes a deterrent
8 in some sense for the firm being here.
9 And so a 1 percent -- if you ask me to
10 pick a target, I would say 1 percent is
11 probably not going to have any real
12 consequences for firm location and would
13 contribute to the kind of user fee, in
14 quotation, connection that I would like
15 to see between the business and the
16 provision of services.

17 COUNCILWOMAN GYM: For clarity,
18 that is a direct ratio between your idea
19 about the individual and its relationship
20 with tax and the City, but it does not
21 factor in the fact that the loss of the
22 \$3,000 would in fact dramatically affect,
23 for example, the ability of the City to
24 deliver on transit, the ability of the
25 City --

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 PROFESSOR INMAN: No.

3 Absolutely. I think, you know, my
4 proposals are -- if I could do it, I
5 would say keep the budget fixed and then
6 alter the mix of taxes in a way that
7 lowers the cost of every dollar that you
8 raise. So move away from the 36 cents
9 tax and move towards those taxes that are
10 closer to a dime. That would be my hope.

11 COUNCILWOMAN GYM: And I think
12 that negotiating that line is some of the
13 things that -- there are multiple
14 proposals that are out there. We're
15 certainly exploring it. I do think the
16 uniformity clause in Pennsylvania does
17 have an issue for us. It's why you see
18 so many different track structures. No
19 one loves the U&O tax, but frankly we
20 need a school business tax, and that is
21 exactly what that thing is. It's a tax
22 on business, recognizing that businesses
23 earn more money than a resident, and that
24 money goes 100 percent into our public
25 schools. So it's important for us to

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 like recognize that. I think Jeff said
3 this really well. Mr. Hornstein said
4 this really well, that we have both a
5 city and a state issue, and I think some
6 proposals are out there trying to address
7 some of that.

8 I did want to ask a little bit
9 about evolution of taxes. So we
10 currently have a federal administration
11 that is in love with the idea of the
12 trickle-down theory of 30, 40 years and
13 firmly believes that a massive tax cut
14 that has gone through at one and a half
15 trillion dollars will result in massive
16 benefits to folks like me, who has three
17 kids, trying to put two of them through
18 college, and I'll see how this affects me
19 over the next ten years of my life.

20 But similarly we have a tax
21 abatement program in Philadelphia that is
22 two decades old. Our city has evolved
23 and changed and grown. I think there is
24 nothing ever wrong with any type of
25 specific proposal or any idea. Like I

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 don't want to disparage any of those, but

3 I do think there's an issue when we get

4 wedded and stuck in ideas that were built

5 for cities decades ago. Cities evolve.

6 Taxation evolves. Communities evolve.

7 People's ideas of what they want out of

8 life evolves. And I'm wondering if you

9 could offer some solutions or some

10 perspectives on how you might improve or

11 alter or expand on the City's current tax

12 abatement program.

13 PROFESSOR INMAN: I have not
14 looked at the details of the abatement
15 program. I think as you imply --

16 COUNCILWOMAN GYM: It hasn't
17 changed.

18 PROFESSOR INMAN: I'm sorry?

19 COUNCILWOMAN GYM: It hasn't
20 really changed. It's uniform across the
21 City.

22 PROFESSOR INMAN: As you
23 implied -- and I was here when the whole
24 system went into effect -- there were
25 properties that were half built, city in

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 the City, and nobody finding the
3 wherewithal to go ahead with them. I
4 think of the Rittenhouse Hotel on
5 Rittenhouse Square, which was a huge
6 black eye for the City. Abatements made
7 that possible, made finishing that
8 project possible. It was a targeted
9 strategy for a targeted problem, and
10 that's the way I would hope we would use
11 abatements. Not everybody walk in, tell
12 me a story, I give you a special break,
13 but rather it becomes a targeted policy
14 for targeted issues. That to me is the
15 way to go.

16 As I --

17 COUNCILWOMAN GYM: We currently
18 have a blanket program right now.

19 PROFESSOR INMAN: I'm sorry?

20 COUNCILWOMAN GYM: So would you
21 say that we currently have a blanket tax
22 abatement program, pretty much a
23 one-size-fits-all across the City,
24 uniform and available broadly?

25 PROFESSOR INMAN: Yeah. That's

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 my understanding, but I defer to your
3 expertise on the policy.

4 It seems to me that the right
5 thing to do generally is treat everybody
6 as an equal player. Uniform tax rates
7 for all players unless you can give me a
8 compelling reason from an economic point
9 of view, either fairness or otherwise,
10 homestead exemptions, fairness, or
11 economic development strategies, a
12 particularly unique opportunity to
13 attract a firm. But those are, I would
14 argue, rare events, not common events in
15 a tax structure that I would prefer. So
16 I would like to see rate uniformity. I'm
17 happy to have with the Levy-Sweeney
18 proposal differential rates for business
19 and for residential property. I think
20 that's useful. But basically keep things
21 as even and as flat a rate structure as
22 possible.

23 COUNCILWOMAN GYM: But that's
24 not how we would look at the tax
25 abatement. That's not what you're

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 arguing. You would say that in fact a
3 tax abatement is a targeted strategy of
4 development. So we should be more
5 specific, more careful about how we
6 utilize the abatement.

7 PROFESSOR INMAN: Absolutely.

8 And I think --

9 COUNCILWOMAN GYM: Subsidies
10 are different from taxation.

11 PROFESSOR INMAN: Yes, exactly.

12 And do you want -- you don't want to
13 negotiate with everybody. I mean, that
14 is impossible. So when do you negotiate?
15 When the opportunity looks particularly
16 unique and special and rare. Yeah, I
17 have no problem with negotiating with big
18 players, but back to my comment earlier
19 for Councilwoman Reynolds Brown is that
20 you better show me something bigger than
21 the dollars I'm going to give you. You
22 got to show me an agglomeration, a
23 benefit, a neighborhood gain that in the
24 aggregate exceeds the dollar I gave you.
25 You better give me back \$1.20, 30, 40

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 cents in jobs, in home value improvement,
3 in neighborhood improvements as a return
4 for that. And do I know that for
5 everybody? I don't. But do I know that
6 for specific targeted projects? Well,
7 I'll get down and do the work and try and
8 figure it out.

9 COUNCILWOMAN GYM: Thank you.

10 COUNCILMAN JOHNSON: Thank you.

11 Any other questions from
12 members of the Committee?

13 (No response.)

14 COUNCILMAN JOHNSON: Thank you
15 very much.

16 (Thank you.)

17 COUNCILMAN JOHNSON: Can the
18 Clerk please call the next panel.

19 THE CLERK: Jerry Sweeney,
20 David Thornburgh, and Robert Zuritsky.

21 (Witnesses approached witness
22 table.)

23 COUNCILMAN JOHNSON: Thank you.
24 Can you please state your name for the
25 record.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 MR. SWEENEY: Yeah. Good
3 afternoon. My name is Jerry Sweeney.
4 I'm President and CEO of Brandywine
5 Realty Trust, and I thank the Committee
6 for giving me an opportunity to testify
7 today.

8 Brandywine is a publicly held
9 real estate company with over \$2 billion
10 invested in Philadelphia and over \$3
11 billion invested in the Commonwealth. We
12 are also the largest donor of commercial
13 property in Philadelphia, controlling
14 over 50 percent of the Class A trophy
15 properties in Philadelphia's central
16 business district, and as of September of
17 2017, we're also headquartered here in
18 the City. So we moved our headquarters
19 into the City back in the fall.

20 Brandywine is also a member of
21 the historically unique collection of
22 organizations known as the Philadelphia
23 Growth Coalition, which is a group of
24 labor, business, and civic organizations
25 organized around one unifying goal and,

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 that is, simply to grow jobs in
3 Philadelphia.

4 The City has made great
5 progress in recent years. Our job growth
6 has turned positive. We are experiencing
7 some population growth and beginning to
8 lay the foundations to deal with issues
9 such as inclusive growth, affordable
10 housing, and workforce diversity. To be
11 truly effective, however, we must seize
12 on the moment, build on our emerging
13 momentum, and display the courage to
14 attack the problem and not just the
15 symptoms. Our problem is our tax
16 structure. Not to disagree, but I do
17 very much with a couple of the former
18 presenters.

19 We need to begin to shift our
20 tax structure, as advocated by the 2003
21 and 2009 Tax Reform Commissions, to
22 taxing real estate and not business and
23 employees.

24 In the last four decades, and
25 some of my slides indicate these numbers

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 graphically, in the last four decades,
3 Philadelphia has lost 232,000 jobs, or 28
4 percent of our job base. Philadelphia
5 has still not recovered to 1990 job
6 levels, not recovered to 1990 job levels,
7 and still lags our peer cities in annual
8 growth. While we grow 1.3 percent
9 average over the last six years and we
10 celebrate that, because that was a
11 departure from where we've been, the
12 average of the top 25 cities was 2.8
13 percent. The implications of this
14 decline are real, they're stark. Our
15 unemployment rate continues to exceed the
16 national average. Philadelphia has the
17 highest poverty rate among major cities
18 and one of the worst rates for deep
19 poverty in the country. Our declining
20 job base also means that 40 percent, 40
21 percent of City residents commute outside
22 of the City to find work, a rate more
23 than twice the reverse commute in New
24 York City.

25 From the Job Growth Coalition's

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 and Brandywine's perspective, the City's
3 major public policy objective should be
4 to make Philadelphia a top five job
5 grower in the country. Every tax and
6 every public policy decision should be
7 evaluated strictly through that lens.

8 I'm on the front line, I'm the
9 soldier in marketing Philadelphia every
10 single day, and there is no question, no
11 question that our tax structure is a
12 gating issue to us growing jobs. When a
13 company is looking to relocate into the
14 City, they see a city that has a wage tax
15 that's four times the regional average
16 and the highest wage tax among the 50
17 largest U.S. cities. Businesses are also
18 deterred when they see a tax structure
19 that adds through U&O and BIRT a tax
20 premium of 20 to 30 percent to do
21 business in the City. They also see a
22 city with property tax rates and assessed
23 values per pupil well below the regional
24 and the state average.

25 In a recent survey that

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 Brandywine conducted in the region, we
3 found that the additional tax burden for
4 a company to locate in Philadelphia could
5 be up to \$25 per square foot.

6 Brandywine is also one of the
7 largest owners of parking garages in the
8 City. The viability and the performance
9 of those garages and lots are severely
10 hampered by Philadelphia having one of
11 the highest parking rates in the country.
12 At this juncture, with over 22 percent
13 parking tax, it has become almost
14 uneconomic to build stand-alone parking
15 garages. So as part of any tax reform
16 effort, we should be reducing that tax
17 back to the 15 percent level.

18 The City has set a bold goal of
19 taking control of our schools. That was
20 courageous and necessary. The question
21 remains if the City will have the
22 political courage to effectively finance
23 that undertaking. We should use the
24 school's revenue need as the pivot point
25 for moving our tax structure away from

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 burdening employers and employees and
3 focus on real estate tax increases.

4 Imagine the additional jobs we
5 could create if we simply grew at the
6 average of the top 25 cities in the
7 country. If we grew at the national
8 average for ten years, it would generate
9 over 90,000 jobs for the City. Imagine
10 the multiplier effect of those jobs.

11 Imagine the labor force diversity that we
12 would be able to create and sustain.

13 Imagine the increase in home values that
14 would come from that, along with the
15 increased tax revenues from real estate
16 taxes. Imagine the strength of our
17 educational and talent pool. It all has
18 to start with jobs. The best way to make
19 the City competitive is to generate jobs
20 and stop overtaxing employers and
21 employees.

22 Every economic study I have
23 seen indicates that the wage and business
24 taxes are the single largest issues in
25 creating forward job growth momentum for

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 the City. Those predictions are clearly
3 outlined in the work of previous Tax
4 Reform Commissions and stand as a clear
5 beacon today.

6 So fundamentally, Brandywine
7 and our coalition believe that the City
8 should shift the tax burden away from
9 taxing businesses and employees, and we
10 must get on a disciplined path to show a
11 messaging to the community that we are
12 willing to reduce wage and business taxes
13 and that the City Administration and City
14 Council have the courage to do that.

15 Thank you very much.

16 COUNCILMAN JOHNSON: Thank you
17 very much.

18 MR. THORNBURGH: Good
19 afternoon. I'm David Thornburgh,
20 President and CEO of the Committee of
21 Seventy. I apologize for my voice, but I
22 got a little head cold working today.
23 It's a pleasure to be with you here
24 today, and I appreciate your focus on
25 this important set of issues.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 If it's okay, I think you have
3 my written testimony, and I'd like to
4 just offer a couple of summary points and
5 you can absorb the rest at your leisure.

6 This issue of the City's tax
7 structure has been of great concern to me
8 over the last 30 years in my civic
9 leadership roles here in Philadelphia. I
10 was privileged to serve as the Executive
11 Director of the Economy League of Greater
12 Philadelphia for 12 years. I ran a unit
13 of the Entrepreneurial Center at Wharton
14 for about seven years, and I know,
15 Councilman Johnson, you know I was
16 running the Fels Institute of Government
17 for seven years. And in those roles, I
18 had the opportunity to launch some, I
19 think, high-impact initiatives that have
20 benefited the City and its residents. I
21 was a founder of The Enterprise Center
22 out in West Philadelphia. I was a
23 founder of something called Graduate
24 Philadelphia, which is trying to make it
25 easier for people to come back and finish

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 their college degrees. And I was also
3 heavily involved in a number of
4 initiatives like that.

5 Despite all of that, as I was
6 involved in those initiatives, we kept
7 coming back to what I came to think of as
8 a persistent undertoe that was really
9 affecting the City's growth and the
10 prospects of our citizens, and maybe 20
11 years ago -- I shudder to think it was
12 that long ago, but I was convinced by the
13 work that Professor Inman and the folks
14 at Econsult did with us when I was at the
15 Economy League that centered on the wage
16 tax in particular as the culprit for much
17 of our sluggish job growth and economic
18 growth over the years. And one way to
19 think about -- a question was raised, how
20 are we different from other cities,
21 Boston or Chicago or what-have-you. Lots
22 of cities have had the challenges that we
23 have had, whether that's a racial divide,
24 tough schools, redlining, et cetera, et
25 cetera, but I think the difference in job

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 growth and economic prosperity that Jerry
3 Sweeney just mentioned to my mind really
4 has to come back to something that is
5 very distinctive and, that is, our tax
6 structure, particularly our overreliance
7 on the wage tax.

8 I was saying to Bob Inman
9 earlier -- I think I remember this. I
10 know this question came up -- that
11 last -- I had in my head that in Boston,
12 about 92 percent of their revenues come
13 from property taxes. So there's
14 something there that suggests that they
15 have not had sort of the anchor and the
16 undertoe that we have had over time.

17 This question is particularly
18 relevant right now. We've talked a
19 little about this whole Amazon thing.
20 I'll talk more about that later, but also
21 referencing something that Jerry
22 mentioned, seemingly in a short period of
23 time you folks are going to have in front
24 of you some tough questions about how we
25 raise money for the schools, and you're

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 going to have to try to follow the
3 guidelines that Professor Inman gave you,
4 which is to say where can we raise the
5 most money with the least distortion on
6 our communities and our residents, and my
7 hat goes off to you in considering that.
8 Those will not be an easy job.

9 So for those reasons alone,
10 Amazon and the school issue, this issue
11 of tax policy should be front and center.

12 Jerry reviewed some of the
13 story of the last three decades in terms
14 of our sluggish job growth and
15 out-of-sync economic performance, and I'm
16 not going to repeat those, but I'll just
17 add a few more.

18 One of the things that struck
19 me a couple years ago was, I took a look
20 at a study that came out of the Brookings
21 Institution that was looking at how
22 income was distributed in various cities
23 around the country, and this was at a
24 time when there was obviously, as
25 Councilwoman Gym was pointing out, great

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 concern about economic inequality. So
3 they had each of the, I don't know,
4 hundred cities, largest cities, kind of
5 showing their distribution of income, and
6 I was floored by what the number showed
7 about how little wealth there was in
8 Philadelphia at the upper end of the
9 spectrum, and I'll just throw you a
10 couple of numbers.

11 In San Francisco in 2015, 40
12 percent of households make more than
13 \$100,000 a year, and 16.4 percent make
14 more than \$200,000 a year. Well, we know
15 housing costs and so forth and so on, but
16 still 40 percent.

17 In stark contrast, in
18 Philadelphia in 2015, just 12 percent of
19 households made more than \$100,000 a year
20 and only 2.4 percent of households made
21 more than \$200,000 a year. Shockingly,
22 even the City of Camden at that point had
23 a higher percentage of higher income
24 households than Philadelphia.

25 I point that out only because

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 in your discussions about tax policy,
3 you're going to have to figure out ways
4 to tax people who can afford it, in
5 effect, to subsidize those folks that are
6 not able to afford the same sort of tax
7 contribution, and that just points out, I
8 think, as a long-term consequence of a
9 damaging tax structure that there is not
10 wealth in Philadelphia -- as much wealth
11 to tax. So Philadelphia is not only a
12 poor city, but it's not a wealthy city.

13 One other number that I would
14 throw out which is along the same lines.
15 You know, in taxing to pay for schools is
16 a function of the value of the property,
17 the assessment, and then the tax rate.
18 Paul Levy at the Center City District has
19 pointed out that in the tax base per
20 pupil in Lower Merion School District,
21 right across City Avenue, is hugely
22 larger than the City of Philadelphia's.
23 In fact, the City of Philadelphia's tax
24 base per pupil is only 15 percent of what
25 it is in Lower Merion, meaning that it's

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 much easier to raise more money at less
3 pain to citizens and businesses in Lower
4 Merion than it is in Philadelphia.

5 So, again, I look at these
6 trend lines over time and I am convinced
7 that that's a damaging effect of our tax
8 structure.

9 A quick comment about
10 millennials. We've been talking about
11 millennials. I have two kids in that
12 zone. Sometimes I wish we -- I call them
13 the pesky millennials, because enough
14 already, right? Just a couple comments
15 about that.

16 Contrary to what we see in the
17 press sometimes, our population increase
18 is not a function of hordes of
19 millennials moving into Philadelphia.
20 It's simply a function of more people
21 being born than dying and international
22 immigration. So the short-term
23 population growth over the last three or
24 four years, that's where it comes from.
25 And I would say given our current

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 administration and their attitude towards
3 immigration, I would not bet that that
4 flow of international immigrants is going
5 to continue.

6 The second thing is that we
7 have to look at this millennial bulge in
8 population as an opportunity, but a
9 relatively short-lived one, unless we get
10 some things right. My kids are in their
11 mid 20's. God willing, in ten years
12 they'll be in their mid 30's, and as we
13 all know, in your mid 30's you have a
14 different set of choices and life
15 decisions to make, jobs, careers, family,
16 mortgage, what-have-you. And so in
17 looking in that cohort, we ought to be
18 asking ourselves, well, what is it that
19 those folks will pay attention to that
20 would cement their attachment to
21 Philadelphia. And, in fact, the Pew
22 folks here in town asked that question.
23 And number one on their list, you
24 probably think it was schools, but number
25 one on their list was job opportunities.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 So, again, to the extent -- and I believe
3 there's a great connection between our
4 tax structure and job opportunities.

5 That will affect the willingness, the
6 eagerness, ability of this younger cohort
7 to sink roots over the long term here in
8 Philadelphia.

9 Just a quick note about the
10 so-called Levy-Sweeney proposal that is
11 in front of the Legislature now on its
12 second pass. We did sign on at the
13 Committee of Seventy to the Job Growth
14 Coalition, because we believe -- I
15 believe this is the most practical and
16 the highest impact move that we could
17 make to ensure the future competitiveness
18 of our cities. Did you all know -- I
19 mean, the point has come up here. The
20 problem with even rearranging taxes is
21 that we have to figure out some way to
22 pay for it, because next thing you know,
23 we're talking about firehouses or rec
24 centers or libraries and so forth. And I
25 think, artfully, the constitutional

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 change that the proposal suggests in
3 increasing commercial property taxes as a
4 way to buy down a dramatic increase in
5 the wage tax accomplishes that. And, in
6 fact, I think the proposal would actually
7 be revenue positive to the City over a
8 few years.

9 I know that is technically not
10 in your purview right now as City
11 Council, but it is coming up for another
12 round of votes in the Legislature, I
13 think as early as this March, and I would
14 just urge you individually and
15 collectively -- I know there's some
16 difference of opinion on this issue, but
17 to support it, because I do think this
18 is -- as I've been tracking this issue
19 for 20 or 25 years, I think this is the
20 single best opportunity we have to
21 accomplish something really important for
22 our future.

23 Two final -- actually, one
24 final thought. This Amazon bid, I truly
25 believe -- and great credit to you folks

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 and Commerce Director Epps and the
3 Mayor's people for putting together I
4 think an astoundingly good, positive
5 presentation to Amazon. But let's not be
6 fooled. Jeff Bezos didn't become Jeff
7 Bezos by being a nice guy or by not
8 paying attention to the economics. And
9 of the 20 cities out there, particularly
10 when we get to the short list, he's going
11 to be looking for absolutely everything
12 he can get out of the Commonwealth and
13 out of the City of Philadelphia.

14 Probably like a lot of folks
15 who have testified today, I've always had
16 trouble with targeted tax incentives,
17 whether abatements or other kinds of
18 incentives, because they often don't
19 answer the question the people raise,
20 which is I'm a longtime resident, I've
21 got a house that I paid for a long time
22 ago or I've been working here, and that
23 incentive doesn't do anything for me.
24 What about me? I've been hanging in
25 there all along. And it seems to me if

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 we can accomplish something akin to the
3 Levy-Sweeney proposal in the short term
4 and present a different tax environment
5 to all Philadelphians, I think we'll
6 simultaneously make this an attractive
7 proposition to Amazon and take care of
8 that problem. It would be a signal that
9 Philadelphia's future economic prosperity
10 is for all of us and that we're not just
11 cutting a special deal, a one-time offer
12 from the folks from Seattle.

13 So thank you again for your
14 invitation, and I look forward to your
15 questions.

16 COUNCILMAN JOHNSON: Thank you.

17 State your name for the record,
18 please.

19 MR. ZURITSKY: Sure. Thank you
20 for having this hearing and inviting us
21 to participate. My name is Robert
22 Zuritsky and I serve as the President of
23 the Philadelphia Parking Association. We
24 represent 15 local private parking
25 operators and owners of parking

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 facilities throughout Philadelphia.

3 Together we employ 2,500 people, most of
4 them Philadelphia residents, and pay
5 roughly \$150 million in nine forms of
6 taxes and fees a year to the City.

7 We, along with other concerned
8 businesses, see a looming crisis in
9 infrastructure that will impact every
10 industry in the City. This crisis is
11 brought about by burdensome and excessive
12 taxation specifically aimed at the
13 parking industry.

14 A complete transportation
15 infrastructure is what makes a city work.

16 All businesses and residents
17 count on an adequate transportation
18 infrastructure to commute to and from
19 work, support the shops and their local
20 stores, as well as reach the incredible
21 array of cultural and entertainment
22 venues Philadelphia has to offer. Roads,
23 train tracks, sidewalks, subway tunnels,
24 and parking facilities are all necessary
25 elements of our transportation

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 infrastructure, but none of that
3 infrastructure is free. All of the
4 transportation infrastructure is publicly
5 funded or subsidized except for private
6 parking facilities.

7 The cost to build and maintain
8 parking garages and lots is excessive to
9 build them. In fact, the cost to build
10 or rebuild parking spaces in Philadelphia
11 is the highest in the country. Building
12 new above-ground spaces in Philly now
13 ranges from \$45,000 to \$75,000 per space,
14 and below-ground ranges from \$75,000 to
15 \$125,000 a space. Rebuilding
16 deteriorated parking spaces inside old
17 garages costs even more. Yet without
18 parking, many employees can't get to
19 their jobs, patients can't get to their
20 doctors' appointments, and visitors can't
21 get to their hotels, favorite shopping,
22 museums, conventions, and restaurants.

23 The current state of the
24 parking industry is dire. Taxes have
25 risen so high that parking is no longer a

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 viable business, and parking supply is
3 dwindling at a dramatic pace. In fact,
4 parts of town are already seeing
5 shortages. Many of our City's economic
6 development groups are currently
7 performing studies to evaluate the impact
8 of this dismal condition. And Mike
9 Harris has joined us today and he
10 represents the South Street Improvement
11 District, and he sees a crisis. He's
12 lost about 20 percent of his inventory,
13 maybe more than any part of Center City.

14 The tax situation combined with
15 the cost to build and repair existing
16 supply means that developers are deciding
17 to not build or provide new parking
18 spaces or even replace current spaces
19 even though they are building new parking
20 demand with their developments. Because
21 some developments won't work without the
22 availability of parking, some people will
23 decide to take their business outside of
24 Philadelphia.

25 Philadelphia's public

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 transportation, while indeed a great
3 asset for our city, with a majority of
4 our people using that transportation,
5 doesn't work for everyone. Public
6 transportation doesn't work for everyone.

7 Philadelphia has raised taxes
8 that impact the parking industry ten
9 times in the last 11 years, which is more
10 than any other industry in the City.
11 Before those increases, the parking
12 industry was already the highest taxed
13 industry.

14 We understand now that the City
15 is again considering higher real estate
16 taxes to fund our public schools. We are
17 in favor of every business and resident
18 paying their fair share of taxes.
19 However, when a business is forced to pay
20 40 to 57 percent of every dollar they
21 charge, no business can survive under
22 that kind of taxation or be expected to
23 satisfy the City's growing demands.

24 We believe there are many
25 reasonable methods to increase City

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 revenues from other sources to alleviate
3 the small portion of the parking
4 industry's taxes that we seek to reduce.

5 In fact, Econsult has validated eight
6 specific revenue sources that combined
7 would more than generate the dollars
8 needed to recoup this revenue.

9 Specifically, we are seeking to
10 roll back -- a rollback of the
11 Philadelphia parking tax to 15 percent
12 from its current 22 and a half percent
13 and a reduction of the U&O tax to reflect
14 the City's own study depicting our
15 overall occupancy. If the City
16 implemented these tax reform measures, we
17 believe the current owners of parking
18 facilities would be able to properly
19 maintain their existing facilities, and
20 developers would again begin adding new
21 parking to their new developments. This
22 rollback would be fair, considering that
23 even at 15 percent the parking industry
24 would remain the highest taxed industry
25 in the City.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 To answer Councilwoman Blondell
3 Reynolds Brown's question, Philadelphia's
4 parking tax is 22 and a half percent.
5 Boston's is zero.

6 On the other hand, if the City
7 continues on its current course with this
8 policy, within a very few years the lack
9 of parking and the imminent crushingly
10 high parking rates will impact the very
11 tax base that the City depends on.

12 By the way, since -- I think
13 we've been in front of you many times and
14 we have shared some of these reports to
15 you. This is an exhibit of 1,700 parking
16 spaces in just six facilities that are
17 being eliminated. Since we did this last
18 year, we have identified another 13
19 facilities that have closed and another
20 1,670 spaces that are now going out of
21 commission.

22 So thank you for your time. We
23 appreciate your consideration and welcome
24 any questions you have.

25 COUNCILMAN JOHNSON:

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 Councilwoman Brown.

3 COUNCILWOMAN BROWN: Good
4 afternoon, gentlemen. Hello.

5 First to Mr. Sweeney, let me
6 seize this moment to thank you for your
7 leadership, particularly around the
8 project in Schuylkill Yards. There is a
9 general sentiment -- and I'm sure I can
10 speak for a number of members -- who
11 believe that authentically -- you talk
12 about inclusion, diversity, and equity
13 and then you demonstrated it in a
14 magnificent way, and that should never,
15 ever go unnoticed or unrecognized. If
16 you could simply take that formula and
17 put it in a bottle and share it with the
18 industry, many of the discussions we
19 have, we would not have.

20 To Mr. Thornburgh, forgive me
21 if I miswrote my notes here. You said
22 we're not a poor city, but we're not a
23 wealthy city. Is that accurate?

24 MR. THORNBURGH: I said we're
25 not -- we're both a poor city and not a

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 wealthy city. My point was, there's a
3 lot of focus on the 26 percent poverty,
4 but when you look at the upper
5 distribution of income, we're nowhere
6 near what Boston or San Francisco or
7 Washington or, as I pointed out, even
8 Camden is.

9 COUNCILWOMAN BROWN: Yes. So
10 are we an affordable city?

11 MR. THORNBURGH: I'm sorry?

12 COUNCILWOMAN BROWN: Are we an
13 affordable city?

14 MR. THORNBURGH: Well, sure.
15 But what's striking to me -- I mean, I
16 moved here 33 years ago, and 33 years ago
17 we said this is an affordable city. And
18 it's still an affordable city, but that
19 tells me that I think we haven't been
20 growing, because when I bought my first
21 house in Germantown in 1987, I would have
22 loved nothing more -- I paid \$91,000 for
23 that. I would love nothing more than to
24 have that skyrocket in value, and it
25 never really did.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 COUNCILWOMAN BROWN: I see. So
3 what city has gotten it right given the
4 expertise that you live and breathe every
5 day?

6 MR. THORNBURGH: Well, all
7 cities are different, and you're trying
8 to strike a balance between -- I mean, I
9 think San Francis is runaway unaffordable
10 and it has huge income inequality
11 problems. I don't know that I can say
12 that any city particularly has it right,
13 but you're balancing growth and the
14 increase in property values, increase in
15 wages, increase in employment growth with
16 a sense of stability and community, I
17 guess.

18 COUNCILWOMAN BROWN: Okay. To
19 Mr. Zuritsky, thank you for your
20 testimony as well. If we were able to
21 find that perfect balance to roll back
22 parking taxes, who would be the
23 beneficiary?

24 MR. ZURITSKY: I think it's a
25 business tax. I mean, we think that

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 parking rates have gone up maybe \$10
3 higher on the max rates than they should
4 be, and that's a consequence of so many
5 parking facilities going away, developers
6 not putting any -- we're developers of
7 real estate. I mean, you have probably
8 the three biggest developers of parking
9 in the last 10 years or 20 years in the
10 City sitting in this area, with the
11 Spears and Brandywine and Parkway, and
12 we're deciding not to build any more
13 parking in our developments, and we love
14 parking, so --

15 COUNCILWOMAN BROWN: Because of
16 the excessive building and construction
17 costs?

18 MR. ZURITSKY: It's
19 construction costs, but it's tax policy.
20 If you lose money on every space you
21 build, you're not going to build any
22 space, and that's how bad it is now.

23 COUNCILWOMAN BROWN: Okay. So
24 similar question to you. What city has
25 gotten it right? Because I was a Fellow

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 with the Robert Wood Johnson Foundation
3 for a number of years where we traveled
4 around the different cities to see how
5 policy is crafted in different ways
6 across municipalities. So to my
7 question, what city, in your view, has
8 gotten it right?

9 MR. ZURITSKY: It's a very good
10 question, because I'll tell you, building
11 too much parking is a mistake also.
12 Washington, DC has a policy where every
13 building that you build, you have to
14 build parking inside that building, and
15 that really -- they overbuilt parking.
16 There's too much parking in Washington,
17 DC, and they have a different type of a
18 problem.

19 I think you want to get it
20 right. You want the business to be
21 viable. You want developers to build
22 parking because it's economic, it makes
23 sense, and their developments need it.
24 So it's --

25 COUNCILWOMAN BROWN: And

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 neighborhoods appreciate it, because the
3 encroachment on neighborhoods is very
4 unfortunate, and I'm being quite
5 diplomatic when I say that.

6 MR. ZURITSKY: You know, the
7 South Street is a really interesting kind
8 of scary -- Old City and South Street.
9 South Street maybe had like 1,500
10 off-street parking spaces. They already
11 lost about 200. They could lose another
12 200 or 400. Once they're gone and the
13 developers do something else with those
14 things and they decide not to add any
15 parking back, that's it. No one is going
16 to come in and tear down a block full of
17 townhouses to build a parking structure.
18 This is really time-sensitive now and,
19 you know, the City's own study has shown
20 a reduction of the number of spaces, and
21 it seems to be accelerating, and
22 developers are making decisions every
23 day, and you want them to build this
24 infrastructure for the City. It's for
25 free. The City is the beneficiary of

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 developers putting it in. It's something
3 instead of having to build train tracks,
4 you don't have to build train tracks.

5 We're building the train tracks
6 underneath these developments. But we're
7 deciding not to do that because for
8 whatever reason the taxes are too high on
9 the industry and it's not a viable
10 business anymore, and this is already
11 having a consequence and it could get
12 really bad, because New York and San
13 Francisco have rates the size \$75 or \$80
14 for parking, and we are not those cities,
15 and I fear that people are not going to
16 drive into the City -- they're already
17 changing their plans. They're not
18 driving into the City as much. Our
19 volumes have dropped. Okay? A lot of it
20 has to do with technology, with Uber and
21 other things that are happening, but we
22 see volumes dropping, and we don't want
23 to push people out of our city.

24 One of my competitors said
25 something interesting. He said if you're

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 in the retail business, they're
3 considering congestion pricing in
4 Manhattan because Uber has 40,000 drivers
5 on the road every day and you can't get
6 from one side of the city to the other.
7 So they're going to put a \$10 charge on
8 everybody driving into the city. So one
9 of my competitors said their numbers are
10 off in New York, because no one is
11 driving into the city because of the
12 congestion. And he said, well, what does
13 a retailer do when the business is
14 dropping off? You want to raise the
15 prices, right? No. You want to lower
16 the prices. They're going to raise
17 prices on people driving into the city,
18 and that is going to dissuade more people
19 from coming into the city.

20 We think that it's out of
21 balance right now, and there are ways
22 that -- there are things that are low
23 enough that the City can raise money from
24 other sources, which we have supplied you
25 with, and we'll supply you again if you

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 need them --

3 COUNCILWOMAN BROWN: Please.

4 MR. ZURITSKY: -- that Econsult
5 has done work for us to validate that we
6 can do -- I think the City can do this
7 and put the thing more into balance and
8 encourage some -- we're not going to have
9 a gold rush of parking development. It's
10 too expensive to build them, believe me,
11 but you want targeted development and
12 supply to come back in. Whatever is
13 going to happen with autonomous vehicles
14 in the future, we believe that there will
15 be a need for the parking industry in
16 some fashion. It's going to be
17 different. And not having that supply
18 may be, I mean, again, another really
19 serious problem for the City.

20 COUNCILWOMAN BROWN: Thank you
21 again, all of you, for your testimony.

22 COUNCILMAN JOHNSON: Councilman
23 Derek Green.

24 COUNCILMAN GREEN: Thank you,
25 Mr. Chair.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 I just have two quick questions
3 for the panel. One in reference to,
4 Mr. Sweeney, regarding your proposal for
5 a uniformity clause. Do you have a
6 perspective on where the Governor may be
7 on that legislation?

8 MR. SWEENEY: I think the
9 Governor would have to speak for himself.
10 His administration has been fairly
11 supportive of it.

12 COUNCILMAN GREEN: Okay. Good.

13 And the second quick question,
14 in reference to parking, has there been
15 any conversation with any of our
16 hospitality or other organizations?
17 Because they would also be impacted by
18 the lack of parking spaces. I know from
19 my own perspective, I've seen reduced
20 parking in the place I used to park. But
21 getting members from the hospitality, the
22 Visit Philadelphia, Convention and
23 Visitors Bureau, because they will also
24 be impacted when you have less parking.
25 Yes, people use Uber and Lyft, but not

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 everyone.

3 MR. ZURITSKY: That's a very
4 good topic. The Philadelphia Chamber of
5 Commerce, the African American Chamber of
6 Commerce have been very, very supportive
7 of this issue, and they have convened
8 multiple meetings with the Convention
9 Bureau, the Hotel Association, the
10 Restaurant Association, the office
11 people. I'm missing some other. I mean,
12 we've met with probably 15 different
13 associations. They are very concerned,
14 and if we get to the bill point -- I
15 think hopefully, I think the Chamber is
16 going to have some testimony on this
17 specifically, and they can answer some
18 more questions, but we have gotten a lot
19 of support for that and we would have --
20 if we get to a bill stage, I'm sure that
21 we would have a big coalition with us,
22 because the hotel rates are higher than
23 the City rates. The hotel rates are \$35
24 to \$50 already in Philadelphia, which is
25 high. I mean, that's really amazing that

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 it's that high. And I think it dissuades
3 people from coming into the City. I
4 mean, you make a decision to come in for
5 a staycation or not and you calculate all
6 of your costs.

7 So they are concerned. The
8 Convention Center specifically is
9 concerned about their infrastructure.
10 I'll speak for the Spears. They have a
11 lot of parking facilities along Vine
12 Street. They want to develop all of that
13 space. I know they do. If they develop
14 those 500 spaces and don't put any
15 parking back into whatever is developed
16 there, the Convention Center could have
17 some shortages of parking.

18 This is -- you have to look at
19 the City again as a long-term investment.
20 This is infrastructure that developers
21 are making three years ago for this year,
22 and we've been complaining about this for
23 a long time and worried about this issue.

24 COUNCILMAN JOHNSON:

25 Councilwoman Gym.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 COUNCILWOMAN GYM: Thank you
3 very much, Mr. Chairman.

4 So I just wanted to be quick
5 here, and so, Mr. Sweeney, it's a
6 pleasure to see you. I'm also relatively
7 new to Council and just trying to
8 understand a little bit about what the
9 considerations are around the wage
10 reduction.

11 So it's my understanding that
12 the current Five Year Plan has wage
13 reductions built in, reduction in the
14 wage tax built in, to the tune of about
15 \$240 million over five years. So that
16 is, by far, our biggest investment.
17 We're not putting that much money into
18 schools. We're not putting that much
19 money into transit and other types of
20 things, but we are putting it into the
21 reduction of the wage tax, and I'm
22 wondering if you can give some
23 perspective about what still -- I mean,
24 obviously I understand the absolute
25 numbers about the relativity and how it

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 relates, but what is like not working in
3 terms of what that path is and then how
4 do we try to think through how to talk
5 through some of those things? Because
6 that is a significant burden to shift
7 onto our Philadelphia residents as well.

8 MR. SWEENEY: Well, I think --

9 COUNCILWOMAN GYM: And I'm not
10 sure that they will be mutually exclusive
11 either.

12 MR. SWEENEY: Look, I think the
13 decision a company makes when they're
14 looking at coming into the City is
15 multifaceted, but a lot of it is driven
16 by economics and by political messaging.
17 For a company to relocate in the City of
18 Philadelphia, they essentially need to
19 give all of their employees a pay raise
20 to compensate them for the wage tax.
21 They need to compensate them for
22 commuting taxes. That's exactly the
23 algorithm we went through when we moved
24 our hundred employees downtown. It
25 doesn't cost anything to park in the

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 suburbs. It costs money to park in the
3 City, and you need to pay the cost of
4 public transportation. So employers look
5 at that. They also look at the really
6 almost incomprehensible burden that
7 employers need to pay to be in the City.
8 You have a use and occupancy tax that
9 ratchets up with real estate tax
10 assessment. So now we have real
11 estate -- we have use and occupancy taxes
12 almost \$3 a square foot. You have real
13 estate taxes a little bit north of that.
14 Then you add on to that the various
15 components to BIRT that can be
16 extraordinarily expensive as well.

17 Now, we found by doing a lot of
18 the work that we worked with Center City
19 District on, Econsult, Public Financial
20 Management, a lot of the foundational
21 work done by the Tax Reform Commissions
22 was that the biggest gating issue tends
23 to be the wage tax, because that affects
24 not just the employer but the employer
25 and the employees. And I think that

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 really is an issue, where our plan that's
3 out in Harrisburg would reduce the wage
4 tax below 3 percent over ten years, which
5 we view gets it into the range of
6 reasonableness compared to suburban
7 counties. That's when I alluded to in my
8 testimony when you take a look at all the
9 suburban counties on both sides of the
10 Delaware River, the tax burden to be in
11 some municipalities is as low as less
12 than a dollar a square foot. There is no
13 municipality that even remotely
14 approaches what Philadelphia has.

15 So the combination of the taxes
16 on employers and on employees is really
17 very, very important to address as part
18 of the City.

19 COUNCILWOMAN GYM: That's
20 helpful. Thank you.

21 As I mentioned again, I do
22 agree. Although I do think that
23 Philadelphia is cheaper than a lot of
24 other cities. We're not going to be as
25 cheap as some of the growth cities. Like

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 if you want to live in Phoenix, I guess
3 people are going to go to Phoenix, but in
4 part, I guess our current strategy of the
5 \$240 million reduction in the wage tax
6 will bring us to our lowest point by
7 2022. I don't know where we're going
8 like -- I'll have to talk to our Finance
9 Department about if we continue on that
10 trajectory, where we would be in 2028,
11 but in 2022, we'll be below 3.7 percent.
12 We will have forfeited \$240 million, but
13 we will have given that basically as an
14 important commitment, and I'm just
15 wondering whether you feel like there
16 is -- is that -- aside from the recession
17 that we were in where we had to freeze
18 the wage tax reductions, we have never
19 not reduced taxes. So is your belief
20 that we're not going to continue with
21 that or we're not -- like as I said, by
22 2022, we'll be below 3.7 and I would just
23 have to ask where we are going to be in
24 2028, and hopefully by then we'll have a
25 public school system that is

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 appropriately funded by our state, but we
3 can't always count on that.

4 MR. SWEENEY: Well, look --

5 COUNCILWOMAN GYM: And you've
6 been a great advocate for that.

7 MR. SWEENEY: I'm not sure what
8 the recollection is, but my recollection
9 is that almost every year taxes do go up
10 for businesses in the City of
11 Philadelphia, whether it's use and
12 occupancy tax or one of the other
13 business tax components. The wage tax
14 incremental reduction is woefully
15 inadequate to change the minds of
16 businesses looking to relocate here.
17 \$240 million is certainly a step towards
18 positive messaging. It does not convey
19 the confidence businesses need to
20 relocate their businesses here, because
21 the City has a tendency when it faces a
22 budget crisis to tax an ever-dwindling
23 supply of employers and then employees.
24 Employers are easier to tax by the City
25 than employees because the businesses

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 don't vote, but the reality is the
3 multiplier effect on the job is
4 significant. So I think the lens through
5 which the City needs to evaluate its tax
6 policy is what do we need to do to
7 generate job growth, period.

8 Now, school systems need to be
9 funded. You look at one of my slides,
10 and it was alluded to by Mr. Thornburgh,
11 is the reality is, the assessed value per
12 pupil in the City of Philadelphia is less
13 than half the state average. It's lower
14 than Pittsburgh. So the reality is,
15 there needs to be a sharing of obligation
16 to fund schools by the Commonwealth, but
17 also needs to be borne by the City. And
18 I think with the City taking control of
19 the schools, which is a great step, I
20 think the City will soon be faced with a
21 decision on how do we finance that and
22 finance it effectively. So the point of
23 my testimony today is to make sure when
24 you go through those deliberations, you
25 start to look at broadening that cost

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 with the benefit it will create, and it
3 resides, that benefit, with the residents
4 of the City of Philadelphia, the
5 residential property owners, not just the
6 business or the commercial property
7 owners, and that is what we need to focus
8 on as we go through this budget session.
9 We can't come out of this budget session
10 with school funding being borne by the
11 backs of businesses or employees.

12 COUNCILWOMAN GYM: No. I've
13 been a big proponent that any kind of
14 major lift around taxation or any kind of
15 funding of institutions, in particular
16 whether it's New York grappling with its
17 own transit system or here in
18 Philadelphia where we're trying to
19 support our public schools, that it has
20 to be shared across multiple entities,
21 that it's not a one industry type of
22 thing. And I think we will show that as
23 we move forward, but it's important for
24 us to have this kind of dialogue. But,
25 again, like this is a city that has a lot

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 of needs and we're trying to make sure
3 that the needs of business are tied in
4 with our residential life, and I think
5 you know that more than almost anybody
6 else as somebody who has really invested
7 more in Philadelphia than anybody else.
8 I really appreciate that. So thank you.

9 MR. SWEENEY: Thank you. And,
10 look, it's an important topic, and I
11 appreciate the chance to speak today.

12 Look, I think of the statistics
13 that we've talked about today, the one
14 that frightens me the most and should
15 frighten each of you -- and I know it
16 certainly frightens a number of members
17 of the Pennsylvania delegation -- is the
18 number of people who live in this city
19 who work outside the City. Because we've
20 had a good run with young people and
21 older people moving into the City. The
22 reality is, at some point they want to
23 live closer to where they work. So when
24 we have almost 40 percent of the people who
25 live in this city work outside the City,

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 that's a harbinger of an economic
3 downturn. We need to make sure that
4 where those people work is in the City of
5 Philadelphia so the whole region can
6 grow. So that's one of the things we
7 should really focus on in terms of what
8 do we need to do to make those businesses
9 move their jobs inside the City limits.

10 COUNCILMAN JOHNSON: Well,
11 thank all of you for being here, and
12 again the sole purpose of hosting this is
13 for this type of back and forth dialogue.

14 Can the Clerk please call the
15 next panel.

16 MR. SWEENEY: Thank you very
17 much.

18 THE CLERK: Darrell Davis,
19 Stephen Mullin, and Drew VandenBrul.

20 (Witnesses approached witness
21 table.)

22 COUNCILMAN JOHNSON: I would
23 like for the record to also acknowledge
24 Councilman Al Taubenberger is here.

25 So I wish Bob Inman was still

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 here as well as my colleague Councilwoman
3 Helen Gym, because she had an opportunity
4 to ask questions of her former professor
5 and she was very proud to have a chance
6 to engage in a Q&A with him, and I have
7 the great opportunity to have my former
8 professor, Mr. Steve Mullin, from my
9 public finance class at the University of
10 Pennsylvania Fels Institute of
11 Government. And so when I heard Jeff
12 Hornstein talking about user fees and TIF
13 bonds, he had me thinking about my days
14 sitting in the class with Mr. Steve
15 Mullin.

16 So always an honor and
17 privilege to have an opportunity to
18 interact with you in this capacity.
19 Thank you for your support of my career,
20 sir.

21 MR. MULLIN: Thank you. And
22 one quick note about closing that loop.
23 Bob Inman was my dissertation advisor.

24 COUNCILMAN JOHNSON: See, small
25 world.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 Can all of you just please
3 state your name for the record and begin
4 your testimony.

5 MR. VANDENBRUL: Good
6 afternoon. My name is Drew VandenBrul.
7 I'm a Managing Director in the
8 Philadelphia office of Grant Thornton. I
9 serve in the capacity as the Co-Chair of
10 the Greater Philadelphia Chamber of
11 Commerce State and Local Tax Committee,
12 along with Stew Weintraub, who was unable
13 to join us today. The reason I'm here
14 is, Stewart and I were appointees to the
15 15-member Tax Reform Commission that
16 began its work back in 2003. There's
17 been a lot of discussion already of the
18 2003 and 2009 Commissions. This will be
19 a little bit of a history lesson. Not
20 sure everybody needs that, but wanted to
21 sort of level-set where we've been on
22 these issues already. It's hard to
23 believe it's been 15 years, and wanted to
24 go back to some of the recommendations
25 that the Commission put together and

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 where we've come to.

3 So the Commission was charged
4 with recommending methods to reduce taxes
5 of residents, workers, and businesses.
6 The final report had 28 very specific
7 recommendations for changes to the tax
8 structure. It was part of a ten-year
9 plan, and it was really a fundamental
10 proposed reform to the City's tax system
11 to increase the competitiveness. So very
12 much what we're talking about here again
13 today 15 years later.

14 The 500-page report, which I
15 still carry around with me -- it's
16 getting a little faded -- it outlined the
17 recommendations as well as how to pay for
18 it. We were charged with keeping this
19 revenue neutral, which as you're looking
20 at now is quite a challenge when you're
21 talking about reforming taxes without
22 cutting services. So that was our
23 charge. The 15 of us put that together
24 after a lot of effort, and all of the
25 recommendations were supported by

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 independent studies by a number of people
3 who have spoken here or will be speaking
4 here soon to support the recommendations
5 in the report.

6 The intention was to enact all
7 of this as a comprehensive tax reform
8 strategy. That was the optimistic view.
9 We know that in reality it would be
10 difficult to adopt 28 recommendations
11 with the varying large impacts on the
12 City's economy all at once.

13 Since we had the Commission
14 report back in 2003, a number of the
15 recommendations have seen legislative
16 action. I would characterize them more
17 in the administrative and fairness area,
18 quite a bit on the property tax side.
19 And I don't want to go through these
20 specifically, but a lot of good things
21 were done. A lot of other
22 recommendations were taken to heart that
23 included not reducing taxes. So the
24 Commission actually recommended not
25 reducing things like the realty transfer

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 tax, the parking tax, other things. So
3 just to put it in context, out of the 28
4 recommendations, it wasn't cut 28
5 different taxes. It was maintain levels,
6 increase certain taxes like the realty
7 transfer tax, and then look at other
8 reductions.

9 So for property taxes, there
10 were steps taken to modernize and reform
11 the assessment and appeals process that
12 you're aware of and to establish accurate
13 land and improvement values. The
14 budget-based taxing recommendations and
15 implementing the land value tax were not
16 implemented, and part of those have to do
17 with part of the Levy-Sweeney plan to
18 make changes to the Pennsylvania
19 Constitution to allow for the varying
20 levels of taxation. So there is still
21 hope that some of those recommendations
22 will come to fruition once things are
23 changed in Harrisburg.

24 I guess I'll switch to the
25 taxes that are most often cited -- and

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 when we're talking about competitiveness
3 in Philadelphia, as been said already,
4 that the wage tax and the business income
5 and receipts tax or the BPT as it was 15
6 years ago when we were on the Tax
7 Commission. We recommended accelerating
8 wage tax reductions. The acceleration
9 hasn't been implemented. Some of the
10 small reductions have continued, but the
11 acceleration as recommended did not take
12 place. And by far the most sweeping
13 recommendation of the Commission was
14 related to the BIRT, including enacting
15 single sales factor apportionment, which
16 was enacted, extending the net operating
17 loss carryover beyond the three years,
18 which was not implemented, and the big
19 one was incrementally reducing the tax
20 rate down to zero over a ten-year period.
21 So had this been implemented, by 2015
22 there would be no more BIRT and we would
23 not be talking about that here now.

24 So of these recommendations,
25 the single sales factor was viewed as

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 being very positive to encourage
3 investment in Philadelphia and change the
4 way that the tax was calculated. The net
5 operating loss carryover still remains at
6 three years. It's by far the shortest
7 carryover period in the country. And
8 just to give you a sense, this impacts
9 companies that are cyclical in nature,
10 that make money in some periods and lose
11 money in others, but more specifically
12 the industries, it impacts technology,
13 life science, and startup companies that
14 have a much longer investment phase than
15 the three-year period. So a biotech
16 company is going to likely lose money in
17 this investment phase for a number of
18 years, never get the benefit of those net
19 operating losses.

20 Pennsylvania has a 20-year net
21 operating loss carryover period. The
22 federal was 20. This part of tax reform,
23 subject to some other limitations, is now
24 an unlimited carryover. So I think the
25 trend has been to go longer on the

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 carryover period to allow companies to
3 make these investments and incur losses
4 to be able to recoup them and to
5 encourage industries to come to
6 Pennsylvania during the growth phase and
7 to stay and not be scared away by the
8 fact that they won't be able to offset
9 their income and losses. So that's one
10 that's still out there that hasn't been
11 implemented.

12 And then the last one, there's
13 not a whole lot to say about that other
14 than the recommendation would have fully
15 phased out the BIRT and, again, reminding
16 you that we put together the report with
17 all the analysis with the belief that
18 this was going to be revenue neutral,
19 that there would be job growth, that
20 there would be changes in other taxes
21 like the property taxes that would cover
22 some of the costs of this. So that's
23 something I think again that the Council
24 needs to take a look at as we go forward.

25 So I'll just summarize by

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 saying that when we're looking at
3 business tax competitiveness, there's two
4 ways to look at it. There's globally
5 competitive, which I think Philadelphia
6 has been much more attuned to lately
7 because of Amazon and just realizing that
8 we are a player in the global economic
9 market, and when we're doing that, we
10 have to deal with the fact that there's
11 federal taxes, that there's a very high,
12 almost 10 percent, Pennsylvania corporate
13 tax rate. So there's quite a foundation
14 of taxes before a company drills down to
15 a specific location like Philadelphia,
16 and putting a 6.3 percent BIRT on top of
17 that, it stacks on and it is quite an
18 incremental burden. So that's one way to
19 look at it. And the other is, there is
20 quite a bit of local economic
21 competitiveness, and that was discussed
22 on the last panel, the cost of operating
23 in the suburbs versus operating in the
24 City. There's nothing remotely similar
25 to the BIRT in the suburbs. There's a

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 business privilege tax that is only on
3 gross receipts. We have to keep in mind
4 that the BIRT not only taxes gross
5 receipts but also net income. So the
6 playing field is not at all level when we
7 get to the local economy and the local
8 competitiveness.

9 So I'll summarize by saying
10 that the Tax Commission demonstrated in
11 2003 that these are the key points, that
12 as a city, we tax where others do not
13 tax. The taxes are too high and the
14 taxes are unfairly imposed. That's a
15 quote from our report.

16 The Commission found that
17 Philadelphia compounds the problem of
18 high overall tax burden by relying too
19 heavily on wage and business taxes.
20 These are the ones most likely to drive
21 residents, businesses, and jobs from the
22 City, and these taxes have damaged the
23 Philadelphia economy over the past three
24 decades, reducing tax revenue and the
25 ability of the City as well as the School

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 District to finance citizen services.

3 And most of these recommendations, most
4 of these concepts were again reinforced
5 by Mr. Epps in his 2009 Mayor's Task
6 Force on Tax Policy and Economic
7 Competitiveness.

8 So I thank you for your
9 interest in these matters and would be
10 happy to respond to questions.

11 COUNCILMAN JOHNSON: Thank you.

12 MR. MULLIN: Thank you. Good
13 afternoon, Councilmen Green and Kenyatta
14 Johnson. I am Stephen Mullin, President
15 of Econsult Solutions here in
16 Philadelphia. I was Philadelphia's
17 Finance Director and Commerce Director in
18 the late 20th century and, before that,
19 Budget Director in St. Louis, Missouri.
20 In those positions, I saw firsthand the
21 need for municipal revenues and the
22 varying impacts different ways of
23 generating those revenues could have on
24 the strength and growth of the City's
25 economy and, hence, their tax bases.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 I was involved in developing
3 and implementing the Rendell
4 Administration's initial tax rate
5 reduction program, and I have studied,
6 taught or practiced municipal finance and
7 tax policy for nearly four decades, and
8 EconSult Solutions has been directly and
9 indirectly involved with various tax
10 reform efforts over these years.

11 My academic advisor,
12 dissertation advisor, was Bob Inman, who
13 testified earlier, and I'm awfully proud
14 of my former public finance and urban
15 economics students who are actively
16 engaged with Philadelphia's fiscal policy
17 at high levels in the Administration,
18 City Council, and the public policy
19 space. It keeps me emotionally and
20 intellectually tied in.

21 I appreciate the opportunity to
22 offer my comments on the status of the
23 City's tax reform efforts, adding to
24 those of your earlier experts. In short,
25 I believe that we have seen significant

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 progress in adopting many of the specific
3 recommendations to make the
4 administration and collection of specific
5 and existing taxes more efficient, and I
6 support the current efforts to collect
7 delinquent/outstanding taxes and to
8 reduce delinquency rates going forward.
9 But I think we still have a long ways to
10 go.

11 Given the expert testimony that
12 you have already heard, I would like to
13 briefly highlight two basic issues here.

14 First, and I think very much
15 consistent with earlier experts, I
16 consider the City's AVI effort, fixing
17 our property tax assessment and revenue
18 system, to be an act of heroic fiscal
19 proportions. I believe that no real
20 efficient tax structure changes could
21 have been implemented until the property
22 tax system properly reflects real market
23 values of all categories of property.
24 While I still think that the existing
25 property base is larger; i.e., there is

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 more AVI catch-up needed, I applaud the
3 efforts over the recent years to get the
4 system up to the proper level and
5 continuously annually adjust assessments
6 to keep them updated. I also support an
7 assessment system that applies a greater
8 weight to land values. But simply
9 there's no excuse in the 21st century for
10 having an unfair and inefficient property
11 assessment practice.

12 Second, I learned a long time
13 ago that each dollar of revenue raised
14 should be raised in a way to minimize the
15 negative effects on the local economy
16 and, hence, the various tax bases that
17 you hear Bob Inman and several other
18 experts here testify and call that more
19 efficient taxation and least
20 distortionary taxation. I think the
21 easiest practical way to meet that
22 requirement is to fashion a tax that
23 applies a low rate -- and I should have
24 put in very low rate -- to the largest
25 and widest and growing possible base.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 Nothing in my three decades of experience
3 in local government finance has come even
4 close to changing my mind on that.

5 In that vein, I would very much
6 agree with the efforts to lower direct
7 business taxes and rely more on the local
8 property tax for both municipal and
9 School District revenues. But not all
10 business taxes are created equal. It is
11 my belief that we reduce rates on the
12 wrong tax in the business world, the
13 gross receipts tax. Instead, the real
14 harm to our local economy and, hence,
15 employment demand is our own corporate
16 income tax, conveniently named the net
17 income portion of the BIRT and forever
18 confused, even by tax experts, with the
19 net profits tax. Now that the federal
20 corporate tax rate has been reduced from
21 35 percent to 21 percent, our 6 and a
22 half percent corporate tax add-on is even
23 more of a disadvantage than it was
24 before. This has been partially
25 addressed by the shift to all sales

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 factors in calculating the base, but this
3 is still really a bad local tax. I
4 continue to recommend that every
5 available dollar for tax reform be used
6 to lower the net income tax rate as
7 quickly as possible. Shifting away from
8 this tax and to property tax is a central
9 component of the Levy-Sweeney tax reform
10 proposal, which you heard about earlier.

11 In conclusion, even with these
12 positive steps, I still consider
13 Philadelphia's tax structure to be
14 unnecessarily inefficient, in that it has
15 a greater negative impact on the City's
16 economic growth than it needs to be to
17 generate any given level of revenues
18 deemed necessary. This relative
19 disadvantage is well understood by
20 businesses and business advisors and
21 still significantly harms our economic
22 and fiscal condition, independent of the
23 very positive demographic and economic
24 changes we are witnessing. As a result,
25 our economic future is less rosy than it

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 could be, less employment and taxable
3 activity and fewer revenues to address
4 the growing needs of the City government
5 and the School District.

6 Thank you.

7 MR. DAVIS: Good afternoon,
8 Chairman Johnson, members of the
9 Legislative Oversight Committee. My name
10 is Darrell Davis. I'm the Manager of
11 Local Government and Civic Affairs at the
12 Chamber of Commerce for Greater
13 Philadelphia. Thank you for the
14 opportunity to testify on this matter.

15 The Chamber's mission is to
16 attract, retain, and grow jobs for the
17 City and region. We follow principles of
18 economic competitiveness to guide our
19 public policy. We believe that
20 government must be conscious of the
21 overall cost of doing business as it
22 relates to taxes, fees, insurance, and
23 regulatory expenses in order to provide a
24 competitive business environment. Our
25 region should strive to provide efficient

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 services with the lowest possible tax
3 rates. Taxes should be broad based and
4 not target a particular industry segment
5 and need to be shared equitably between
6 businesses and citizens.

7 In 2003, the Tax Reform
8 Commission provided the City with a
9 ten-year plan to reform the tax system by
10 offering targeted recommendations to
11 increase the City's overall competitive
12 edge. Key recommendations included
13 accelerated wage tax reductions,
14 reforming the business privilege tax,
15 currently now known as the BIRT, and
16 amending real estate taxes, all without
17 reducing necessary services the City
18 provides. And Drew a moment ago
19 referenced the status updates with those
20 taxes, Tax Reform recommendations.

21 The Chamber has worked with
22 past administrations and City Council to
23 enact a number of the Tax Reform
24 Commission measures. However, we believe
25 that more must be done to improve the tax

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 structure and overall competitiveness
3 currently. Currently, we are working
4 with City Council and the Mayor on a
5 number of local tax reform issues, and we
6 believe that any policies related to tax
7 reform locally should be taken with
8 action by Mayor and Council first rather
9 than other measures. As we strive
10 towards local tax reform, we will work
11 with officials as it relates to real
12 estate taxes. Relative to the suburbs
13 and other cities, Philadelphia's real
14 estate taxes are low, and as a matter of
15 public policy and recommended by a number
16 of folks that testified today, real
17 estate taxes could be increased.
18 Politically this may be difficult to
19 enact because the impact on residential
20 property owners, particularly low-income
21 residential homeowners, but in order to
22 help implement this agenda, the Chamber
23 would support adding more exemptions and
24 waivers to protect residential property
25 owners, like the homestead exemption.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 The Chamber will not support significant
3 and disproportionate local tax increases
4 on employers to address shortfalls, and
5 we believe that property tax is the way
6 to go.

7 Wage and business taxes, as
8 we've heard earlier from many folks that
9 testified, remain uncompetitive. When
10 compared to other cities and suburbs,
11 Philadelphia's wage tax is almost four
12 times the regional median and is
13 continuing to be a barrier of economic
14 growth. As a matter of public tax
15 policy, this rate could be reduced a lot
16 faster than currently set forth within
17 the Five Year Plan. We believe that
18 Mayor and City Council should use
19 possible increases in real estate taxes
20 to fund the accelerated reduction in wage
21 and business taxes.

22 As it relates to the U&O tax
23 and also a myriad of other taxes,
24 especially the parking tax, the Mayor and
25 City Council should not raise the U&O tax

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 and really focus on lowering the parking
3 tax rate from 22 and a half percent to 15
4 percent. There is a link between rising
5 commercial property values and the amount
6 of use and occupancy due per tenant. In
7 2012, City Council voted to raise the U&O
8 tax on businesses in Philadelphia by 19
9 percent, which equates to about a \$20
10 million increase. We strongly believe
11 that another increase is economically
12 counterproductive and will encourage
13 businesses that can move to do so.

14 Thank you for the opportunity
15 to testify on this resolution. We're
16 happy to continue serving as partners,
17 especially as it relates to the local tax
18 structure in Philadelphia.

19 COUNCILMAN JOHNSON: Okay.

20 Thank all of you for your testimony.

21 Do we have any questions from
22 the Committee?

23 (No response.)

24 COUNCILMAN JOHNSON: Thank you
25 very much.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 Can the Clerk please call the
3 last panel.

4 THE CLERK: Chris Cera, John
5 Gosier, and Nick Shenoy.

6 (Witnesses approached witness
7 table.)

8 COUNCILMAN JOHNSON: So I'm
9 going to ask the three of you to do
10 something for me, if you don't mind. I
11 probably all will owe you a favor in the
12 future. Still go through your testimony,
13 but could you summarize it to the best of
14 your ability, only because I have a
15 toddler I have to pick up. So until
16 universal pre-K kicks in, I'm on the hook
17 as a dad. But nevertheless, proceed and
18 pronounce your name for the record.

19 Mr. Mullin, have a good one,
20 sir.

21 MR. CERA: Hi. My name is
22 Chris Cera. I'm the CEO of Arcweb
23 Technologies.

24 Thank you very much for your
25 valuable time. It's an honor to be here

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 today. My name is Chris Cera. I live in
3 the Bella Vista neighborhood with my
4 family and I'm the CEO of Arcweb
5 Technologies located in Old City.

6 This is the short version.

7 I was the Small Business Person
8 of the Year for the Chamber of Commerce
9 in 2016. In that same year, my company
10 was in the Inc. 500 fastest growing
11 companies in the country and No. 24
12 fastest growing in our industry.

13 I was able to bootstrap my
14 company, and that means I didn't receive
15 any outside capital from investors, my
16 family or anybody else. I spent a lot of
17 time thinking about business formation
18 and how kids in Philadelphia can walk a
19 similar path as me to become more
20 independent.

21 I want to point out that
22 business formation and business
23 attraction are two completely different
24 goals, and I personally believe business
25 formation doesn't get enough attention.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 How do we create an environment where
3 companies like Amazon are more likely to
4 form here? How do we create an
5 environment -- if we had that
6 environment, then what would stop ten
7 companies from growing to be the size of
8 Amazon? It seems to me that fostering
9 the environment for startups to thrive is
10 going to be much more scaleable for us
11 than figuring out how to solve a single
12 company's scalability problems. As much
13 as I love Philly Delivers as our external
14 marketing campaign, I'd love to see Grow
15 Ten Amazons become our internal marketing
16 campaign.

17 We need to make it easier for
18 companies to survive in Philadelphia in
19 their first few years of business. We
20 have an extremely counterproductive
21 policy where businesses must pay taxes
22 almost a full year in advance or else
23 face significant penalties. I have
24 affectionately been calling this the
25 "second year slap" since most people only

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 discover this policy when they pay their
3 first year of taxes. So imagine when you
4 pay your taxes this April, that you have
5 to pay the rest of 2018 in advance. How
6 are you supposed to pay your taxes on
7 salary when your employer hasn't even
8 paid you yet? It's not possible, unless
9 you're already rich or you're lucky
10 enough to borrow money somehow.

11 Every business in Philadelphia
12 is basically loaning the City money to
13 operate, and business owners and
14 shareholders are affected, but also the
15 kid that rents a kiosk at a shopping mall
16 is also affected.

17 I submitted also with this just
18 something from the Department of Labor
19 and Industry that shows the top 50
20 employers in Philadelphia. If you look
21 at the top 20, only three of them are
22 for-profit companies. And I would say
23 that it just shows the systemic problem
24 throughout the City, and it's against, to
25 some degree, for-profit companies in this

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 town, and I would argue that this unfair
3 tax policy is one of the reasons.

4 Councilman Domb earlier even
5 pointed out the real estate problem with
6 non-profits and how much real estate they
7 actually own relative to how much tax
8 they pay, which is approximately a third.

9 I'm certainly not the first person to
10 raise the issue and it was mentioned in
11 Recommendation 21 by the Tax Reform
12 Commission in 2003. I was delighted
13 recently to discover that Councilman
14 Taubenberger -- nice to meet you --
15 recently proposed Bill No. 180077 to
16 specifically address this issue for new
17 companies that are being formed, and I'll
18 just say business attraction is important
19 for our city and I'd like to see even
20 more attention on business formation so
21 that we can grow ten Amazons.

22 COUNCILMAN JOHNSON: See, that
23 whole grow ten Amazons alone is a very
24 insightful perspective. Thank you very
25 much for your testimony.

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 MR. CERA: My pleasure. Don't
3 forget the second year slap.

4 COUNCILMAN JOHNSON: Second
5 year slap, that was a good one as well.

6 Go ahead, sir.

7 MR. GOSIER: Hi. My name is
8 John Gosier. I am the Founder and CEO of
9 a venture capital fund called Southbox,
10 \$30 million fund co-located between here
11 in Philly and New York.

12 I'm going to summarize my
13 points because I think many of them have
14 been made better and more eloquently
15 earlier today. But the main thing that I
16 think about as an investor is how to
17 create enabling environments for startups
18 to grow, and I think the City should
19 start to think about its ecosystem in the
20 same way.

21 There's a study that came out
22 of San Francisco. It was not necessarily
23 limited to San Francisco, but it looked
24 at the rate of job creation by the tech
25 sector in the greater economy, and it

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 found that for every tech job or startup
3 job created, 4.3 non-startup, non-tech
4 jobs were created in the ecosystem. So
5 that's a pretty significant driver of
6 growth.

7 Additionally, another study by
8 the U.S. Chamber of Commerce found that
9 50 percent of new jobs created in the
10 country are coming from startups of some
11 type. So it's critical to think about
12 the opportunity to support companies in
13 their infancy, and I think the only ask
14 that I have that would be different from
15 most of the remarks made earlier today is
16 to create a distinction. We talked about
17 targeting regions, geographic regions.
18 We talked about targeting big corporate
19 companies. I think the City should think
20 about ways of targeting the drivers of
21 growth at the small end, those companies,
22 to Chris's point, that can become the
23 Amazons of tomorrow. They don't come
24 about if they get snuffed out in their
25 infancy. And so I think that we should

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 create some sort of designation to define
3 what a startup is to the City, and to me
4 what I think makes sense is companies
5 that have capitalization, meaning
6 revenues, or capital raised of less than
7 \$5 million. Those companies likely have
8 no revenue, and if they do have revenue,
9 they probably aren't profitable yet. And
10 I think it de-couples the definition from
11 anything that's time based or region
12 based. It's really all about the
13 capital.

14 The second thing that I think
15 would be encouraging to investors is to
16 look at deferral on stock options for
17 investors. It attracts capital from
18 outside the region to Philly, which is
19 something we desperately need to do.

20 Thank you.

21 COUNCILMAN JOHNSON: Thank you
22 very much.

23 MR. SHENOY: Honorable Chairman
24 Johnson, my name is Narashimha Shenoy. I
25 am the founding President and CEO of the

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 Asian American Chamber of Commerce. You
3 have written testimony with you. I will
4 not go through it, but I'd like to make a
5 couple of points, if I may.

6 Most of our members are
7 basically in the suburban counties. One
8 of the reason is it's easier to do
9 business in suburban counties, the tax
10 laws and the commuting and the whole
11 works.

12 And second thing, there's a
13 perception that the City is not a
14 business-friendly city, and the
15 prediction -- they cannot predict down
16 the road what taxes they have to pay if
17 they move into the City. So something
18 you need to consider.

19 Another point I need to make is
20 basically we have a lot of immigration
21 populations coming into the City.
22 They're here to stay. They're opening up
23 businesses, and we need to provide some
24 tax -- maybe tax -- when you do the tax
25 reforms, consider startup help and also

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 help to grow the business, because they
3 come from different culture and different
4 tax in their minds. So something in the
5 educational process needs to be done,
6 because they need employment. The
7 businesses will give them employment, and
8 this is something you would -- we request
9 you to consider that.

10 Thank you.

11 COUNCILMAN JOHNSON: Thank you
12 very much.

13 And I want to take a moment and
14 sincerely thank all three of you for your
15 testimony, but to the two gentlemen that
16 are businessmen, we really thank you for
17 taking time out of running your
18 day-to-day business to give us an insight
19 as being small business developers who
20 are taking your business to the next
21 level, and when you talk about making
22 sure we don't snuff out the small
23 businesses before they even get a chance
24 to develop, that's refreshing to hear,
25 because it also gives us a chance -- we

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 hear from Comcast, we hear from the
3 Brandywines of the world, we hear from
4 the Liberty Property Trust corporations
5 of the world, but hearing from you
6 specifically on how we should target and
7 help businesses get to the next level is
8 also refreshing. So I'll follow up with
9 my colleague Councilman Taubenberger as
10 well.

11 COUNCILMAN TAUBENBERGER: I
12 think it's a point well taken. And I'm
13 not going to take much time, because
14 we've been here for a long time, but,
15 Councilman Johnson, thank you for your
16 leadership on this issue, very, very
17 important.

18 And also thank you so much for
19 taking the time out of your busy day. It
20 is well, well appreciated. This is the
21 place and the time that we have
22 interaction between constituents,
23 businesses in this case, and elected
24 officials. I think it's very, very
25 valuable. And I know you were here a

1 2/21/18-LEGISLATIVE OVERSIGHT-BILL 171118, ETC.

2 long time, but I want to say that your
3 wait was quite worth it, particularly you
4 heard from both of us.

5 Councilman and Mr. Chairman,
6 thank you for the opportunity to say a
7 word.

8 COUNCILMAN JOHNSON: Of course.
9 Thank you very much.

10 And thank you for your
11 testimony.

12 This concludes our testimony
13 for today's hearing. We'll stand in
14 recess to the call of the Chair. And,
15 again, I want to thank everyone for
16 coming down for their testimony.

17 (Committee on Legislative
18 Oversight concluded at 4:30 p.m.)

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CERTIFICATE

I HEREBY CERTIFY that the
proceedings, evidence and objections are
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Committee on Legislative Oversight
February 21, 2018

Page 1

A	access 66:23	76:22	193:22	121:24	103:17	American	183:2
A-plus 64:4	81:18	146:20	194:5	aggressive	allowing	158:5 199:2	Apple 23:24
abatement	accessible	181:23	advantage	57:18 90:4	106:7	amount 38:4	applies 183:7
109:25	11:16 66:15	188:23	62:22 83:22	101:7	alluded 37:3	42:14 190:5	183:23
110:5	accompanied	additional	97:23 99:23	aggressively	111:19	Amtrak	apply 79:6
117:21	22:17	41:11 71:11	102:19	73:16	163:7	62:20	203:21
118:12,14	accomplish	71:13 127:3	106:6	ago 42:13	166:10	amusement	applying 26:5
119:22	139:21	128:4	advisor	54:4 55:9	alter 116:6	3:25 4:19	appointed
120:25	141:2	Additionally	170:23	58:20 61:19	118:11	4:21	10:23
121:3,6	accomplishes	197:7	181:11,12	70:22 94:18	altering	analysis 30:9	appointees
abatements	139:5	address 68:22	advisors	96:14 97:14	87:11	177:17	171:14
119:6,11	account	73:4 103:10	185:20	101:6	alternative	analysts	appointme...
140:17	43:17 94:13	117:6	Advisory	102:11	83:12 93:6	65:16	143:20
ability 6:24	99:11	163:17	16:13	118:5	alternatives	anchor 72:19	apportionm...
7:13 36:15	accurate	186:3 189:4	advocate	131:11,12	82:13 92:24	77:3 132:15	21:19
46:20 74:16	148:23	195:16	165:6	133:19	101:4	and/or 28:3	175:15
84:24	174:12	addressed	advocated	140:22	amazing 54:3	31:9 203:23	appreciate
115:23,24	accurately	51:18	124:20	149:16,16	54:4,9,18	anemic 70:6	107:2
138:6	203:5	184:25	Affairs	159:21	55:18 67:5	Anne 77:13	111:15
179:25	Achilles'	addresses	186:11	175:6	158:25	announced	129:24
191:14	26:10 29:17	104:3	affect 108:3	183:13	Amazon	72:7	147:23
able 8:8,10,12	acknowledge	addressing	115:22	187:18	23:23,24	annual 125:7	153:2 168:8
47:11 61:16	15:9 169:23	65:25 101:9	138:5	agree 29:15	26:3,6,12	annually	168:11
61:22 62:2	acronym	adds 126:19	affectionately	49:22 50:12	26:19 28:5	183:5	181:21
62:4 89:15	61:15	adequate	193:24	56:4 60:18	28:5 29:19	anomalous	appreciated
89:18 106:6	act 79:23	142:17	affirmative	81:12 114:3	30:3,24	71:14 74:9	201:20
128:12	90:16	adjust 82:18	29:23	114:5	48:2,4	76:2	approach
135:6	182:18	183:5	afford 135:4	163:22	57:17 63:9	answer 24:20	48:6
146:18	action 3:3	administrat...	135:6	184:6	77:12 90:22	45:8,9 47:3	approached
150:20	12:14 46:5	2:25 11:17	affordability	ahead 54:2	91:3 109:24	114:11	8:23 18:10
177:4,8	46:7 173:16	21:7 24:12	26:23 30:21	91:12 119:3	132:19	140:19	63:18
192:13	188:8	27:25 46:3	59:16	196:6	133:10	147:2	122:21
above-grou...	active 22:9	117:10	affordable	aimed 142:12	139:24	158:17	169:20
143:12	actively	129:13	103:9 124:9	Airport 16:12	140:5 141:7	answered	191:6
absolute	181:15	137:2	149:10,13	akin 141:2	178:7 193:3	93:5	approaches
73:22	activities	157:10	149:17,18	Al 1:12	193:8	antiquated	163:14
160:24	85:16	181:17	African 158:5	169:24	Amazon's	6:12,23	appropriate
absolutely	activity 85:9	182:4	afternoon 2:3	algorithm	81:21	anybody	29:14
56:20 58:15	186:3	Administra...	9:11 18:22	161:23	Amazons	168:5,7	appropriat...
114:3 116:3	actual 21:23	181:4	64:2,8	aligned 33:18	193:15	192:16	165:2
121:7	105:4,8	administrat...	123:3	alignment	195:21,23	anymore	approximat...
140:11	add 22:16	187:22	129:19	32:3	197:23	154:10	195:8
absorb 130:5	41:11 49:23	administrat...	148:4 171:6	Allan 1:10	amending	anyway 56:24	approximates
academic	97:14	10:15	180:13	15:10	3:11,15,18	57:8,8	88:25
181:11	133:17	173:17	186:7	alleviate	3:23 4:5,11	apologize	April 194:4
accelerated	153:14	adopt 21:18	age 41:8	146:2	4:17,24 5:6	129:21	archaic 9:18
187:13	162:14	173:10	agencies 34:8	allocated	187:16	appeal 96:16	11:12
189:20	add-on	adopted	agenda 2:21	108:10	amenities	appeals	Arcweb
accelerating	184:22	21:19 25:3	188:22	allow 102:24	103:20	174:11	191:22
153:21	added 56:22	adopting	agglomerat...	103:15	106:10	appear 24:19	192:4
175:7	addendum	102:3 182:2	110:12	174:19	amenity-rich	appearing	area 55:10
acceleration	20:19	adults 41:6	121:22	177:2	66:14	95:7	67:6 79:16
175:8,11	adding 68:25	advance	aggregate	allowed	America 96:3	applaud	151:10

Committee on Legislative Oversight
February 21, 2018

Page 2

173:17	58:3	102:21	42:6 43:8	147:11	believed	196:14	126:19
areas 38:6	assistance	108:13	73:10 83:9	182:25	76:22	beyond 36:10	162:15
40:15 95:21	41:24	110:2,9,13	87:18 99:24	183:25	believer 56:7	175:17	175:14,22
96:19	associated	110:17	105:3 106:9	185:2	believes 72:2	Bezos 140:6,7	177:15
103:16	61:4	141:6	111:12,13	based 15:14	117:13	bid 77:12	178:16,25
105:16	Association	attractor	121:18,25	17:6 28:4	Bella 192:3	139:24	179:4
arena 77:22	141:23	37:11	123:19	29:20 77:18	below-grou...	big 53:3	184:17
argue 120:14	158:9,10	attracts	127:17	97:11 187:3	143:14	54:16 56:7	187:15
195:2	associations	198:17	130:25	198:11,12	bench 64:25	79:17 81:6	bit 36:23
argued 71:9	158:13	attributes	131:7 132:4	bases 180:25	benchmark	81:9 86:8	37:12 42:19
71:12 76:14	astoundingly	101:18	146:10	183:16	32:18	87:13 89:23	111:22
92:8	140:4	attuned	150:21	basic 182:13	beneficial	108:15,16	113:6,25
arguing	attachment	178:6	153:15	basically 63:3	103:3	121:17	117:8 160:8
121:2	137:20	authentically	156:12	85:7 120:20	beneficiary	158:21	162:13
arguments	attack 124:14	148:11	159:15	164:13	150:23	167:13	171:19
93:12	attainment	authorizes	169:13	194:12	153:25	175:18	173:18
array 142:21	38:14,15	19:6	171:16,24	199:7,20	benefit 88:25	197:18	178:20
artfully	40:18 69:16	authorizing	173:14	basis 31:2	103:17	bigger 50:11	black 95:22
138:25	70:7	14:21	backdrop	33:18 48:11	105:11	70:17 95:7	119:6
articles 55:13	attempt	automate	79:9	96:22	121:23	121:20	blame 99:20
articulated	49:25	47:6	backed 26:21	beacon 129:5	167:2,3	biggest 38:17	blamed 93:4
33:5	attention	autonomous	background	beam 29:11	176:18	151:8	blanket
arts 96:14	100:8	156:13	48:16	becoming	benefit-cost	160:16	119:18,21
Asian 199:2	137:19	availability	backs 167:11	19:20 20:7	87:21	162:22	block 153:16
aside 30:24	140:8	144:22	backwards	102:20	benefited	bill 9:19,21	Blondell 1:12
57:15	192:25	available	97:18	beds 74:22	130:20	9:22,24,25	2:19 29:4
164:16	195:20	108:4	bad 17:6	began 171:16	benefits	10:3,5,6,8	147:2
asked 38:21	attentiveness	119:24	37:17 58:24	beginning	82:23 87:19	52:5,10	board 16:6
38:25	113:18	185:5	86:16	124:7	89:3,5	158:14,20	16:13 48:5
137:22	attest 20:4	Avenue 16:3	151:22	behalf 21:6	107:7,9	195:15	Bob 78:3,12
asking	attitude	34:13	154:12	belief 37:22	109:13	billed 52:4	132:8
137:18	137:2	135:21	185:3	164:19	110:11,12	billion 16:14	169:25
aspect 7:3	attract 23:21	average	balance 46:24	177:17	113:2,2	23:6 52:3,4	170:23
35:19 60:19	24:3 35:21	22:24 39:6	82:22 150:8	184:11	117:16	52:7,11	181:12
assembly	35:24 36:20	125:9,12,16	150:21	believe 7:11	Bentley's	91:3 109:23	183:17
33:8	44:18,18	126:15,24	155:21	29:20 33:22	66:21	123:9,11	body 46:11
assessed	55:22 75:7	128:6,8	156:7	60:22 97:16	best 23:11	billions 71:4	46:12 56:23
126:22	120:13	166:13	balancing	129:7 138:2	27:15,18	bills 1:14 2:8	93:16
166:11	186:16	AVI 21:24	79:23 90:16	138:14,15	40:6 55:7	2:20,25 3:3	bold 127:18
assessment	attracted	89:23	150:13	139:25	87:7 94:11	3:9 8:21	bond 23:17
26:18 71:19	107:20	182:16	Baltimore	145:24	128:18	9:17 11:18	25:10,14,17
89:22	attraction	183:2	81:15 82:5	146:17	139:20	12:6,11,15	50:25 51:5
135:17	35:16 44:15	avoid 76:5	banker 44:12	148:11	191:13	12:19,25	51:7,10
162:10	67:3,18	aware 174:12	barrier 96:5	156:10,14	bet 137:3	13:6,10,19	64:3
174:11	77:7 192:23	awfully	189:13	171:23	better 6:25	14:6	bonds 170:13
182:17	195:18	181:13	barriers	181:25	34:25 39:15	biotech	books 15:23
183:7,11	attractions	aye 13:13,14	70:10	182:19	49:10 59:24	176:15	28:23
assessments	96:17	ayes 13:17	base 8:11	186:19	60:2 71:7	BIRT 21:10	boom 47:19
183:5	attractive		36:6 53:14	187:24	73:4 78:9	21:14 28:20	bootstrap
asset 145:3	24:2 36:19	B	74:21 75:2	188:6 189:5	86:15 87:18	32:8,11	192:13
asset-wise	80:2 84:16	B 43:4	94:25 95:4	189:17	87:19	52:20 71:12	bore 85:5
62:21	97:2 98:24	baby-boom...	125:4,20	190:10	113:23	71:21 73:17	born 136:21
assets 26:22	99:13	96:12	135:19,24	192:24	121:20,25	75:16,19	borne 84:7
		back 3:4 28:8					

Committee on Legislative Oversight
February 21, 2018

Page 3

166:17	39:25	165:22	business 6:14	129:12	165:19,20	58:20	categorize
167:10	104:13	167:8,9	6:17 7:2,25	144:2,23	165:25	193:14,16	35:17
borrow	briefly 15:9	180:19	9:6,14	145:17,19	167:11	Campus	category
194:10	102:17	budget-based	10:22 11:4	145:21	169:8 172:5	67:11	27:14 30:10
Boston 54:2	182:13	174:14	15:18 16:2	150:25	179:21	cancer 54:8	30:11
55:11,16	bring 51:19	build 87:2,3,5	16:2 17:3,7	152:20	185:20	58:2	caught 53:7
57:13 59:7	53:13 78:5	87:5 124:12	17:11,16,22	154:10	187:6 190:8	capacity	causes 70:24
59:15 60:3	85:16 164:6	127:14	19:19,23	155:2,13	190:13	170:18	caveats 65:3
62:23 67:6	broad 187:3	143:7,9,9	22:15 24:15	165:13	193:21	171:9	Cayman 76:7
67:8 69:14	broad-based	144:15,17	26:15 27:2	167:6 168:3	199:23	capital	celebrate
82:6 99:18	89:25	151:12,21	27:21 28:6	175:4 178:3	200:7,23	192:15	58:13
131:21	broadcasts	151:21	31:6,13,18	179:2,19	201:7,23	196:9 198:6	125:10
132:11	5:10	152:13,14	32:2,11	184:7,10,12	businessmen	198:13,17	cement
149:6	broadening	152:21	34:2,19	185:20	200:16	capitalization	137:20
Boston's 60:6	166:25	153:17,23	35:16 36:11	186:21,24	businesspeo...	198:5	center 66:24
147:5	broadly	154:3,4	39:9 42:17	187:14	93:24	capitalize	72:9 77:6
Boston-adel...	119:24	156:10	42:24 43:14	189:7,21	busy 201:19	23:14	91:17 93:10
69:13,21	broken 71:18	building	43:21,25,25	192:7,17,22	buy 139:4	capture 24:8	93:11 94:22
bottle 148:17	Brookings	51:15	44:13,16,25	192:22,24	buying 102:7	cards 71:25	96:19 98:12
bottom 51:6	133:20	102:25	45:3,15	193:19		care 19:14	130:13,21
bought	brought	104:5,15	49:2,5,6,11	194:11,13	C	141:7	133:11
149:20	111:15	143:11	49:13 53:6	195:18,20	calculate	career 44:12	135:18
Bowl 16:23	142:11	144:19	55:22 62:8	199:9 200:2	159:5	170:19	144:13
54:19	Brown 1:12	151:16	63:2 64:23	200:18,19	calculated	careers	159:8,16
BPT 175:5	2:19 27:16	152:10,13	66:5 68:10	200:20	176:4	137:15	162:18
brain 55:13	29:5,6	152:14	71:21 73:13	business-fri...	calculating	careful 121:5	centered
branch 42:22	30:23 31:12	154:5	77:4,7	15:20 36:9	185:2	carefully	131:15
42:23	32:9,13,23	built 74:20	82:19 83:6	37:7,9	call 5:17,21	102:23	centers
branching	34:4,21	118:4,25	84:10 88:23	199:14	8:20 18:6	108:24	138:24
98:18	35:4 58:9	160:13,14	88:24 89:4	businesses	38:2 55:13	carrier 9:22	central 19:15
branding	58:16,22	bulge 137:7	89:8,9	4:7,19 5:2	57:8 63:14	Carriers 3:20	91:24
57:24	59:2,6,12	bunch 87:7	90:12 92:5	7:14,15 8:2	69:12 70:5	carries 13:18	123:15
Brandywine	59:17,23	burden 66:19	94:5,8,14	8:7,7,12,13	70:16 105:8	carry 31:5	185:8
123:4,8,20	60:7,11	67:15 68:2	94:20 95:12	10:18 21:15	110:11	172:15	cents 85:8
127:2,6	106:19	68:6 75:15	98:3 100:3	31:3,8,17	122:18	carryover	86:11,17
129:6	108:16	98:2 127:3	100:11	31:20 34:10	136:12	175:17	87:6 116:8
151:11	109:8	129:8 161:6	101:8	34:25 35:24	169:14	176:5,7,21	122:2
Brandywin...	110:19	162:6	102:13	37:11 38:19	183:18	176:24	century
126:2	121:19	163:10	107:8,8	43:13 44:17	191:2	177:2	180:18
Brandywines	148:2,3	178:18	108:14,25	44:19 54:11	202:14	cars 5:4 10:6	183:9
201:3	149:9,12	179:18	109:2,5,12	80:18 81:5	called 2:4	case 83:16	CEO 6:8
break 56:11	150:2,18	burdening	109:19	81:10 83:10	16:20 26:25	201:23	33:13 46:17
91:4 119:12	151:15,23	128:2	110:2	84:11 93:19	30:10,11	cash 51:13	123:4
breathe 150:4	152:25	burdens	111:20	94:5,7 98:5	52:13 57:13	86:2,5	129:20
Breeze	156:3,20	74:15	112:15,19	98:16,25	72:19 92:9	casino 16:20	191:22
104:21	Brown's	burdensome	113:18	99:4,7	130:23	16:21	192:4 196:8
Breslin 18:8	147:3	112:25	115:15	110:14	196:9	cast 93:16	198:25
18:20,21	budget 38:4	142:11	116:20,22	112:5	calling 52:17	catch-up	Cera 191:4
24:22 25:11	46:24 49:19	Bureau 62:4	120:18	116:22	69:14	183:2	191:21,22
25:16 40:25	53:4 61:4,6	157:23	123:16,24	126:17	193:24	categories	192:2 196:2
50:20	62:10 68:19	158:9	124:22	129:9 136:3	Camden	27:9 28:21	certain 3:13
bridge 43:7	91:17 93:10	bus 9:22	126:21	142:8,16	134:22	30:19 64:4	3:17,20,22
brief 15:14	98:12 116:5	buses 3:21,25	128:23	165:10,16	149:8	182:23	4:3,8,9,13
					campaign		

Committee on Legislative Oversight
February 21, 2018

Page 4

4:15,22 5:4 5:8,10,15 41:17 72:17 103:15 174:6 certainly 9:4 36:3 37:8 78:19 90:9 109:12 110:3,7 112:6 116:15 165:17 168:16 195:9 CERTIFIC... 203:2 certification 203:20 CERTIFY 203:3 certifying 203:24 cetera 115:6 115:6 131:24,25 Chair 1:10 5:18,24 8:17 12:16 12:19 18:17 40:23 60:16 156:25 202:14 chaired 2:23 Chairman 2:12 8:19 9:5,11 14:3 16:15 18:23 29:7,16 35:10 40:21 50:18 58:10 64:8 111:5 160:3 186:8 198:23 202:5 Chairman's 72:12 challenge 38:17 46:9 47:16 172:20 challenges 31:18 41:21	42:12 43:15 43:17,21 64:21 65:21 65:25 131:22 challenging 49:19 Chamber 6:9 158:4,5,15 171:10 186:12 187:21 188:22 189:2 192:8 197:8 199:2 Chamber's 186:15 Champion 16:24 chance 168:11 170:5 200:23,25 change 50:6 50:10 58:13 76:15,17 80:20 92:3 139:2 165:15 176:3 changed 117:23 118:17,20 174:23 changes 22:17 23:6 24:13 41:24 42:2 49:5 71:24 73:6 94:24 95:3 95:5,7 97:7 101:19 172:7 174:18 177:20 182:20 185:24 changing 105:15 154:17 184:4 Chapter 3:11 3:19,24 4:6	4:12,18,25 5:7,13 characterize 173:16 charge 108:20,22 108:25 145:21 155:7 172:23 charged 172:3,18 cheap 163:25 cheaper 163:23 Chicago 81:15 131:21 Chief 57:22 choice 34:11 81:11 108:9 choices 137:14 choose 34:18 108:6 chosen 31:8 Chris 191:4 191:22 192:2 Chris's 197:22 circumstance 45:18 cited 94:19 174:25 cities 20:3 27:19 40:11 49:8 51:3 73:25 74:11 81:14 90:7 92:7 95:17 95:19,23,24 96:6,16 97:2,4 99:24 106:18 118:5,5 125:7,12,17 126:17 128:6 131:20,22 133:22 134:4,4	138:18 140:9 150:7 152:4 154:14 163:24,25 188:13 189:10 citizen 180:2 citizens 131:10 136:3 187:6 city 1:2,6 2:5 6:17,21 7:8 7:23 8:3,5,8 9:15 10:20 11:5,9,11 15:20 16:3 17:3,11,18 17:22 18:19 19:2,23,25 21:13 22:15 23:19 25:14 26:8,15 27:2,10 32:19 34:8 34:12,13 35:20,21,22 36:18 41:16 41:21 42:20 42:21,24 43:11,23 44:2,5,9,10 44:11,14 45:2,4,11 49:11 52:7 52:14,25 53:23 54:12 54:15,24 57:25 58:14 60:4 61:21 61:25 62:6 62:13 66:22 66:24,25 68:25 69:23 70:15 72:5 72:8,9 75:24 76:21 76:25 77:6 77:14,19 78:21 79:13 80:5,7 82:5 84:15 85:9 85:17 86:9	90:4,5 92:16 93:2 95:17 96:19 99:3,4,22 100:5 101:16 102:20 103:3,21 107:13 109:5,11 112:5,12,21 113:10,12 115:4,20,23 115:25 117:5,22 118:21,25 119:2,6,23 123:18,19 124:4 125:21,22 125:24 126:14,14 126:21,22 127:8,18,21 128:9,19 129:2,7,13 129:13 130:20 134:22 135:12,12 135:18,21 135:22,23 139:7,10 140:13 142:6,10,15 144:13 145:3,10,14 145:25 146:15,25 147:6,11 148:22,23 148:25 149:2,10,13 149:17,18 150:3,12 151:10,24 152:7 153:8 153:24,25 154:16,18 154:23 155:6,8,11 155:17,19 155:23	156:6,19 158:23 159:3,19 161:14,17 162:3,7,18 163:18 165:10,21 165:24 166:5,12,17 166:18,20 167:4,25 168:18,19 168:21,25 168:25 169:4,9 178:24 179:12,22 179:25 181:18 186:4,17 187:8,17,22 188:4 189:18,25 190:7 192:5 194:12,24 195:19 196:18 197:19 198:3 199:13,14 199:17,21 city's 23:17 29:18 58:25 118:11 126:2 130:6 131:9 144:5 145:23 146:14 153:19 172:10 173:12 180:24 181:23 182:16 185:15 187:11 civic 64:16,19 123:24 130:8 186:11 claim 98:9 clarifying 114:4	clarity 115:17 Clarke 6:5 class 27:15,18 56:10 88:20 123:14 170:9,14 classes 111:12 clause 116:16 157:5 clear 92:23 93:6 129:4 clearly 81:11 82:9,18 109:3 129:2 Clerk 3:8,10 5:17 8:20 8:22 14:18 14:20 18:6 18:8 63:14 63:16 122:18,19 169:14,18 191:2,4 Cliff 110:20 climate 6:17 7:25 42:18 49:6 close 101:21 184:4 closed 147:19 closely 16:8 16:15,18,22 25:4 89:6 closer 78:6 116:10 168:23 closing 170:22 co-chair 20:10 46:15 46:16 171:9 Co-Chairs 6:7 co-located 196:10 coalition 123:23 129:7 138:14 158:21 Coalition's 125:25	Coast 82:3,12 Code 3:12,19 3:24 4:6,12 4:18,25 5:7 5:13 6:12 7:12 9:17 10:15 11:13 11:15 102:23 cohort 137:17 138:6 cold 129:22 colleague 81:13 170:2 201:9 colleagues 18:2 24:11 104:12 collect 182:6 collection 4:9 9:25 22:8 123:21 182:4 collectively 62:5 139:15 college 55:8 55:10 67:6 67:8 117:18 131:2 color 71:3 Columbia 75:13 combination 108:7 163:15 combined 103:7 144:14 146:6 Comcast 23:25 201:2 come 2:21 17:16 31:8 34:7 38:12 38:19 50:9 52:15 54:16 59:14 67:19 88:3 128:14 130:25 132:4,12 138:19 153:16 156:12
---	---	--	---	---	---	--	--

Committee on Legislative Oversight
February 21, 2018

Page 5

159:4 167:9	commercial	16:17 18:24	company	175:2 178:3	202:12	182:16	63:4 103:6
172:2	89:16 102:4	64:9 91:18	20:2 75:24	178:21	conclusion	185:12	137:5 164:9
174:22	102:9,12,15	122:12	86:4 123:9	179:8 180:7	26:20 93:20	199:18,25	164:20
177:5 184:3	123:12	123:5	126:13	186:18	93:25	200:9	185:4
197:23	139:3 167:6	129:20	127:4	188:2	185:11	consideration	190:16
200:3	190:5	138:13	161:13,17	competitors	conclusions	147:23	continued
comes 32:6	commercial...	171:11	176:16	154:24	78:19 98:14	considerati...	41:18
55:23 65:11	75:22	186:9	178:14	155:9	concrete	160:9	105:12
92:5 105:21	commission	190:22	192:9,14	complaining	17:21	considered	175:10
107:24	2:22 14:24	202:17	company's	159:22	condition	65:13	continues
136:24	19:8 25:3	Committee's	193:12	complete	103:8 144:8	100:20	125:15
coming 8:14	48:13 78:18	10:19	comparative	142:14	185:22	considering	147:7
16:20 19:24	78:20,24	common	59:20	completely	conditional	102:2 133:7	continuing
43:19 61:6	91:22 92:8	120:14	compare	50:12	109:21	145:15	21:13 39:19
80:5,6	92:18	Commonwe...	30:12	192:23	conditions	146:22	100:2
99:15 106:5	100:10	41:23	compared	complex	3:17,22 4:4	155:3	189:13
113:9 131:7	147:21	123:11	66:19 67:16	32:19	4:10,16,23	consistent	Continuous
139:11	171:15,25	140:12	82:15 95:19	113:17	5:5,11,15	78:23	46:3
155:19	172:3	166:16	163:6	complexity	conducted	182:15	continuously
159:3	173:13,24	communicate	189:10	31:25 101:8	127:2	consortiums	183:5
161:14	175:7,13	49:2	comparing	111:23	confidence	50:5	contractors
197:10	179:10,16	communities	81:14	compliance	165:19	constituents	34:5
199:21	187:8,24	49:11 102:8	compelling	22:8	confront	44:17,18	contrary
202:16	195:12	106:13	66:16 120:8	complicated	48:18	201:22	57:12
comment	Commissio...	118:6 133:6	compensate	43:8	confused	Constitution	136:16
18:3 45:18	86:21 93:13	community	161:20,21	component	184:18	174:19	contrast
79:25 81:12	100:18	6:15 7:2,16	compensati...	73:16 185:9	confusing	constitutional	134:17
89:21 114:4	Commissio...	10:22 15:18	89:3,5	components	110:7	138:25	contribute
114:5	7:5 18:20	17:8,16	compete	73:9 162:15	congestion	construction	20:8 99:10
121:18	18:21 24:22	48:4 49:3	84:24	165:13	155:3,12	3:14 85:14	115:13
136:9	25:11,16	53:6 84:2	competes	compounds	conjunction	85:16	contributes
comments	40:25 50:20	105:4	75:12	179:17	6:5	102:22	115:3
60:18 78:25	Commissions	106:10	competing	comprehen...	connecting	151:16,19	contribution
79:18	124:21	108:5	82:4	173:7	40:10	consumers	135:7
136:14	129:4	129:11	competitive	compulsory	connection	80:22	control
181:22	162:21	150:16	15:20 20:6	4:21 10:4	101:21	consumption	127:19
Commerce	171:18	commute	24:16 25:7	concentrati...	115:14	68:11 80:25	166:18
6:6,9 9:7,16	commit 23:9	125:21,23	27:20 33:19	100:7	138:3	81:2	203:23
10:21 18:18	commitment	142:18	74:3 82:13	concepts	conscious	contained	Controller's
19:2,15,21	164:14	commuting	83:22 89:11	180:4	186:20	203:5	65:9
20:7 24:9	committed	161:22	89:18 90:11	concern	consecutive	contempora...	controlling
24:25 30:25	21:7,13	199:10	128:19	130:7 134:2	22:24	75:11	123:13
33:3,6,11	24:10	companies	178:5	concerned	consequence	context 174:3	controversy
40:24 44:7	committee	23:22 98:22	186:24	105:25	80:15 87:9	contiguous	109:23
46:15 55:23	1:3 2:6,14	176:9,13	187:11	142:7	104:19,22	73:23	convened
57:16 77:8	2:16 5:19	177:2	competitively	158:13	135:8 151:4	continuation	158:7
140:2 158:5	7:18,21	192:11	79:16	159:7,9	154:11	6:2	convenes
158:6	9:12 10:10	193:3,7,18	competitive...	concerns	consequences	continue 7:20	64:18
171:11	10:13,25	194:22,25	15:4 19:11	26:14	50:3,8	11:14 17:20	conveniently
180:17	11:7,11,24	195:17	19:20 20:12	concluded	82:21	21:8 24:14	184:16
186:12	12:22 13:7	197:12,19	26:9 27:6	202:18	115:12	25:4,6	Convention
192:8 197:8	13:20 14:4	197:21	138:17	concludes	consider 3:2	28:11 37:14	62:3 157:22
199:2	14:22 16:16	198:4,7	172:11	12:10 13:24	12:14 95:2	45:13 62:15	158:8 159:8

Committee on Legislative Oversight
February 21, 2018

Page 6

159:16 conventional 92:21,22 93:7 conventions 143:22 conversation 25:25 35:12 40:9 61:13 104:15 105:13 113:16 157:15 conversations 7:4 26:13 convey 165:18 convinced 131:12 136:6 cooperation 11:9 core 65:21 69:10 75:20 corporate 76:3 178:12 184:15,20 184:22 197:18 Corporation 16:8 corporations 66:10 201:4 correct 203:8 correlated 95:5 correlation 38:13 40:3 corridor 62:20 82:4 82:12 102:12 corridors 31:13,18 102:5,9,15 cost 37:25 60:9 69:22 70:2 75:15 80:10 83:2 83:10 84:10 84:13 86:11 86:13 87:5 94:4,7,9	99:17 113:3 116:7 143:7 143:9 144:15 161:25 162:3 166:25 178:22 186:21 cost-wise 62:21 costs 24:7 47:9,22 80:8 82:23 84:8 87:16 88:5 94:8 94:14 97:22 103:4 134:15 143:17 151:17,19 159:6 162:2 177:22 cottage 73:18 Council 1:2 2:5 6:4 10:20,23 11:9 12:24 13:2,9,11 13:21,23 24:10 53:23 77:21 101:14 106:24 129:14 139:11 160:7 177:23 181:18 187:22 188:4,8 189:18,25 190:7 Council's 2:13,22 65:17 Councilman 1:10,10,11 1:12 2:2,11 2:17,23 5:16,20,23 8:18,19,25 9:8 11:21	12:2,5,8,16 12:18 13:4 13:15,17 14:5,11,17 15:6,10 16:4 18:5 18:12 25:8 25:13,19,24 27:24 29:2 29:9 33:13 34:23 35:7 39:23 40:22 46:6,8 47:14,24 50:14,15,16 50:17,24 51:24 54:23 56:19 57:3 59:6 60:13 60:13,15,17 61:10 63:12 63:20 67:2 72:15 77:24 78:5,10 79:24 90:20 91:2,11,17 96:12 101:6 104:9 105:23 111:6 122:10,14 122:17,23 129:16 130:15 141:16 147:25 156:22,22 156:24 157:12 159:24 169:10,22 169:24 170:24 180:11 190:19,24 191:8 195:4 195:13,22 196:4 198:21 200:11 201:9,11,15 202:5,8 councilmanic	16:5 31:15 Councilme... 15:15 Councilmen 180:13 Councilwo... 1:11,12 2:18,18 14:7,9 27:16 29:4 29:6 30:23 31:12 32:9 32:13,23 34:4,21 35:4,8,9 38:23 39:22 58:9,16,22 59:2,6,12 59:17,23 60:7,11 106:19 108:16 109:8 110:19 111:7,8,19 115:17 116:11 118:16,19 119:17,20 120:23 121:9,19 122:9 133:25 147:2 148:2 148:3 149:9 149:12 150:2,18 151:15,23 152:25 156:3,20 159:25 160:2 161:9 163:19 165:5 167:12 170:2 count 75:2 142:17 165:3 counterintu... 93:21 counterpro... 190:12	193:20 counties 39:21 163:7 163:9 199:7 199:9 country 35:23 51:4 53:24 54:9 125:19 126:5 127:11 128:7 133:23 143:11 176:7 192:11 197:10 county 34:6 82:9 couple 65:3 124:17 130:4 133:19 134:10 136:14 199:5 courage 124:13 127:22 129:14 courageous 127:20 course 46:14 51:11 84:9 88:17 147:7 202:8 cover 177:21 crafted 152:5 create 17:20 72:22 92:25 96:3 102:14 128:5,12 167:2 193:2 193:4 196:17 197:16 198:2 created 11:5 76:5,6 97:3 98:15 184:10 197:3,4,9 creating	128:25 creation 64:23 93:2 101:5 196:24 credit 139:25 crime 95:18 112:10 crisis 68:19 76:12 142:8 142:10 144:11 165:22 criteria 30:8 32:5 critical 37:20 197:11 cross-functi... 33:15 cross-sector 64:18 crushingly 147:9 crux 44:24 48:12 105:14 culprit 131:16 cultural 96:3 96:10 97:4 97:10 99:23 142:21 culture 96:14 105:9 200:3 curious 45:7 110:23 current 11:16 25:10,14 28:3 118:11 136:25 143:23 144:18 146:12,17 147:7 160:12 164:4 182:6 currently 27:25 32:25 117:10 119:17,21 144:6 187:15 188:3,3	189:16 curve 104:25 customer 44:15 50:5 customers 52:15 80:2 cut 45:5 71:16 100:2 117:13 174:4 cuts 92:9,12 cutting 94:19 141:11 172:22 cycle 56:11 cyclical 176:9 D dad 56:19 191:17 daily 30:25 33:17 damaged 179:22 damaging 83:5 85:25 135:9 136:7 Darrell 6:4 169:18 186:10 data 27:7 31:7 32:19 date 20:25 Dave 7:5 David 122:20 129:19 Davis 169:18 186:7,10 day 23:22 38:20 48:19 69:13 76:10 111:13 114:8 126:10 150:5 153:23 155:5 201:19 day-to-day 200:18 days 34:3,16 170:13 DC 62:22 82:5 99:18	152:12,17 de-couples 198:10 de-gentrific... 70:16,24 de-gentrifyi... 70:21 deal 76:13 124:8 141:11 178:10 debate 73:8 112:24 debt 23:18 decade 19:17 28:13 41:10 45:22 69:4 71:17 73:8 decades 37:23 41:10 41:10 71:8 102:11 117:22 118:5 124:24 125:2 133:13 179:24 181:7 184:2 December 11:6 decide 43:9 75:21 144:23 153:14 decided 16:4 17:13 decides 15:25 deciding 27:3 144:16 151:12 154:7 decision 29:19 81:9 81:24 85:15 87:2,4,10 87:11 126:6 159:4 161:13 166:21 decision-ma... 30:7 decisions 66:6
--	--	--	--	---	---	---	--

Committee on Legislative Oversight
February 21, 2018

Page 7

80:19,20	22:9	146:14	103:2,9,19	83:15	65:14	district 16:5	57:3 59:7
81:3,7	delinquent/...	Derek 1:11	103:22	120:18	discover	16:20 68:19	60:17 67:2
86:25 87:3	182:7	2:17,23	104:4 105:3	difficult 90:4	194:2	72:8 76:11	96:12 195:4
93:18,23	deliver	5:20 12:17	105:21	90:16	195:13	105:15	Domb's 72:15
99:6 137:15	115:24	14:5 156:23	106:7 108:3	173:10	discussed	123:16	domestic 66:8
153:22	Delivers	design 89:18	108:8	188:18	178:21	135:18,20	donor 123:12
decline 37:18	193:13	designation	120:11	dig 76:18	discussing	144:11	doubled 22:3
95:23 99:20	delving 48:15	198:2	121:4 144:6	digress 71:6	11:14	162:19	doubt 93:17
125:14	demand	designed	156:9,11	dilemma 38:8	discussion	180:2 184:9	95:10 96:2
declining	103:13	72:10,18	developments	dime 116:10	15:12 36:7	186:5	doubts 75:17
70:13	144:20	desirable	144:20,21	diplomatic	171:17	districts	downtown
125:19	184:15	24:15	146:21	153:5	discussions	31:15	34:8 161:24
decrease	demands	desperately	151:13	dire 143:24	135:2	dive 71:23	downturn
22:12	145:23	198:19	152:23	direct 115:18	148:18	diversity	169:3
deceased	demographic	despite 22:25	154:6	184:6	disinvestme...	105:10	Dr 56:13
22:10 24:7	185:23	68:24 71:14	device 4:21	203:23	70:25	124:10	106:23
deemed 9:18	demonstrat...	97:7 131:5	10:4	directing	102:10	128:11	Draft 54:20
185:18	148:13	destroyed	devise 64:19	106:9	dismal 144:8	148:12	drag 75:16
deep 64:25	179:10	71:4	devote 48:9	direction	disparage	divide 131:23	drain 55:14
71:23 76:18	density	detail 100:17	48:22	28:19 63:6	118:2	DNC 54:18	dramatic
125:18	102:24	103:25	devoted	77:10,11,16	display	doctors'	139:4 144:3
defer 120:2	103:2,8,19	details 85:6	112:20	78:21 89:24	124:13	143:20	dramatically
deferral	103:22	118:14	dialogue	directly 33:3	disposal 5:14	doing 28:14	73:13
198:16	104:16	deteriorated	10:24 17:20	36:11 84:6	10:9 65:17	32:16 42:10	115:22
define 198:2	106:8	143:16	167:24	99:10	disproporti...	42:24 47:7	draw 113:22
defined 27:15	107:22,24	deterred	169:13	107:20	38:4 189:3	48:25 49:8	113:23
27:17	department	126:18	dialogues	109:14	dissertation	49:9 50:21	Drew 169:19
defining 36:8	9:7,15	deterrent	17:2	181:8	170:23	87:22 94:4	171:6
definitely	10:20 24:11	115:7	diet 42:4	Director 6:6	181:12	94:8 162:17	187:18
60:18	33:3,10	Detroit-ade...	difference	9:6,14	dissuade	178:9	Drexel 75:21
definition	44:8 78:13	70:5	76:16	18:18 19:2	113:13	186:21	drill 43:23
198:10	78:14	develop	131:25	19:15,21	155:18	dollar 85:7,11	45:11 47:25
degree 7:7	112:12	159:12,13	139:16	20:8 24:9	dissuader	85:22 86:12	48:20
38:14,15	164:9	200:24	different	24:25 33:14	37:9	86:12,17	drills 178:14
82:6 89:17	194:18	developed	30:19 31:19	40:24 46:15	dissuades	87:6 88:5	drive 82:19
95:21	departmental	64:25	32:4 35:17	50:21 63:24	159:2	91:3 109:23	82:20 84:12
194:25	25:5	159:15	37:16 43:9	64:12 91:16	distinction	114:15	109:6
degrees 131:2	departments	developers	69:9 83:3	94:22	197:16	116:7	154:16
Delaware	6:21 7:9	144:16	105:18	130:11	distinctions	121:24	179:20
69:11	11:11 32:4	146:20	116:18	140:2 171:7	88:12	145:20	driven 161:15
163:10	48:10	151:5,6,8	121:10	180:17,17	distinctive	163:12	driver 66:5
delegation	departure	152:21	131:20	180:19	132:5	183:13	66:12 197:5
168:17	125:11	153:13,22	137:14	disadvantage	distortion	185:5	drivers 84:20
deliberations	dependence	154:2	141:4 150:7	97:23	133:5	dollars 61:4	86:7 155:4
166:24	95:15	159:20	152:4,5,17	184:23	distortionary	62:9 71:4	197:20
delighted	dependent	200:19	156:17	185:19	183:20	71:20 72:22	drives 94:24
78:20	68:10 74:8	developing	158:12	disadvanta...	distributed	117:15	driving
195:12	depending	57:23 181:2	174:5	86:8	133:22	121:21	109:11
delinquencies	31:21	development	180:22	disagree	distribution	146:7	154:18
51:17	depends	16:7,10	192:23	124:16	100:13	Domb 1:10	155:8,11,17
delinquency	74:24	23:10 37:4	197:14	disciplined	134:5 149:5	15:10 50:16	dropped
182:8	147:11	64:22 77:4	200:3,3	129:10	distributional	50:17,24	154:19
delinquent	depicting	98:3 101:25	differential	disclaimer	100:9	51:24 54:23	dropping

Committee on Legislative Oversight
February 21, 2018

Page 8

154:22	19:19 20:9	179:7,23	100:9 103:3	129:9	7:24	59:4,9,16	everybody
155:14	20:12 22:18	180:25	183:15	143:18	enhancing	59:22,24	119:11
Dubow 51:13	66:5 68:13	183:15	efficiency	161:19,24	15:3 19:10	60:9 61:8	120:5
due 74:18	79:9 85:8	184:14	90:17	162:25	enjoying	62:19 72:18	121:13
190:6	87:9 92:11	196:25	efficient	163:16	114:6	78:16 86:19	122:5 155:8
Duly 13:3	92:25 94:2	Econsult	182:5,20	165:23,25	enormous	140:2 180:5	171:20
duplicate	95:11 96:6	94:25	183:19	167:11	34:24 93:15	equal 120:6	evidence
14:10	96:22 97:10	131:14	186:25	employer	ensure 11:4	184:10	75:18 93:16
dutifully	98:3,20	146:5 156:4	effort 100:2	162:24,24	138:17	equates 190:9	96:13 203:4
88:18	99:23 100:5	162:19	127:16	194:7	Enterprise	equation 47:2	evolution
dwindling	101:4,19,23	180:15	172:24	employers	77:5 130:21	80:9 83:7	117:9
144:3	101:25	181:8	182:16	11:10 36:15	entertainm...	equitably	evolve 118:5
dying 136:21	104:6 120:8	ecosystem	efforts 181:10	128:2,20	142:21	187:5	118:6
dynamic	120:11	196:19	181:23	162:4,7	entities 74:15	equity 148:12	evolved
69:10	128:22	197:4	182:6 183:3	163:16	167:20	especially	117:22
	131:17	edge 187:12	184:6	165:23,24	entitled 3:12	48:16 69:24	evolves 118:6
E	132:2	edges 69:24	eight 30:18	189:4	3:20,25 4:7	96:11 99:14	118:8
eagerness	133:15	eds 40:6	54:4 78:22	194:20	4:13,19 5:2	189:24	exacerbating
138:6	134:2 141:9	52:21 53:11	146:5	employment	5:8,14	190:17	35:25
Eagles 16:24	144:5	72:11,13,16	either 54:8	37:20	Entreprene...	essentially	exact 114:18
earlier 27:8	152:22	74:22,25	120:9	150:15	130:13	68:18 86:13	exactly 30:7
60:20 79:19	169:2 178:8	82:7	161:11	184:15	entry 70:11	161:18	65:4 109:20
81:13	178:20	educate 55:14	elastic 85:15	186:2 200:6	80:6	establish	116:21
121:18	180:6	112:7	elected	200:7	environment	174:12	121:11
132:9	185:16,21	educated	201:23	enabling	11:4 17:3	established	161:22
181:13,24	185:23,25	39:15	elements	196:17	17:11,22	10:11	examine
182:15	186:18	education	142:25	enact 24:13	19:19 22:16	estate 20:14	14:23 19:7
185:10	189:13	23:10 37:5	elevate 57:24	173:6	36:9 37:7	21:23,24	20:13
189:8 195:4	economically	37:24 38:7	eliminate	187:23	37:10 57:10	52:2,11,20	example
196:15	90:8 97:2	39:11 40:19	47:6 111:25	188:19	63:2 89:11	123:9	33:24 36:13
197:15	190:11	45:21 46:15	eliminated	enacted	141:4	124:22	107:15
early 42:15	economics	64:22 89:8	147:17	175:16	186:24	128:3,15	109:7
139:13	78:13 140:8	96:23	elimination	enacting	193:2,5,6,9	145:15	115:23
earn 116:23	161:16	101:17,22	113:8	175:14	environments	151:7 162:9	examples
earning 67:20	181:15	educational	eloquently	encourage	196:17	162:11,13	22:13
68:4	economist	69:16 70:6	196:14	53:11 156:8	Epps 6:6 18:9	187:16	excavation
easier 10:17	83:5	107:17	embarrassi...	176:2 177:5	18:17,18,22	188:12,14	10:2
42:25	economists	128:17	60:5	190:12	18:25 25:21	188:17	excavations
130:25	68:14 79:10	200:5	emerging	encouraging	26:17 27:18	189:19	4:14
136:2	80:3 82:25	effect 85:19	124:12	198:15	28:8 29:15	195:5,6	exceed
165:24	110:11	87:13	emotionally	encroachm...	30:2,24	estimate	125:15
193:17	economy	100:13	181:19	153:3	31:23 32:11	86:10	exceeds
199:8	47:19,20	102:6	emphasize	endure 34:7	32:14 33:6	et 115:6,6	121:24
easiest 183:21	63:25 64:12	118:24	87:14	energy 16:19	33:14 34:10	131:24,24	excellent 26:7
easily 66:14	64:15 65:4	128:10	empirical	94:10	35:3,6,11	evaluate 47:4	excessive
East 82:3,12	65:5,14	135:5 136:7	93:16	enforcement	37:15 38:25	144:7 166:5	142:11
eastern 40:8	67:12,19	166:3	employ 8:2,8	32:6,22	40:25 45:17	evaluated	143:8
easy 32:2,3	72:6,23	effective	142:3	engage 16:25	46:7,9	79:10 126:7	151:16
133:8	73:5 74:20	124:11	employees	170:6	47:22 49:22	event 68:13	excluded 95:4
echo 24:24	77:20 86:13	effectively	36:19 109:5	engaged	50:21,23	events 54:16	excluding
77:11 78:19	130:11	83:8 127:22	112:8	181:16	51:23 54:21	120:14,14	95:6
econometric	131:15	166:22	124:23	engines 31:14	57:2 58:15	ever-dwindl...	exclusive
73:19 94:18	173:12	effects 84:5	128:2,21	enhance 6:16	58:19,23	165:22	161:10
economic							

Committee on Legislative Oversight
February 21, 2018

Page 9

excuse 183:9	183:18	factor 21:18	fasting 98:10	finally 22:6	182:14	140:14	170:4,7
executive	184:18	66:11 94:16	father 41:5	100:25	188:8	141:12	181:14
42:23 46:12	explain 94:24	115:21	favor 13:12	102:17	193:19	188:16	forms 142:5
63:24 64:12	exploring	175:15,25	109:24	finance 78:13	194:3 195:9	189:8	formula
94:21	116:15	factors 27:4	145:17	127:22	firsthand	follow 133:2	148:16
130:10	express 17:17	35:15 71:8	191:11	164:8	19:22	186:17	formulating
exempted	extend 36:10	95:2,4,10	favorable	166:21,22	180:20	201:8	11:2
71:19	extending	96:2 97:10	12:22 13:7	170:9 180:2	fiscal 181:16	follow-up	forth 107:4
exemption	175:16	97:11 99:12	13:20	180:17	182:18	59:18	134:15
21:15	extent 97:19	185:2	favorably	181:6,14	185:22	104:14	138:24
108:11	102:3	faculty 75:21	26:24	184:3	five 23:24	110:22	169:13
188:25	106:17	faded 172:16	favorite	financial 9:6	33:25 34:17	following	189:16
exemptions	138:2	fair 30:15	28:17 39:12	9:14 23:9	53:24 65:10	2:16 3:3	forums 33:8
120:10	external	31:3 145:18	45:18 74:23	56:8,10,17	82:9 126:4	26:20 37:21	forward 6:24
188:23	193:13	146:22	91:6 143:21	75:23	160:12,15	fooled 140:6	16:4 26:15
exhibit	external-fac...	fairly 85:19	fear 154:15	162:19	189:17	foot 127:5	28:4,7
147:15	57:21	157:10	feasible 90:8	find 47:2,12	fixed 71:18	162:12	44:21 45:16
existence	extra 108:22	fairness	90:10	49:20	116:5	163:12	48:22 49:7
92:19	108:23	89:21 90:18	features	105:17	fixes 76:5,20	for-profit	58:11 62:10
105:14	115:7	120:9,10	93:25	111:2	fixing 182:16	194:22,25	62:16
existing 86:23	extraordina...	173:17	February 1:7	125:22	flat 70:12	force 20:11	128:25
88:10,12	162:16	fall 74:15	federal 41:22	150:21	74:18	20:13,16,21	141:14
99:3 144:15	extremely	123:19	70:25 95:24	finding 90:6	120:21	23:8 33:9	167:23
146:19	96:25	families 80:18	117:10	119:2	flawed 93:14	33:15 44:22	177:24
182:5,24	193:20	81:4 86:24	176:22	finish 130:25	94:20	45:25 46:4	182:8
exists 32:25	eye 119:6	87:21	178:11	finishing	flaws 94:23	46:16,18	forward-thi...
expand 53:14		100:15,15	184:19	119:7	flesh 112:13	70:8 128:11	40:5
103:15	F	family 36:22	fee 80:6 112:3	fire 5:9 10:7	flexibility	180:6	fostered 6:13
118:11	face 193:23	43:19 67:20	114:14	112:11	109:18	forced 145:19	fostering
expansion	faced 166:20	68:4 137:15	115:13	firehouses	flight 95:23	forces 50:4	193:8
16:14	faces 38:17	192:4,16	feel 36:16,21	138:23	floored 134:6	forcing 70:2	found 127:3
expected 95:3	165:21	fan 108:15,16	83:5 164:15	firm 82:3	flow 86:2,5	foregoing	162:17
145:22	facilities	far 36:10	fees 108:15	84:8 108:19	137:4	203:7,20	179:16
expenses	142:2,24	66:9 68:5	108:18	108:19,21	Flyers 16:22	forever	197:2,8
186:23	143:6	97:11	142:6	108:21	focus 48:24	184:17	foundation
expensive	146:18,19	160:16	170:12	115:8,12	49:17 81:4	forfeited	86:18 152:2
60:4,6	147:16,19	175:12	186:22	120:13	91:24 128:3	164:12	178:13
156:10	151:5	176:6	Fellow 151:25	firmly 117:13	129:24	forget 88:19	foundational
162:16	159:11	fashion	Fels 130:16	firms 81:17	149:3 167:7	196:3	162:20
experience	fact 19:16	156:16	170:10	82:11 85:25	169:7 190:2	forgets 93:25	foundations
26:11 43:12	53:21 59:13	183:22	fewer 186:3	86:8 87:3	focused 51:9	forgive	124:8
184:2	79:19 81:14	fast 28:16	field 179:6	98:19	51:10 71:8	148:20	founder
experienced	90:25	47:10,13	fields 96:23	first 12:24	focusing 7:22	form 193:4	130:21,23
19:21	101:23	63:6 89:20	figure 29:12	13:9,22	fodder 73:18	formal 24:23	196:8
experiencing	113:10	fast-growing	122:8 135:3	15:9 18:6	folks 77:8	formation	founding
124:6	114:5	98:21	138:21	21:16 26:18	106:3	15:13	198:25
expert 182:11	115:21,22	faster 28:19	figuring	27:6 28:9,9	109:11	192:17,22	four 33:25
expertise	121:2	28:25 34:20	193:11	69:5 71:20	117:16	192:25	51:6 54:16
48:16 65:2	135:23	46:23 73:10	final 30:7	81:6 93:15	131:13	195:20	65:21
120:3 150:4	137:21	73:12 97:6	102:18	97:25	132:23	formed 32:17	124:24
experts	139:6 143:9	189:16	108:3	111:10	135:5	195:17	125:2
181:24	144:3 146:5	fastest 192:10	139:23,24	148:5	137:19,22	former 15:16	126:15
182:15	177:8	192:12	172:6	149:20	139:25	124:17	136:24
	178:10						

Committee on Legislative Oversight
February 21, 2018

Page 10

181:7	62:18 76:11	74:12 79:5	109:17	63:5 65:11	157:12	102:6	186:16
189:11	145:16	79:11 120:5	200:25	66:3 68:16	158:4	111:14	193:14
four-year	166:16	generate	giving 123:6	72:25 75:7	168:20	112:18	195:21,23
38:13	189:20	104:6 128:8	glad 62:8	76:15,17	171:5	124:4 130:7	196:18
fourth 67:20	196:9,10	128:19	glass 29:24	80:10,14,23	173:20	133:25	200:2
framework	fundamental	146:7 166:7	global 178:8	81:18 82:21	180:12	138:3	grower 126:5
7:12	74:7 172:9	185:17	globally	83:11,12	186:7	139:25	growing 8:6
Francis 150:9	fundament...	generated	178:4	84:3,12,13	191:19	145:2 165:6	69:2,10,14
Francisco	129:6	92:12	go 12:13	84:14 85:10	196:5	166:19	71:16 76:21
54:2 134:11	funded 143:5	generating	28:19 34:18	85:13,20	goods 81:19	170:7	96:23 97:6
149:6	165:2 166:9	180:23	41:9 43:3,5	86:6 87:12	Gosier 191:5	greater 6:9	126:12
154:13	funding	gentlemen	43:6,6,9	87:13,15,17	196:7,8	7:16 63:25	145:23
196:22,23	167:10,15	148:4	47:9,10,10	87:21 89:10	gotten 74:2	64:13 95:15	149:20
frank 18:8,20	funds 68:18	200:15	57:5 59:3	104:11	150:3	98:2 102:3	183:25
40:16	108:10	gentrification	61:24 62:10	109:15	151:25	130:11	186:4
frankly	further 13:8	69:25 70:17	71:22 85:17	114:13,14	152:8	171:10	192:10,12
116:19	15:2 19:10	103:11	91:12	114:16,18	158:18	183:7	193:7
free 143:3	21:14 28:21	105:25	102:15	115:11	government	185:15	grown 117:23
153:25	65:19 71:22	gentrifying	103:25	121:21	24:2,5	186:12	growth 20:9
freedom	96:5	106:3	119:3,15	132:23	41:23 44:10	196:25	22:23 36:5
89:17	future 40:5	geographic	148:15	133:2,16	102:13	Green 1:11	39:7 64:23
freeze 164:17	68:12 73:2	197:17	164:3 165:9	135:3 137:4	130:16	2:17,23	66:5 68:15
friend 60:22	112:7	Germantown	166:24	140:10	170:11	5:20,23	69:4 70:6
91:12	138:17	149:21	167:8	147:20	184:3 186:4	12:17,18	72:9 73:10
friendliness	139:22	getting 32:18	171:24	151:5,21	186:11,20	14:5,11	73:14 75:17
27:2	141:9	66:17 114:9	173:19	153:15	Governor	29:9 33:13	76:24 92:12
friendly 31:6	156:14	157:21	176:25	154:15	157:6,9	34:23 40:21	92:25 95:11
31:11 45:15	185:25	172:16	177:24	155:7,16,18	GPTMC	40:22 46:6	96:6 97:20
49:6	191:12	Girard 69:12	182:10	156:8,13,16	61:14 62:3	46:8 47:14	98:21 99:11
frighten		girth 41:11	189:6	158:16	grade 56:9	47:24 50:14	100:5 101:4
168:15	G	56:21	191:12	163:24	64:6	56:19 60:14	101:15,19
frightens	gain 121:23	give 33:24	196:6 199:4	164:3,7,20	grading	60:15 61:10	101:23
168:14,16	gains 39:18	67:9 79:8	goal 7:18	164:23	30:14	101:6	104:7
front 82:7	Gallier 57:22	82:24 87:18	123:25	176:16	gradually	156:23,24	123:23
126:8	gap 39:20	88:16 89:17	127:18	177:18	21:22	157:12	124:5,7,9
132:23	74:13	91:3 107:12	goals 192:24	182:8 191:9	graduate	180:13	125:8,25
133:11	garage 109:7	107:14	God 137:11	193:10	67:7 130:23	Green's	128:25
138:11	109:8,10	114:15,20	goes 7:6	196:12	graduates	79:25	131:9,17,18
147:13	110:25	114:23	23:22 38:5	201:13	55:8	grew 22:19	132:2
fruition	garages	119:12	40:20 47:19	gold 156:9	Grant 171:8	128:5,7	133:14
174:22	127:7,9,15	120:7	107:25	good 2:2 9:10	graphically	gross 21:16	136:23
full 29:24	143:8,17	121:21,25	116:24	11:4 17:4	125:2	85:23 86:9	138:13
56:22	garbage 5:14	160:22	133:7	18:22 35:12	graphs 38:10	88:9 90:13	150:13,15
153:16	9:25 10:9	161:19	going 17:25	36:17 37:17	grappling	92:10 98:7	163:25
193:22	gateway	176:8 200:7	26:5 28:18	50:21 51:14	167:16	179:3,4	166:7 177:6
fully 58:7	66:22	200:18	34:17,19	51:16 61:10	Gratz 43:20	184:13	177:19
177:14	gating 126:12	given 32:24	39:17,24	64:2,5,8	great 14:12	group 57:20	180:24
203:5	162:22	136:25	40:3 44:20	69:20 86:5	14:15 15:12	102:13	185:16
function	general 8:14	150:3	45:15 48:21	86:23 91:11	37:11 49:13	123:23	189:14
135:16	23:15,16	164:13	49:7 53:15	123:2	51:8 54:24	groups 144:6	197:6,21
136:18,20	62:17 95:20	182:11	53:19 56:5	129:18	62:22 63:10	grow 8:2	guarantee
fund 8:14	109:16	185:17	56:6,11	140:4 148:3	64:5 75:6	41:18 124:2	46:18
23:15,16	148:9	gives 83:21	62:14,16	152:9	75:10 98:2	125:8 169:6	guess 7:19
	generally						

Committee on Legislative Oversight
February 21, 2018

Page 11

44:11 47:25	154:21	200:24	high 25:22	highway	63:16,23,24	111:20	21:24 41:18
57:6 150:17	happens 42:6	201:2,2,3	30:22 35:22	81:20	64:11	112:14	146:16
164:2,4	80:23,24	heard 99:15	37:25 40:15	hiring 81:8	101:11	115:18	174:16
174:24	Happily	104:16	56:21 57:5	historic 70:2	106:15	117:11,25	175:9,18,21
guide 186:18	84:21	170:11	67:16 69:17	historical	117:3	ideal 96:4,5	177:11
guidelines	happy 24:20	182:12	69:18 70:8	92:4	170:12	96:10	182:21
133:3	77:20	185:10	95:18	historically	hospitality	ideas 68:22	implementi...
guy 46:21	120:17	189:8 202:4	107:21,24	49:14 95:18	49:15 61:20	118:4,7	174:15
140:7	180:10	hearing 2:3,5	143:25	123:21	61:23	identified	181:3
guys 50:21	190:16	2:7 3:5 5:24	147:10	history 41:16	157:16,21	11:7 147:18	implications
Gym 1:11	harbinger	12:11 14:2	154:8	57:11 65:7	hospitals 75:6	identify 10:13	80:17 81:6
2:18 14:8,9	169:2	17:15 26:2	158:25	92:20 99:25	hosting	48:8 49:16	125:13
35:8,9	hard 14:5	141:20	159:2	102:20	169:12	imagine	implied
38:23 39:22	42:13 44:25	201:5	178:11	171:19	hotel 119:4	43:18 128:4	118:23
111:7,8	45:3 113:20	202:13	179:13,18	Hite 56:13	158:9,22,23	128:9,11,13	imply 118:15
115:17	171:22	hearings	181:17	hold 14:23	hotels 143:21	128:16	importance
116:11	harm 100:14	14:23 19:6	high-density	93:8	house 140:21	194:3	58:8
118:16,19	184:14	48:3	104:4 108:8	holding 73:10	149:21	immigrants	important
119:17,20	harms 185:21	heart 79:24	high-impact	hole 76:17	household	137:4	14:13 23:13
120:23	Harold 6:6	173:22	130:19	Holy 43:19	68:2	immigration	35:15,19
121:9 122:9	18:9,18,25	heavily 74:7	high-income	home 57:8	households	136:22	49:18,20
133:25	66:17 72:18	131:3	100:15	70:20,21	80:22	137:3	50:6 67:21
159:25	77:11 78:16	179:19	high-level	122:2	134:12,19	199:20	69:19 70:9
160:2 161:9	Harris 144:9	heavy 44:4	77:18	128:13	134:20,24	imminent	84:23 88:3
163:19	Harrisburg	45:12,14	high-quality	homeowners	housing 60:9	147:9	89:22 93:23
165:5	163:3	49:17	80:8	188:21	70:2 80:25	impact 14:25	96:25 97:12
167:12	174:23	heel 26:10	higher 38:15	homes 70:3	97:22 99:17	15:25 17:10	99:5 101:10
170:3	Harvard	29:17	40:18 66:19	105:20	103:4,10	19:9,22	101:12,15
	75:13	held 48:3	74:12 75:15	homestead	105:18	62:17 71:24	116:25
H	hat 29:9	92:11 96:4	92:13,15,17	106:11	124:10	84:17 93:17	129:25
half 29:24	133:7	123:8	102:24,24	108:11	134:15	95:3,8	139:21
69:21	haul 56:7	Helen 1:11	103:2,8,19	120:10	Howard	138:16	163:17
117:14	head 129:22	2:18 14:7	103:21	188:25	57:22	142:9 144:7	164:14
118:25	132:11	170:3	134:23,23	honor 170:16	huge 119:5	145:8	167:23
146:12	headquarte...	Hello 148:4	145:15	191:25	150:10	147:10	168:10
147:4	123:17	help 11:3	151:3	Honorable	hugely	185:15	195:18
166:13	headquarters	50:7 89:11	158:22	198:23	135:21	188:19	201:17
184:22	123:18	96:2 103:14	highest 55:5	honored	human 38:5	impacted	importantly
190:3	health 23:15	105:4,19	79:15	20:10	42:25 43:7	6:24 157:17	50:8
hall 1:6 48:4	33:11 38:5	188:22	125:17	hook 191:16	48:23	157:24	imposed
hampered	44:8,23	199:25	126:16	hope 23:4	hundred	impactful	179:14
127:10	healthcare	200:2 201:7	127:11	113:17	71:20 134:4	64:17	impossible
hand 69:10	96:23	helpful 38:24	138:16	116:10	161:24	impacts 7:13	112:13
147:6	healthy 23:16	107:6	143:11	119:10	hurt 100:23	173:11	121:14
hang 112:9	73:8 98:20	163:20	145:12	174:21	Hydroxycut	176:8,12	improve 6:16
hanging	112:23	helps 28:24	146:24	hopefully	42:3	180:22	7:24 11:3
140:24	hear 2:7 17:5	110:13	highlight	17:19 40:8		implement	17:21 22:7
happen 25:20	27:11 34:4	heroic 182:18	182:13	69:13	I	188:22	22:15 23:16
41:12 46:14	34:23 59:9	Herzenberg	highlighted	158:15	i.e 182:25	implementa...	39:9 118:10
68:17	59:13 62:13	94:21	58:4	164:24	ID 31:16	14:24 19:7	187:25
156:13	104:25	Hey 59:4	highly 57:14	hordes	43:16 107:9	91:23	improved
happened	110:23	Hi 191:21	65:16 74:24	136:18	idea 28:14	implemented	23:14 24:7
41:13	183:17	196:7	75:9 76:2	Hornstein	100:21	15:2 19:9	28:12
happening					110:24		

Committee on Legislative Oversight
February 21, 2018

Page 12

improvement	32:21	128:23	106:20	170:10	168:6	195:10,16	166:3,7
46:4 61:23	increase	indicator	infrastruct...	Institution	investing	201:16	177:19
122:2	21:22 23:5	39:8 70:9	36:18 64:24	133:21	81:8 102:4	issues 32:5	196:24
144:10	23:7 24:16	indicators	142:9,15,18	institutions	investment	48:18 51:9	197:2,3
174:13	84:25 103:6	22:18 37:6	143:2,3,4	40:7,15	24:4 37:5	54:17 57:25	jobs 11:5
improveme...	103:12	37:20	153:24	72:12,13,16	38:9 55:25	58:2 65:6	35:21,24
42:9 122:3	108:2	indirectly	159:9,20	72:20 73:3	64:6 95:24	68:25 76:13	65:21,21,22
improving	128:13	181:9	initial 181:4	167:15	95:25	105:25	68:25 69:5
23:15	136:17	individual	initiated 33:7	insurance	101:22	119:14	71:11,14
inadequate	139:4	15:25	initiative 6:10	4:22 10:5	159:19	124:8	72:22 73:11
165:15	145:25	115:19	6:19 21:23	186:22	160:16	128:24	76:22,24
incentive	150:14,14	individually	45:23 46:13	intellectually	176:3,14,17	129:25	80:16 84:21
84:5 140:23	150:15	139:14	48:5,14	181:20	investments	171:22	85:8 90:17
incentives	172:11	individuals	49:10 61:2	intent 35:3	24:6 36:14	182:13	95:16 98:14
30:10 75:23	174:6	53:7 75:9	61:5 72:20	intention	177:3	188:5	98:15,22
140:16,18	187:11	80:18 105:6	89:23,23	173:6	investor	items 51:19	99:21
include 50:5	190:10,11	Industrial	initiatives	interact	196:16		102:15
included	increased	16:7	61:25	170:18	investors	J	104:6 122:2
20:19	21:25	industries	130:19	interaction	192:15	janitors'	124:2 125:3
173:23	103:18	7:23 176:12	131:4,6	96:24	198:15,17	70:19	126:12
187:12	106:8	177:5	Inman 63:17	201:22	invitation	Jeff 63:16,24	128:4,9,10
includes	128:15	industry	78:2,3,8,11	interdepen...	64:10	64:11	128:18,19
10:19	188:17	73:19	78:12 90:24	65:23	141:14	101:11	137:15
including	increases	110:24	91:5 98:5	interest 180:9	inviting 91:19	117:2 140:6	143:19
93:9 95:14	128:3	142:10,13	106:23	interested	141:20	140:6	169:9
95:21 96:19	145:11	143:24	107:12	80:23	involve 90:16	170:11	179:21
112:6	189:3,19	145:8,10,12	108:18	interesting	involved	Jefferson	186:16
175:14	increasing	145:13	109:10	83:18 153:7	131:3,6	75:20	197:4,9
inclusion	95:13 139:3	146:23,24	111:10	154:25	181:2,9	Jerry 122:19	John 191:4
148:12	increasingly	148:18	114:2 116:2	internal	irony 99:25	123:3 132:2	196:8
inclusionary	67:18	154:9	118:13,18	193:15	islands 72:14	132:21	Johnson 1:10
103:7	incredible	156:15	118:22	internally	76:7	133:12	2:2,12 5:16
105:18	142:20	167:21	119:19,25	49:25 50:11	issue 6:2 8:4	Jersey 82:10	8:18,25 9:8
inclusive	incremental	187:4	121:7,11	international	23:12 26:8	job 7:14	11:21 12:2
124:9	22:14 39:18	192:12	131:13	16:12	37:14 41:3	22:22 26:7	12:5,8 13:4
income 21:10	76:14 108:2	194:19	132:8 133:3	136:21	41:15 44:7	28:14 39:7	13:15,17
32:12 35:25	165:14	industry's	169:25	137:4	44:7,8,23	49:10 50:22	14:17 15:6
37:10 71:21	178:18	146:4	170:23	international...	44:24 56:2	51:14 54:24	18:5,12,23
75:19 76:3	incremental...	inefficient	181:12	24:17	79:17	64:23 69:4	25:8,13,19
83:19 84:2	175:19	183:10	183:17	interventions	106:16,22	70:6 75:4	25:24 27:24
133:22	incubated	185:14	Innovation	33:22	106:25	84:25 92:11	29:2 35:7
134:5,23	67:12	inequality	53:22	introduced	109:22	92:25 93:5	39:23 50:15
149:5	incubator	36:2 37:10	inside 105:20	5:25	114:17	97:20 99:10	60:13 63:12
150:10	64:19	134:2	143:16	introduction	116:17	101:5	63:20 64:9
175:4 177:9	incur 177:3	150:10	152:14	18:13	117:5 118:3	114:24	77:24 78:5
179:5	independent	inequities	169:9	intuitive	126:12	124:5 125:4	78:10 90:20
184:16,17	173:2	73:5	insight 15:12	93:24 94:4	130:6	125:5,6,20	91:2,11,18
185:6	185:22	infancy	64:18 65:8	inventory	133:10,10	125:25	104:9
incomes 52:9	192:20	197:13,25	200:18	52:2 144:12	139:16,18	126:4	105:23
69:17 70:11	index 38:3	inform 24:13	insightful	invest 39:11	158:7	128:25	111:6
incomprehe...	indicate	information	195:24	101:16	159:23	131:17,25	122:10,14
162:6	124:25	7:6 58:10	Institute	invested	162:22	133:8,14	122:17,23
inconsistent	indicates	informative	130:16	123:10,11	163:2	137:25	129:16
						138:4,13	

Committee on Legislative Oversight
February 21, 2018

Page 13

130:15	29:16	112:16	larger 8:11	5:25 6:11	license 9:22	114:14	115:12
141:16	180:13	116:3 122:4	70:4 135:22	6:22 7:2,6	9:25	117:8	178:15
147:25	kept 131:6	122:5	182:25	7:10 157:7	life 15:16	129:22	locations
152:2	key 20:24	130:14,15	largest 35:22	legislative 1:3	34:25 60:3	132:19	66:20 79:16
156:22	66:2 93:25	132:10	123:12	2:5,13 9:12	69:20 94:2	134:7 160:8	long 29:24
159:24	98:13	134:3,14	126:17	14:22 18:24	96:4,17	162:13	39:17 46:19
169:10,22	105:16	135:15	127:7	42:22 46:11	111:21	171:19	56:3,6 65:7
170:24	179:11	137:13	128:24	173:15	112:15,21	172:16	103:23
180:11,14	187:12	138:18,22	134:4	186:9	113:18,19	live 16:20	105:25
186:8	Keystone	139:9,15	183:24	202:17	117:19	57:13 99:14	131:12
190:19,24	76:7 93:11	150:11	LaSalle 40:12	Legislature	118:8	104:23	138:7
191:8	94:22	153:6,19	laser 29:11	89:14	137:14	113:9 150:4	140:21
195:22	kicks 191:16	157:18	late 180:18	138:11	168:4	164:2	159:23
196:4	kid 194:15	159:13	lately 178:6	139:12	176:13	168:18,23	182:9
198:21,24	kids 56:14	164:7 168:5	launch 72:25	leisure 130:5	lifelong	168:25	183:12
200:11	117:17	168:15	130:18	lens 126:7	104:20	192:2	201:14
201:15	136:11	173:9	laws 14:14	166:4	lift 45:12,14	lived 37:16	202:2
202:8	137:10	201:25	199:10	lesson 28:2	49:17	105:6	long-term
Johnson's	192:18	knowledge	lay 124:8	171:19	167:14	lives 70:4	38:8 46:13
29:16	killer 75:4	106:22	lazy 39:8	let's 140:5	limitations	living 19:25	101:15
join 171:13	killing 55:3	knowledge-...	Leachman	level 40:18	176:23	75:15 93:3	135:8
joined 144:9	55:12	67:19	98:11	48:17 56:4	limited	106:13	159:19
Jonathan	kind 33:21	known	lead 24:6	75:2 127:17	196:23	113:12	longer 9:19
8:22 9:5,13	43:7 45:23	123:22	33:7,14	179:6 183:4	limits 169:9	loaning	143:25
journey 63:4	47:18 48:6	187:15	92:12	185:17	Lincoln 43:19	194:12	176:14,25
juncture	48:7,19	knows 68:16	leaders 64:18	200:21	line 16:3	local 94:12	longtime
127:12	60:2 77:14		110:23	201:7	34:12,14	103:16	140:20
June 58:6	77:17 89:10	L	112:20	level-set	40:10 75:24	141:24	look 29:11
junk 64:7	105:4,10,13	L 203:14	leadership	171:21	116:12	142:19	34:22 35:14
jurisdiction	106:11	L&I 7:4	10:21 20:2	levels 101:22	126:8	171:11	35:20 41:6
93:20	110:16	33:10	64:16 130:9	125:6,6	lines 28:17	178:20	41:14,15
jurisdictions	115:13	labor 70:8,11	148:7	174:5,20	113:23	179:7,7	42:17 44:11
73:24	134:4	81:19 83:9	201:16	181:17	135:14	183:15	44:14 45:22
justice 101:2	145:22	83:10 84:7	leading 57:16	leverage	136:6	184:3,7,14	58:11 61:12
	153:7	84:9 87:11	League 63:25	72:10	link 89:6	185:3	61:21 68:3
K	167:13,14	94:8 112:8	64:13,15	levied 75:8	190:4	186:11	81:2 83:18
K 56:12	167:24	123:24	65:4,5,14	Levitz 61:13	list 81:17	188:5,10	100:22
101:17	kindergarten	128:11	67:13 72:6	Levitz's	83:4 85:2	189:3	110:9
keep 14:14	56:9	194:18	72:23 77:20	74:22	85:13,23	190:17	120:24
52:11 103:4	kinds 140:17	labor-inten...	130:11	levy 61:24	137:23,25	locality 98:17	133:19
103:14	kiosk 194:15	29:10	131:15	135:18	140:10	98:19	136:5 137:7
105:10	know 19:13	lack 147:8	leaned 107:3	Levy-Swee...	listening	localize 72:21	141:14
106:11	25:17,20,22	157:18	learned 28:5	89:14	56:25	locally 49:3	149:4
116:5	30:16,17	lagging 102:4	49:24 63:8	109:17	literacy 56:8	188:7	159:18
120:20	35:20 37:8	lags 125:7	183:12	120:17	56:10,17	locate 93:19	161:12
179:3 183:6	42:8 47:17	land 107:23	leave 55:15	138:10	literally	94:6 127:4	162:4,5
keeping	49:9,18	108:8	88:19 90:15	141:3	114:19	located 192:5	163:8 165:4
172:18	50:25 51:17	174:13,15	led 57:21	174:17	little 36:23	locates	166:9,25
keeps 68:7	58:19 65:9	183:8	67:2 77:12	185:9	37:12 42:19	108:19,21	168:10,12
181:19	68:9 70:18	large 8:7	left 43:4	Liberty 16:9	67:9 76:6	location	174:7
Kenney	79:13 93:22	31:20 61:25	45:25 46:22	201:4	78:6 79:2	26:22 30:21	177:24
101:13	100:16	92:7 99:15	legacy 45:18	libraries	111:22	43:3 66:6	178:4,19
Kenyatta	106:21,25	173:11	legislation	138:24	113:6,24	84:15	194:20
1:10 2:11		largely 68:10					

Committee on Legislative Oversight
February 21, 2018

Page 14

198:16	172:24	Lyft 157:25	marathon	115:2	168:16	136:10,11	90:6 92:19
looked	173:20,21		45:20 63:5	121:13	186:8 199:6	136:13,19	100:2
118:14	177:13	M	March 7:20	138:19	mention	million 21:25	102:19
196:23	189:15	macro 71:8	139:13	149:15	23:23 56:19	22:2,4,4,10	124:12
looking 15:21	192:16	Magazine	marginal	150:8,25	102:18	22:11,20,20	148:6
27:25 44:10	199:20	53:22	85:20 86:11	151:7	mentioned	142:5	187:18
50:19,24	lots 70:24	magnificent	Mark 63:17	156:18	34:12 53:22	160:15	200:13
81:18	127:9	148:14	91:12,12,15	158:11,25	86:20 132:3	164:5,12	momentum
126:13	131:21	main 81:22	104:10	159:4	132:22	165:17	124:13
133:21	143:8	84:20	market 20:14	160:23	163:21	190:10	128:25
137:17	Louis 180:19	196:15	49:2,11	meaning 55:9	195:10	196:10	money 8:13
140:11	love 52:21	maintain	62:5 70:11	135:25	menu 31:16	198:7	54:14 55:24
161:14	53:21	45:4 105:8	178:9	198:5	59:8	mind 52:12	116:23,24
165:16	104:14	143:7	182:22	means 125:20	Merion	65:24 73:3	132:25
172:19	105:12	146:19	marketing	144:16	135:20,25	106:5 132:3	133:5 136:2
178:2	117:11	174:5	54:14 57:4	192:14	136:4	179:3 184:4	151:20
looks 121:15	149:23	maintaining	57:19,24	203:22	Meryl 61:13	191:10	155:23
looming	151:13	43:25	58:4,20	measures	74:22	minds 165:15	160:17,19
68:19 76:11	193:13,14	maintenance	60:19 61:3	32:25 73:25	message	200:4	162:2
142:8	loved 19:25	115:5	126:9	107:4	88:22	mine 60:23	176:10,11
loop 170:22	149:22	major 26:13	193:14,15	146:16	messaging	103:24	176:16
lose 31:4 42:4	loves 116:19	31:14 76:16	marks 17:5,6	187:24	129:11	minimize	194:10,12
46:20 85:7	low 69:17	125:17	massive	188:9	161:16	183:14	Montgomery
151:20	70:7,9,12	126:3	70:25	meat 67:24	165:18	minority 71:5	34:6
153:11	80:8 88:5	167:14	117:13,15	median	met 158:12	minutes	month 104:3
176:10,16	99:9 155:22	majority	material	189:12	methods	96:14	months 33:25
loss 84:21	163:11	98:15 145:3	97:10	medium	145:25	mirror 41:7	34:17 51:15
93:5 115:21	183:23,24	making 11:15	materials	31:19	172:4	misaligned	51:22 55:4
175:17	188:14	19:17 23:20	94:10	meds 40:6	metro 73:24	32:21	mood 96:3
176:5,21	low-income	33:17 34:24	Matt 51:2	52:21 53:11	metros 67:17	misery 38:3	97:4
losses 176:19	67:25 71:2	42:9 49:5	matter 36:13	72:11,13,16	74:4	missing	moon 60:10
177:3,9	100:14,23	56:7 87:2	45:21 46:10	74:22,25	Michael	158:11	moonshot
lost 42:14	102:8	97:17 99:8	73:22 90:25	82:7	98:11,11	mission	48:6
125:3	188:20	115:2	94:6 186:14	meet 48:11	MICHELE	186:15	morning
144:12	lower 23:17	153:22	188:14	183:21	203:14	Missouri	35:13 37:2
153:11	38:16 40:19	159:21	189:14	195:14	micro 72:4	180:19	42:16 68:14
lot 19:14 20:5	86:22 99:17	200:21	203:7	meeting 3:2	microphone	mistake	mortgage
26:17 32:19	106:12	mall 194:15	matters	7:19 12:14	9:3 78:6	152:11	137:16
33:16 35:13	135:20,25	management	112:10	13:25	104:12	miswrote	motion 4:2
36:7,13	136:3	48:17	180:9	meetings	mid 137:11	148:21	9:23 13:13
40:14 53:18	155:15	162:20	max 151:3	158:8	137:12,13	mix 74:6 88:2	13:18
54:10 77:13	166:13	Manager	Mayor	member	middle 48:17	88:14 116:6	motor 3:21
101:3 102:7	184:6 185:6	186:10	101:13	70:20	53:8	mixture	9:21
140:14	lowered	Managing	188:4,8	123:20	Mike 144:8	105:6	motto 58:25
149:3	73:12,16	171:7	189:18,24	members	miles 43:6	model 7:8	move 6:24
154:19	74:4	Manhattan	Mayor's	2:17 9:11	military	95:6	12:19 16:4
158:18	lowering	155:4	20:11 38:2	10:19,21	44:23	modelers	46:23,25
159:11	84:22 190:2	manifest	140:3 180:5	11:24 15:17	millennial	73:19	55:6 75:23
161:15	lowers 116:7	66:20	Mazero	18:23 64:9	millennials	modernize	81:19,25
162:17,20	lowest 164:6	manufactur...	98:11	78:18 91:18	67:3 137:7	11:3 24:5	82:2 86:15
163:23	187:2	94:9	MBAs 91:9	122:12	54:25 55:5	174:10	88:4,14
167:25	lucky 194:9	manufactur...	mean 20:23	148:10	59:14 62:12	moment 29:8	99:3,4
171:17	lunch 112:9	95:16 99:21	40:11 55:19	157:21	96:11 99:14	62:23 74:21	116:8,9
		map 83:18					

Committee on Legislative Oversight
February 21, 2018

Page 15

138:16	nail 114:18	47:5,5,6	110:15	146:20,21	35:15 37:21	190:6	153:12
167:23	name 9:2,13	48:8,22	121:23	154:12	40:17 43:16	occurring	173:12
169:9	18:14,25	53:12 54:9	122:3 192:3	155:10	51:10,12	41:21	174:22
190:13	23:25 63:21	55:7,21,24	neighborho...	160:7	53:13,24	off-street	one-size-fits...
199:17	78:3,11	57:17 58:12	31:14 71:2	167:16	54:3,5 66:4	153:10	119:23
moved 13:5,8	91:13	76:12 77:10	72:23 95:22	195:16	68:6 80:12	offer 5:20	one-time
53:23 55:2	122:24	77:22 79:20	96:20	196:11	103:3 113:6	118:9 130:4	141:11
123:18	123:3	79:21 98:23	102:22,25	197:9	114:19,23	141:11	onerous
149:16	141:17,21	116:20	103:12,16	NFL 54:19	131:3 134:6	142:22	31:17
161:23	171:3,6	124:19	104:17	nice 140:7	135:13	181:22	ones 31:16
moving 3:2,4	186:9	127:24	106:2,4	195:14	137:23,24	offered	50:9 73:23
26:15 28:4	191:18,21	152:23	153:2,3	Nick 191:5	148:10	107:21	90:21 109:4
28:6 77:9	192:2 196:7	156:2,15	neighbors	nightmare	152:3	offering	179:20
88:6 127:25	198:24	161:18,21	74:13	34:6	153:20	187:10	online 26:4
136:19	named	162:3,7	net 21:10	nine 9:17	168:16,18	office 16:25	open 10:17
168:21	184:16	165:19	52:19 75:19	11:12,18	173:2,14	17:13 25:18	17:25 32:3
much-needed	Narashimha	166:6,8	175:16	30:18 142:5	176:17	107:2	32:5,20,22
103:20	198:24	167:7 169:3	176:4,18,20	non-business	187:23	158:10	34:2,16
Mullin	narrative	169:8	179:5	31:11	188:5,15	171:8	49:12
169:19	58:12,13	180:21	184:16,19	non-profit	numbers	officers 114:7	opening
170:8,15,21	nation 49:4	187:5	185:6	52:5 64:16	88:17 99:16	115:5	66:22
180:12,14	67:3	193:17	network	non-profits	124:25	offices 66:22	102:13
191:19	national	198:19	81:22	195:6	134:10	102:14	199:22
multifaceted	22:23 39:6	199:18,19	neutral	non-resident	155:9	official 65:13	operate 10:17
161:15	125:16	199:23	172:19	83:7,24	160:25	officially	194:13
multiple	128:7	200:6	177:18	84:6,19	numerous	72:25	operating
11:11	nationally	needed 28:11	never 57:6	85:3 88:7	20:16	officials	175:16
116:13	24:17 68:3	146:8 183:2	75:3 76:22	90:13	nutty 110:6	188:11	176:5,19,21
158:8	74:10 79:14	needs 18:12	114:18	111:25		201:24	178:22,23
167:20	nature 43:2	41:20	148:14	113:7 114:6	O	offset 75:10	operators
multiplied	176:9	100:20	149:25	114:8,20,22	objection	83:23 177:8	141:25
96:18	Navy 16:11	108:22	164:18	non-residents	110:4	offsets 66:18	opinion 17:17
multiplier	near 73:2	166:5,15,17	176:18	21:6	objections	oftentimes	139:16
128:10	149:6	168:2,3	nevertheless	non-startup	203:4	17:4,5	opportunities
166:3	nearby 96:20	171:20	105:16	197:3	objective	104:18	15:3 19:10
municipal	nearest 74:13	177:24	191:17	non-tech	126:3	okay 12:2,8	47:8 110:3
180:21	nearly 19:16	185:16	Nevins 77:13	197:3	obligation	18:5 30:23	137:25
181:6 184:8	23:3 28:16	186:4 200:5	new 16:19	normal 92:2	166:15	32:13 60:7	138:4
municipalit...	181:7	negative	58:4 62:22	97:18	obscenity	61:10	opportunity
30:13 152:6	necessarily	17:10 91:21	73:11 82:5	100:22	9:23	114:25	11:19 24:18
163:11	113:20	100:13	82:10 85:14	north 162:13	obstruction	130:2	76:7 120:12
municipality	196:22	183:15	85:25 86:8	Northeast	10:3	150:18	121:15
107:10	necessary	185:15	88:8 90:5	62:19	obstructions	151:23	123:6
163:13	9:19 23:21	negotiate	96:16,22	notches 53:25	4:15	154:19	130:18
MURPHY	127:20	121:13,14	97:3 98:4	note 110:21	obvious 80:13	157:12	137:8
203:14	142:24	negotiating	98:14,25	138:9	obviously	190:19	139:20
museums	185:18	116:12	99:17 100:7	170:22	35:16 65:22	old 97:21	170:3,7,17
143:22	187:17	121:17	102:5 105:7	notes 148:21	83:21	117:22	181:21
mutually	need 28:19,21	neighborho...	105:21	203:6	133:24	143:16	186:14
161:10	28:24 39:17	70:21	106:5,7	notion 57:9	160:24	153:8 192:5	190:14
myriad	42:10 44:16	104:24	125:23	nuance 33:20	occupancy	older 168:21	197:12
189:23	44:18 45:11	105:5,7,9,9	143:12	nuances 33:2	146:15	once 75:20	202:6
	46:23 47:4	108:5,11	144:17,19	number 8:4,6	162:8,11	81:24 94:2	Opposed
N					165:12		

Committee on Legislative Oversight
February 21, 2018

Page 16

13:15 optimistic 173:8 options 198:16 order 2:4 85:21 186:23 188:21 ordinance 3:11,18,23 4:5,11,17 4:24 5:6,12 9:24 10:3,6 10:9 organization 64:16 65:15 67:10,11 organizations 62:3 123:22 123:24 157:16 organized 123:25 ought 71:23 102:2 107:19 137:17 out-of-state 98:19 out-of-sync 133:15 out-person 44:9 outcome 63:10 outcomes 33:23 outdated 10:14 11:7 11:13 outline 79:3 outlined 129:3 172:16 outlining 20:20 outpaced 39:6 outperform... 67:8 outside 44:9 125:21	144:23 168:19,25 192:15 198:18 overall 75:14 146:15 179:18 186:21 187:11 188:2 overbuilt 152:15 overcome 96:10 overestimat... 97:9 overnight 41:12 46:21 56:6 overreliance 132:6 overseeing 16:13 Oversight 1:3 2:6,13 9:12 14:22 18:24 186:9 202:18 OVERSIG... 2:1 3:1 4:1 5:1 6:1 7:1 8:1 9:1 10:1 11:1 12:1 13:1 14:1 15:1 16:1 17:1 18:1 19:1 20:1 21:1 22:1 23:1 24:1 25:1 26:1 27:1 28:1 29:1 30:1 31:1 32:1 33:1 34:1 35:1 36:1 37:1 38:1 39:1 40:1 41:1 42:1 43:1 44:1 45:1 46:1 47:1 48:1 49:1 50:1 51:1 52:1	53:1 54:1 55:1 56:1 57:1 58:1 59:1 60:1 61:1 62:1 63:1 64:1 65:1 66:1 67:1 68:1 69:1 70:1 71:1 72:1 73:1 74:1 75:1 76:1 77:1 78:1 79:1 80:1 81:1 82:1 83:1 84:1 85:1 86:1 87:1 88:1 89:1 90:1 91:1 92:1 93:1 94:1 95:1 96:1 97:1 98:1 99:1 100:1 101:1 102:1 103:1 104:1 105:1 106:1 107:1 108:1 109:1 110:1 111:1 112:1 113:1 114:1 115:1 116:1 117:1 118:1 119:1 120:1 121:1 122:1 123:1 124:1 125:1 126:1 127:1 128:1 129:1 130:1 131:1 132:1 133:1 134:1 135:1 136:1 137:1 138:1 139:1 140:1 141:1 142:1 143:1 144:1 145:1 146:1 147:1 148:1 149:1 150:1 151:1 152:1 153:1 154:1 155:1 156:1 157:1 158:1	159:1 160:1 161:1 162:1 163:1 164:1 165:1 166:1 167:1 168:1 169:1 170:1 171:1 172:1 173:1 174:1 175:1 176:1 177:1 178:1 179:1 180:1 181:1 182:1 183:1 184:1 185:1 186:1 187:1 188:1 189:1 190:1 191:1 192:1 193:1 194:1 195:1 196:1 197:1 198:1 199:1 200:1 201:1 202:1 overtaxing 128:20 overwhelmi... 94:15 owe 191:11 owners 127:7 141:25 146:17 167:5,7 188:20,25 194:13 owns 70:20 P P&G 60:23 p.m 1:7 202:18 pace 23:20 46:25 144:3 package 107:17 108:12 Packer 16:21 page 33:12 paid 75:9 140:21 149:22 194:8 pain 136:3 panacea 72:3 76:23 panel 18:7	63:15 122:18 157:3 169:15 178:22 191:3 panelists 11:23 panels 27:13 59:10,25 paper 104:2 parent 56:15 56:15 parents 55:9 Paris 69:21 park 112:9 114:15 157:20 161:25 162:2 parking 110:24 127:7,11,13 127:14 141:23,24 141:25 142:13,24 143:6,8,10 143:16,18 143:24,25 144:2,17,19 144:22 145:8,11 146:3,11,17 146:21,23 147:4,9,10 147:15 150:22 151:2,5,8 151:13,14 152:11,14 152:15,16 152:22 153:10,15 153:17 154:14 156:9,15 157:14,18 157:20,24 159:11,15 159:17 174:2 189:24	190:2 parks 115:5 Parkway 151:11 part 16:24 25:24 42:14 47:15 69:16 69:23 70:4 70:15 71:7 106:15 113:5 127:15 144:13 163:17 164:4 172:8 174:16,17 176:22 partially 66:18 184:24 participate 90:23 141:21 participation 23:7 70:8 particular 14:6 85:12 90:2 104:23 110:2 112:19 131:16 167:15 187:4 particularly 15:21 39:20 70:10 71:2 80:25 82:6 84:11,18 85:24 120:12 121:15 132:6,17 140:9 148:7 150:12 188:20 202:3 partly 74:3 74:17,18 partners 25:6 190:16 parts 103:21 144:4 pass 104:11	138:12 path 129:10 161:3 192:19 patients 143:19 Paul 135:18 pay 52:16,18 74:16 83:14 83:23 86:6 87:16,17 89:2,4 94:5 98:6,6,7 99:7 100:8 104:24 114:10,11 114:13 135:15 137:19 138:22 142:4 145:19 161:19 162:3,7 172:17 193:21 194:2,4,5,6 195:8 199:16 paying 72:17 85:11 140:8 145:18 peer 67:17 73:25 74:11 125:7 peers 75:5 penalties 193:23 Penn 40:12 75:12,20 111:13 Pennsylvania 1:6 27:5,23 74:17 78:15 91:16 93:10 116:16 168:17 170:10 174:18 176:20 177:6 178:12 pensions	51:12 people 8:3,9 34:2 42:2 48:10 51:10 53:12,14 57:20,21 68:7,15 69:24 71:3 72:22 77:14 81:8 87:12 93:8 99:2 100:12 104:23 105:19 106:4,5,12 112:18 113:9,13 130:25 135:4 136:20 140:3,19 142:3 144:22 145:4 154:15,23 155:17,18 157:25 158:11 159:3 164:3 168:18,20 168:21,24 169:4 173:2 193:25 People's 118:7 percent 21:3 21:5,11,11 21:12 22:12 22:21,22 23:3 34:14 49:23 52:8 52:9 53:2,2 55:10,12,17 55:18 56:4 56:13,15 75:8 76:2 83:17,25 84:2,10 94:13 114:25 115:9,10 116:24 123:14
---	---	--	---	---	---	---	---

Committee on Legislative Oversight
February 21, 2018

Page 17

125:20,21	person 43:18	52:14 58:3	180:16	77:8	pleasure	policy 20:11	position
126:20	115:2 192:7	58:21,23	186:13	piece 56:18	111:11	22:17 23:6	24:16 65:13
127:12,17	195:9	59:20,21	190:8,18	57:4 69:14	129:23	26:16 28:3	positions
132:12	personal 41:4	61:18,21,23	192:18	pill 42:4	160:6 196:2	45:13 65:6	180:20
134:12,13	76:3 96:24	62:13,21	193:18	pitch 26:3	plug 67:9	65:8,10,24	positive 22:18
134:16,18	personally	64:2,13	194:11,20	28:6	plus 67:17	66:4 70:25	22:25 39:5
134:20	35:18 72:3	65:20 66:15	Philadelphi...	Pittsburgh	69:3 110:15	71:9 72:3	53:18 91:21
135:24	110:4	67:15 68:5	11:3 15:4	166:14	point 28:14	73:6 76:23	104:19
144:12	192:24	71:16 75:12	19:11,18	pivot 127:24	58:9 62:20	77:20 79:5	124:6 139:7
145:20	perspective	79:7,14	20:9 22:19	place 16:10	67:14,22	80:4 91:17	140:4
146:11,12	29:16 37:22	81:15,16	25:14 74:2	24:15 57:12	68:17 72:13	93:10,18	165:18
146:23	44:13 48:7	83:20,24	92:2 95:11	98:24 99:13	72:16 82:3	98:12 100:8	176:2
147:4 149:3	48:24 49:15	86:9 93:3	95:15 97:17	102:10	82:8,11	105:19	185:12,23
163:4	57:5 60:25	95:19 96:7	97:21 99:19	103:22	87:15 90:11	114:24	positively
164:11	61:3,20	97:5 98:24	123:15	157:20	93:11 94:17	119:13	69:8
178:12,16	62:7 126:2	99:13	135:22,23	175:12	100:6 101:2	120:3 126:3	possible
184:21,21	157:6,19	100:22	141:9	201:21	102:18	126:6	88:11 89:6
184:22	160:23	104:5	144:25	places 47:12	104:20	133:11	119:7,8
190:3,4,9	195:24	110:16	147:3	64:24 66:24	112:17	135:2 147:8	120:22
197:9	perspectives	112:22	180:16	75:14	120:8	151:19	183:25
percentage	118:10	117:21	181:16	plan 160:12	127:24	152:5,12	185:7 187:2
55:5 134:23	pesky 136:13	123:10,13	185:13	163:2 172:9	134:22,25	166:6 180:6	189:19
perception	Pew 137:21	123:22	188:13	174:17	138:19	181:7,16,18	194:8
60:24 62:11	phase 26:18	124:3 125:3	189:11	187:9	149:2	186:19	postdocs
62:15	176:14,17	125:4,16	Philadelphi...	189:17	158:14	188:15	75:21
199:13	177:6	126:4,9	95:14	planned	164:6	189:15	postpone
perfect 80:14	phased	127:4,10	Philadelphi...	54:21	166:22	193:21	86:25 87:4
150:21	177:15	130:9,12,22	57:7	plans 154:17	168:22	194:2 195:3	pounds 46:21
perform	Phila-Boston	130:24	Philadelphi...	platform	192:21	political	poverty 8:5,9
77:21	69:15	134:8,18,24	58:24 67:25	17:15	197:22	92:19	23:2 35:22
performance	Philadelphia	135:10,11	141:5	play 79:23	199:19	127:22	35:25 37:8
69:7 83:6	1:2,6 3:12	136:4,19	Philadelphias	97:8,19	201:12	161:16	37:21 38:14
84:25 127:8	3:19,24 4:6	137:21	69:9	played 72:7	pointed 93:15	Politically	38:16 40:3
133:15	4:12,18,25	138:8	Phillies 16:22	player 120:6	96:13 98:5	188:18	40:16,19
performanc...	5:7,13 6:9	140:13	Philly 67:11	178:8	100:12	pool 128:17	53:3,13
79:10	6:18 7:16	141:23	143:12	players 120:7	135:19	poor 135:12	56:2,16
performing	7:24 8:3	142:2,4,22	193:13	121:18	149:7 195:5	148:22,25	62:18 68:7
144:7	9:15 10:15	143:10	196:11	playing 179:6	pointing	poorly 82:14	72:15
period 42:7	10:18 15:19	144:24	198:18	plays 65:24	101:7	Pope 54:19	125:17,19
132:22	16:7,12,18	145:7	Phoenix	please 3:8	133:25	populated	149:3
166:7	17:4,12,19	146:11	164:2,3	8:20,21,25	points 66:2	71:3	power 72:11
175:20	17:23 18:19	157:22	phrase 60:22	9:3 14:18	87:22 97:13	population	102:7
176:7,15,21	19:3,23,24	158:4,24	74:23	18:6,7	101:21	22:19 37:19	practical
177:2	20:5 24:14	161:7,18	pick 23:19	58:22 63:14	130:4 135:7	53:2 69:6	138:15
periods 22:10	26:8,23	163:14,23	115:10	63:15,21	179:11	70:4 96:18	183:21
98:20	27:4,13,22	165:11	191:15	78:7 91:13	196:13	124:7	practice
176:10	28:18 36:3	166:12	picking 115:5	91:14	199:5	136:17,23	183:11
permit 9:21	37:17 38:17	167:4,18	pickup	122:18,24	police 5:9	137:8	practiced
10:8 12:24	38:20 40:13	168:7 169:5	108:20	141:18	10:7 108:22	populations	181:6
13:9,22	41:17 43:11	171:8,10	picture 9:23	156:3	108:23	199:21	pre-K 101:16
Perri 7:5	44:2,5,14	175:3 176:3	50:12	169:14	114:7 115:4	portion 21:10	191:16
persistent	45:2,5	178:5,15	pictures 4:3	171:2 191:2	policies 28:23	146:3	predecessor
131:8	49:12 51:4	179:17,23	PIDC 16:6	pleased 20:17	103:8 188:6	184:17	93:9

Committee on Legislative Oversight
February 21, 2018

Page 18

predict 199:15	principal 22:9	process 10:19 16:25 26:5	124:5 182:2	174:9	provide 5:22 15:11 17:15	70:22	59:18 65:23
prediction 199:15	principle 80:12 88:25	42:24 43:24	progressive 90:5,6	177:21	19:4 20:15	purchasing 72:11	80:19 82:17
predictions 129:2	principles 79:6 186:17	174:11	project 72:24	182:17,21	23:8 47:8	purpose 2:6	83:19 111:3
prefer 120:15	Prior 19:20	200:5	105:3	182:23,25	103:20	10:13 20:13	114:9,12
preferences 66:13	Priorities 98:13	processes 43:24 45:6	110:13	184:8 185:8	144:17	65:18	126:10,11
premium 126:20	prioritize 30:20,20	Procure 110:16	119:8 148:8	188:20,24	186:23,25	169:12	127:20
prepare 68:21	private 9:25	procurement 72:19,21	projects 110:8,10	189:5 190:5	199:23	pursued 65:19 77:7	131:19
prepared 26:18	11:10 46:2	77:4 101:10	122:6	201:4	provided 20:16 73:18	pursuing 78:22	132:10,17
presence 2:15	privilege 170:17	110:16	promote 53:20 54:10	proponent 167:13	187:8	purview 139:10	137:22
present 1:9	179:2	produced 52:6	54:12,13	proponents 97:16	provides 187:18	push 112:2	140:19
68:11 98:17	187:14	produces 64:17	promoting 54:6 55:20	proportions 182:19	provision 89:9 115:16	154:23	147:3
141:4	privileged 130:10	professor 78:2,3,8,11	57:11	proposal 26:19 57:17	provisions 3:13,16,21	pushing 60:21	151:24
presentation 38:11 51:3	179:2	78:12 90:24	pronounce 191:18	61:5 62:10	4:8,14 5:9	put 17:14	152:7,10
90:22 140:5	probably 32:7 53:9	91:5 103:24	proper 183:4	63:9 89:13	9:18 10:14	30:9,24	157:13
presented 92:24	101:14	107:12	properly 13:5	89:14 91:6	11:8,13	66:7 71:25	questioning 113:6
presenters 124:18	113:12	108:18	61:17	91:25	106:11	76:17 85:4	questions 11:23 24:20
President 6:4	115:11	109:10	146:18	107:21,23	public 2:4,7	85:20 86:4	65:18 73:17
6:8 10:23	137:24	111:10	182:22	109:17	3:2,4 6:15	105:3 107:4	122:11
123:4	140:14	114:2 116:2	properties 118:25	117:25	12:10,14	117:17	132:24
129:20	151:7	118:13,18	123:15	120:18	13:24 14:2	148:17	141:15
141:22	158:12	118:22	property 16:9	138:10	16:15,16	155:7 156:7	147:24
180:14	191:11	119:19,25	69:18 70:12	139:2,6	36:13 56:14	159:14	157:2
198:25	198:9	121:7,11	71:18 80:16	141:3 157:4	56:16	171:25	170:4
press 136:17	problem 74:17 75:20	131:13	81:2 85:14	185:10	101:22	172:23	180:10
pretty 24:24	76:9 119:9	133:3 170:4	85:18 86:22	proposals 93:13 116:4	103:13,20	174:3	190:21
51:14 64:5	121:17	170:8	86:22,23	116:14	105:19	177:16	quick 42:4
66:9 74:21	124:14,15	profitable 75:25 98:9	88:8,11,13	propose 6:21	112:10	183:24	45:9,24
82:14 84:6	138:20	198:9	89:16 90:14	7:9 17:9	116:24	putting 25:25	89:21 136:9
86:23 92:21	141:8	profits 52:19	92:6,13,14	proposed 7:5	126:3,6	104:2 140:3	138:9 157:2
119:22	152:18	68:11 84:14	92:15 97:21	61:8 172:10	144:25	151:6 154:2	157:13
197:5	156:19	85:8 86:3,5	97:22,25	195:15	145:5,16	160:17,18	160:4
previous 129:3	179:17	98:6 99:8	98:8 99:5,9	proposition 66:16 75:11	162:4,19	160:20	quickly 42:2
price 80:4	194:23	184:19	100:3,11	141:7	164:25	178:16	76:19 81:20
85:4,10,20	195:5	program 117:21	103:5,6	prospects 131:10	167:19		97:15 114:3
prices 155:15	problems 53:6 74:7	104:25	107:16,25	prosperity 72:14 132:2	170:9	Q	185:7
155:16,17	103:11	107:16,25	108:2 110:6	141:9	181:14,18	Q&A 170:6	quit 46:5
pricing 155:3	150:11	120:19	123:13	protect 188:24	186:19	Quaker 57:9	quite 40:16
primary 66:4	193:12	126:22	132:13	protective 30:4	188:15	qualified 36:16	73:20 89:12
66:8,12	proceed 9:9	progress 135:16	139:3	proud 76:25	189:14	quality 81:19	107:20
prime 62:14	191:17	14:23 19:7	150:14	170:5	203:15	87:24,24	153:4
Princeton 75:13	proceedings 203:4	20:18,20,25	167:5,6	181:13	publicly 14:3	89:7 107:17	172:20
		22:14 25:6	173:18		123:8 143:4	112:20	173:18
		28:15 34:24			pulling 53:5	113:19	178:13,17
					pump 62:15	quarter 42:16	178:20
					pupil 126:23	quarterly 7:19	202:3
					135:20,24	question 32:24 47:4	quorum 2:16
					166:12		quotation 115:14
					purchased		quote 179:15

Committee on Legislative Oversight
February 21, 2018

Page 19

R	189:15	151:7 162:9	162:5 163:2	12:16 102:6	recovered	reflect 41:3	126:15,23
racial 95:17	190:3	162:10,12	163:16	recognizing	125:5,6	146:13	189:12
131:23	196:24	182:19,22	168:6,8	101:14	recruiting	reflects	regionally
radical 92:3	rates 21:4	184:13	169:7 172:9	116:22	31:2	182:22	74:10 79:15
radio 5:10	22:23 61:22	187:16	185:3 190:2	recollection	redlining	reform 2:22	regions 82:10
rainy 76:10	73:22 74:12	188:11,13	198:12	165:8,8	95:22	10:11 14:24	197:17,17
raise 36:22	82:15 90:3	188:16	200:16	recommend	131:24	19:8 25:2	regressive
65:18 85:7	90:9 92:14	189:19	realty 22:3	10:16 185:4	reduce 8:9,10	71:23 91:22	17:9 68:3
86:12,21	99:5 120:6	195:5,6	123:5	recommend...	21:3,10	100:10,18	74:14
100:3 116:8	120:18	realistic 42:5	173:25	12:23 13:7	39:19 47:17	124:21	regular 48:11
132:25	125:18	reality 32:24	174:6	13:20 21:2	84:13	127:15	regulations
133:4 136:2	126:22	60:24 62:11	rearranging	21:9,17,21	129:12	129:4	6:22 7:10
140:19	127:11	62:16 166:2	138:20	22:7 175:13	146:4 163:3	146:16	10:16 14:13
155:14,16	147:10	166:11,14	reason 47:16	177:14	172:4 182:8	162:21	29:12
155:23	151:2,3	168:22	66:8 95:9	195:11	184:11	171:15	regulatory
161:19	154:13	173:9	97:16 120:8	recommend...	reduced	172:10	2:22 5:19
189:25	158:22,23	realize 46:12	154:8	11:2 14:25	92:14	173:7	7:12 10:11
190:7	158:23	77:15	171:13	15:2 19:8,9	157:19	174:10	14:4 32:20
195:10	182:8	realizing	199:8	19:18 20:15	164:19	176:22	46:17
raised 74:4	184:11	178:7	reasonable	20:16,21,24	184:20	181:10,23	186:23
88:6 131:19	187:3	reallocated	145:25	25:2 33:17	189:15	185:5,9	rehabilitation
145:7	rating 23:17	108:10	reasonable...	78:24 86:19	reducing	187:7,9,20	102:12
183:13,14	25:10,15,17	really 14:13	163:6	86:21 90:10	127:16	187:23	reinforced
198:6	50:25 51:5	35:12,19	reasons 57:10	91:22,25	173:23,25	188:5,7,10	57:17 92:22
raising 85:22	51:10 64:3	43:23 44:24	97:24 133:9	92:20	175:19	195:11	180:4
ran 65:9	ratings 51:7,7	45:11,12,14	195:3	100:19	179:24	reforming	related 4:8
130:12	ratio 115:18	47:25 48:11	rebuild	171:24	187:17	28:3 172:21	19:18
range 163:5	raw 94:9	48:22,24	143:10	172:7,17,25	reduction	187:14	175:14
ranges	reach 142:20	49:16,16	Rebuilding	173:4,10,15	47:21	reforms	188:6
143:13,14	reached	52:16,18	143:15	173:22	146:13	23:20	relates 15:18
rank 30:22	98:13	53:10 58:12	rec 138:23	174:4,14,21	153:20	199:25	26:16 37:19
82:14	reaction 43:7	61:19 62:5	receipts	175:24	160:10,13	refreshing	59:19 161:2
rapidification	read 3:8	69:8 76:14	32:12 85:24	180:3 182:3	160:21	200:24	186:22
28:22	14:18 26:4	76:15 77:13	86:10 88:9	187:10,12	164:5	201:8	188:11
rare 120:14	66:3	82:13 84:4	90:13 92:10	187:20	165:14	refuse 4:9	189:22
121:16	reading 12:25	84:12 89:10	98:7 175:5	recommend...	181:5	regard 86:14	190:17
ratchets	13:10,22	90:7 92:23	179:3,5	173:24	189:20	86:20	relating 3:14
162:9	real 20:14	93:23 95:9	184:13	175:7,11	reductions	regarding	3:21 4:2,14
rate 21:12	21:22,24	100:16	receive 21:15	188:15	21:8,14	17:2 19:5	4:20 5:3,9
23:2 38:14	44:3,21	101:12	192:14	recommend...	160:13	104:15	relationship
38:14,15,16	52:2,11,20	110:9	receiving	172:4	164:18	157:4	6:14 17:7
40:19 70:7	57:7,7,7	112:13	17:6	record 9:3	174:8 175:8	regardless	115:19
95:18	64:21 65:23	114:2,4	recess 202:14	18:13,15	175:10	74:16	relationships
120:16,21	67:24 70:14	117:3,4	recession	63:21 64:3	187:13	regards 59:8	6:25
125:15,17	73:4 106:23	118:20	68:16	73:21 91:9	refer 28:8	region 40:7	relative 31:21
125:22	110:15	131:8 132:3	164:16	91:14	reference	66:10 81:25	73:23,23,24
135:17	114:17	139:21	recognize	122:25	39:13 41:15	81:25 82:7	83:2 95:16
175:20	115:11	149:25	2:15 45:19	141:17	62:20 157:3	127:2 169:5	113:11
178:13	123:9	152:15	58:8 112:23	169:23	157:14	186:17,25	185:18
181:4	124:22	153:7,18	117:2	171:3	referenced	198:11,18	188:12
183:23,24	125:14	154:12	recognized	191:18	187:19	region's	195:7
184:20	128:3,15	156:18	99:12	recoup 146:8	referencing	64:20	relatively
185:6	145:15	158:25	recognizes	177:4	132:21	regional	67:16 77:17

Committee on Legislative Oversight
February 21, 2018

Page 20

92:4,6	9:17,20,21	reserve 68:18	49:16,21	18:21 21:16	right 28:18	146:10,22	178:2 179:9
93:17 97:7	9:23,24	reserves	108:4	21:22,25	36:4 43:5	room 1:6	says 27:7
97:21 137:9	10:2,4,5,7,8	51:12,13,15	respect 90:12	22:3 23:5	46:8,21	61:22	59:5
160:6	repealed 11:8	resident 82:8	106:22	23:14 24:4	47:24 51:25	112:19	scalability
relativity	repealing	87:8 88:10	respond 57:3	24:7,11	54:18,19	roots 138:7	193:12
160:25	3:13,20,25	88:13,22,23	180:10	33:11 39:11	56:20 59:12	rosy 185:25	scaleable
relevant	4:8,13,20	89:2,7,15	response	41:20 44:6	60:8 63:6	roughly	193:10
67:23	5:3,8,12	104:21	11:25 12:7	47:12 68:8	64:4 77:9	51:25 142:5	scanner 10:7
132:18	11:12	107:7,7,15	13:16 18:4	74:8,25	77:11,16	round 139:12	scared 177:7
relief 83:25	repeat 133:16	107:16	80:21	79:21 85:11	89:24	roundtables	scary 153:8
relocate	replace	116:23	122:13	85:22 92:5	104:17	50:4	scenario 33:4
87:20	144:18	140:20	190:23	105:2	107:11	route 43:10	school 52:8
126:13	report 20:17	145:17	responsible	127:24	119:18	row 77:10,15	56:14,22
161:17	59:10 98:10	resident-sp...	76:12 98:22	139:7 146:6	120:4	rowing 63:7	57:6 67:7
165:16,20	172:6,14	107:18	responsibly	146:8	132:18	RPR-Notary	68:19 69:7
relocation	173:5,14	residential	71:17	172:19	135:21	203:15	76:11 78:4
66:8 98:18	177:16	83:17	responsive	177:18	136:14	rules 12:23	78:14 112:7
rely 8:12	179:15	102:21	14:14	179:24	137:10	13:8,21	116:20
41:22 74:19	reported	109:20	rest 52:4	182:17	139:10	run 42:16	133:10
112:6 184:7	12:21 13:6	111:21	130:5 194:5	183:13	150:3,12	168:20	135:20
relying	13:19	112:21	Restaurant	198:8,8	151:25	runaway	164:25
179:18	reporter	113:19	158:10	revenues 52:6	152:8,20	150:9	166:8
remain	203:24	120:19	restaurants	86:2 92:15	155:15,21	running	167:10
146:24	reports	167:5 168:4	96:15	92:16 100:4	rise 37:18	19:22 29:22	179:25
189:9	147:14	188:19,21	143:22	103:18	40:2 95:25	130:16	184:9 186:5
remaining	represent	188:24	result 20:4	106:9	risen 143:25	200:17	school's
30:13,13	141:24	residents	37:25 41:19	109:14	rising 35:25	rush 156:9	127:24
remains	Representa...	21:5 23:4	95:6 113:9	128:15	69:20,25		schools 36:14
127:21	15:17	67:16 70:3	117:15	132:12	190:4	S	56:16 65:22
176:5	representing	87:9,15	185:24	146:2	risk 68:12	S 1:11	87:24
remarks 5:21	43:13	100:23	resulted	180:21,23	Rittenhouse	safety 3:12	116:25
197:15	represents	105:7	92:16	184:9	119:4,5	4:13 5:8	127:19
remember	144:10	112:14	resulting 23:5	185:17	River 69:11	112:11	131:24
26:3 132:9	reproduction	113:14	retail 86:16	186:3 198:6	163:10	salary 194:7	132:25
remembering	203:21	125:21	155:2	reverse	road 29:19	sale 5:4 10:6	135:15
88:20	reputation	130:20	retailer	125:23	155:5	sales 21:18	137:24
reminding	31:5,10	133:6 142:4	155:13	Review 5:19	199:16	80:16 86:16	145:16
177:15	request 13:21	142:16	retain 23:21	14:4	roads 109:6	175:15,25	160:18
reminds	200:8	161:7 167:3	44:16,17	reviewed	142:22	184:25	166:16,19
46:23	required	172:5	186:16	133:12	Rob 6:10	sampling	167:19
remotely	16:25	179:21	retained	reviewing	51:13	20:22,23	Schuylkill
163:13	requirement	resides 167:3	73:15	3:15 9:20	Robert 63:17	San 54:2	148:8
178:24	183:22	resolution	retaining	14:12	122:20	134:11	science 72:9
remove	requirements	1:15 2:10	31:2	revisions	141:21	149:6 150:9	176:13
104:22	26:24 32:20	3:5 10:12	retention	10:16	152:2	154:12	scoring 30:14
removed 7:11	research	14:19,21	44:15 67:9	revisit 102:23	robust 73:14	196:22,23	seaboard
Rendell 181:3	26:21 54:8	15:14 19:5	rethink	Reynolds	role 19:15	sat 28:9	40:8
rental 61:22	58:2 64:17	190:15	100:17	1:12 2:19	65:24 72:7	satisfy 145:23	seas 72:14
rents 194:15	65:6 75:22	resource	return 13:25	29:4 121:19	97:8,19	saw 46:5,6,7	seasoned 41:5
repair 144:15	93:11 94:11	48:23	38:6 122:3	147:3	roles 130:9,17	55:17	Seattle
repairs 86:25	94:22	resources 9:6	returning	RFP 26:6,25	roll 146:10	180:20	141:12
87:4	101:18,20	9:14 23:9	96:12	30:9	150:21	saying 13:13	second 16:5
repeal 6:2	113:11	48:9,15,23	revenue	rich 194:9	rollback	60:20 62:8	52:24 67:14
						79:12 132:8	

Committee on Legislative Oversight
February 21, 2018

Page 21

81:9 94:17	157:19	38:5 52:16	99:24	80:11,11	196:6	solutions	113:24
137:6	173:15	52:18 80:8	100:10	83:6 108:14	sit 16:6,11	16:19 64:20	148:10
138:12	181:25	81:20 82:21	124:19	109:19,20	sitting 151:10	118:9	157:9
157:13	sees 144:11	87:25 88:23	129:8 161:6	155:6	170:14	180:15	159:10
183:12	segment	88:24 89:9	184:25	173:18	situation	181:8	168:11
193:25	187:4	107:18	shifted 83:9	sides 163:9	53:16	solve 38:7,18	speaking
196:3,4	SEIU 70:18	108:22,23	shifting 28:2	sidewalks	144:14	193:11	173:3
198:14	70:20	109:2	100:21	142:23	six 34:17	somebody	Spears
199:12	seize 29:8	112:12	185:7	sign 138:12	37:16 51:14	168:6	151:11
seconded	62:23 63:2	114:9 115:4	Shockingly	signal 141:8	78:16 125:9	somewhat	159:10
13:3,5	124:11	115:16	134:21	significant	147:16	42:25 93:13	special 7:18
Section 3:13	148:6	172:22	shopping	15:24 17:10	Sixers 16:23	soon 75:24	10:10,25
3:16 4:2,20	selected	180:2 187:2	143:21	42:14 68:12	size 31:20	166:20	11:6 14:3
5:3	102:25	187:17	194:15	82:22 161:6	41:8 154:13	173:4	119:12
sector 6:15	104:17	serving 15:15	shops 142:19	166:4	193:7	sorry 14:7	121:16
46:2 196:25	sense 79:8	15:16	short 42:7	181:25	skilled 65:16	25:12 85:18	141:11
see 28:2	82:25 84:24	190:16	132:22	189:2	skyrocket	118:18	specific
29:24 35:18	115:8	sesquicente...	140:10	193:23	149:24	119:19	107:13
36:4 38:12	150:16	39:14	141:3	197:5	slap 193:25	149:11	108:25
38:20 44:20	152:23	session 13:2	181:24	significantly	196:3,5	sort 67:12	117:25
51:20,25	176:8 198:4	13:11,23	192:6	185:21	slide 68:4	77:21 88:17	121:5 122:6
53:19 62:12	sensitive	167:8,9	short-lived	signify 13:13	slides 66:7	110:6	146:6 172:6
66:6 68:15	79:18	set 127:18	137:9	silos 44:5	124:25	113:22	178:15
78:16 84:5	sentiment	129:25	short-term	similar 43:10	166:9	132:15	182:2,4
89:3,4	148:9	137:14	136:22	48:8 51:4	slowdown	135:6	specifically
102:21	sentiments	189:16	shortages	151:24	68:13	171:21	75:18
103:11	14:10	setting 79:7	144:5	178:24	sluggish	198:2	142:12
111:11,14	separate	settle 36:21	159:17	192:19	131:17	sought	146:9
115:15	89:15	seven 11:7	shortcomings	117:20	133:14	107:19	158:17
116:17	109:19	30:18 78:17	68:23	similarly	small 7:14 8:2	source 84:23	159:8
117:18	separated	78:22	shortest	Simon 43:20	8:6 31:17	98:14	173:20
120:16	111:21	130:14,17	176:6	simplified	43:13,14	sources 26:4	176:11
126:14,18	112:15	Seventy	shortfalls	33:19	44:13 93:17	146:2,6	195:16
126:21	113:3,20	129:21	189:4	simply 79:4	97:7 101:19	155:24	201:6
136:16	SEPTA	138:13	show 113:11	101:3 124:2	146:3	South 144:10	spectrum
142:8 150:2	103:14,15	severely	121:20,22	128:5	170:24	153:7,8,9	52:24,25
152:4	September	127:9	129:10	136:20	175:10	Southbox	134:9
154:22	123:16	share 20:22	167:22	148:16	192:7	196:9	speculate
160:6	serious	31:3 145:18	showed 134:6	183:8	197:21	space 143:13	30:2 32:7
170:24	156:19	148:17	showing	simultaneo...	200:19,22	143:15	32:10
193:14	seriously 77:3	shared 64:20	134:5	141:6	smaller 94:7	151:20,22	spend 54:14
195:19,22	serve 9:13	79:2 147:14	shown 153:19	sincerely	smart 77:8,14	159:13	108:6
seeing 12:3	11:10 20:10	167:20	shows 40:18	200:14	snuff 200:22	181:19	spent 19:16
36:3 39:10	130:10	187:5	194:19,23	single 21:18	snuffed	spaces 143:10	60:3 168:24
144:4	141:22	shareholders	shrinking	126:10	197:24	143:12,16	192:16
seek 146:4	171:9	194:14	74:14	128:24	Snyder 8:22	144:18,18	spiraling
seeking 94:24	served 45:25	sharing	shudder	139:20	9:4,5,10,13	147:16,20	103:5
146:9	serves 64:19	166:15	131:11	175:15,25	12:4	153:10,20	splitting
seemingly	service 4:7	Shenoy 191:5	side 16:3	193:11	so-called	157:18	90:15
132:22	23:18 79:22	198:23,24	34:13,15,18	sink 138:7	71:22	159:14	spoken 173:3
seen 6:23	84:11	shift 26:14	62:8 69:3	sir 18:13	138:10	speak 22:14	spring 10:12
38:11 66:20	108:21	28:6 31:12	75:19 79:21	170:20	soldier 126:9	29:23 37:12	sprint 45:20
69:3 128:23	services 5:2	66:13 96:11	79:22 80:9	191:20	sole 169:12	72:12 107:9	63:5

Committee on Legislative Oversight
February 21, 2018

Page 22

square 119:5 127:5 162:12 163:12 St 180:19 stability 150:16 stabilize 105:5 stable 74:21 103:14 stack 59:7 stacking 27:9 stacks 178:17 staff 10:20 17:14 57:22 stage 158:20 stake 58:17 stakeholders 10:25 25:5 stand 79:9 129:4 202:13 stand-alone 127:14 Standing 14:21 standpoint 17:12 stands 3:15 9:20 stark 125:14 134:17 start 18:16 31:24 43:20 98:16 112:4 128:18 166:25 196:19 started 6:3,4 6:20 15:8 44:12 45:2 61:18 starting 43:24 77:2 101:8 starts 31:25 31:25 32:15 startup 53:25 86:3 176:13 197:2 198:3 199:25 startups	73:15 98:21 98:25 193:9 196:17 197:10 state 9:2 15:16 18:14 27:2,4,10 27:22 63:21 74:18 89:13 91:13 94:12 98:17,18 117:5 122:24 126:24 141:17 143:23 165:2 166:13 171:3,11 stated 24:25 27:8 statement 39:25 107:5 states 20:3 27:20 37:16 statistic 55:17 statistics 55:6 168:12 status 21:4,19 22:8 181:22 187:19 stay 32:5,22 46:14 105:19 177:7 199:22 staycation 159:5 stayed 55:11 59:14 staying 99:16 steadily 69:20 steady 75:2 steep 76:2 stenographic 203:6 step 7:17 43:8 89:24 165:17 166:19 Stephen 94:20 169:19	180:14 steps 43:6,22 174:10 185:12 Steve 170:8 170:14 Stew 171:12 Stewart 171:14 stick 46:19 88:21 Stier 63:17 91:12,15,15 105:22,24 stified 97:20 stimulate 110:14 stimulated 100:5 stimulating 97:20 Stitt 51:2 stock 198:16 stood 51:5 stop 128:20 193:6 stops 94:2 store 52:13 52:15 stores 142:20 stories 76:4 story 45:24 57:19 119:12 133:13 strain 53:4 strategic 44:21 strategies 72:4,5,10 76:24 77:2 77:7 109:25 110:5,8 120:11 strategy 57:23 58:5 77:3 90:8 101:4,5,10 101:11,15 102:2,5,11 104:3 109:13 110:17	119:9 121:3 164:4 173:8 stream 74:25 streamline 11:15 24:5 28:22 29:13 47:5 streamlined 28:12 streams 23:14 68:9 74:8 Street 69:11 144:10 153:7,8,9 159:12 streetscapes 96:15 strength 128:16 180:24 stress 79:4 81:21 110:10 strictly 126:7 strife 95:17 strike 44:22 150:8 striking 149:15 strive 186:25 188:9 strong 37:6 75:23 85:19 101:20,24 strongly 190:10 struck 107:5 111:17,18 133:18 structural 73:5 structure 15:5,22 17:18 19:12 20:14 25:7 26:10 27:3 27:21 28:11 29:18 31:9 39:9,21 49:19 53:9 59:19 60:5 68:24 71:15	73:9 74:2 74:23 89:19 92:2 97:17 99:19 109:18 112:2 120:15,21 124:16,20 126:11,18 127:25 130:7 132:6 135:9 136:8 138:4 153:17 172:8 182:20 185:13 188:2 190:18 structures 116:18 stubbornly 23:2 stuck 23:2 118:4 student 67:9 111:12 students 88:16 90:21 90:23 181:15 studied 100:17 181:5 studies 94:18 144:7 173:2 study 128:22 133:20 146:14 153:19 196:21 197:7 studying 19:17 stuff 48:20 77:4 88:15 subcommitt... 7:22 32:16 33:16 subject 56:21 75:25 103:23 176:23	submission 29:20 submitted 90:21 194:17 Subsidies 121:9 subsidize 135:5 subsidized 143:5 subsidy 109:24 substantial 92:9 suburban 39:21 66:19 83:11,25 96:4 163:6 163:9 199:7 199:9 suburbs 83:14,19 85:17 95:25 162:2 178:23,25 188:12 189:10 subway 142:23 successful 8:6 54:11 suffering 102:9 suggested 91:3 suggests 75:19 84:19 94:12 97:8 132:14 139:2 suit 37:21 suited 99:22 sum 92:16 summarize 177:25 179:9 191:13 196:12 summary 130:4 Super 16:23 54:19	supervision 203:23 supplied 155:24 supply 144:2 144:16 155:25 156:12,17 165:23 support 9:17 73:2 94:19 139:17 142:19 158:19 167:19 170:19 173:4 182:6 183:6 188:23 189:2 197:12 supported 98:10 172:25 supportive 89:12 157:11 158:6 supports 11:17 supposed 194:6 sure 15:11 30:6 35:23 55:22 56:8 62:24 78:25 79:3 105:23 141:19 148:9 149:14 158:20 161:10 165:7 166:23 168:2 169:3 171:20 200:22 surely 73:18 78:8 surpassed 22:23 survey 66:9 126:25	survive 145:21 193:18 suspended 12:24 13:9 13:22 sustain 128:12 Sweeney 122:19 123:2,3 132:3 148:5 157:4,8 160:5 161:8 161:12 165:4,7 168:9 169:16 sweeping 175:12 switch 174:24 sworn 61:14 Sylvie 57:22 77:12 symptom 76:9 symptoms 124:15 system 37:24 52:8 71:19 82:18 92:4 112:7 118:24 164:25 167:17 172:10 182:18,22 183:4,7 187:9 systemic 194:23 systems 166:8 T T 18:18,25 39:2,2 T-shirt 59:5 table 8:24 18:11 57:20 63:19 72:2 101:6 122:22 169:21 191:7
--	--	---	---	--	--	---	---

Committee on Legislative Oversight
February 21, 2018

Page 23

tables 33:8	132:18	31:9,24	109:14,18	174:2,2,7	39:3 41:15	177:20,21	117:19
tackling	168:13	32:7,12	109:25	174:15	41:17 45:22	178:11,14	128:8
23:11 29:10	197:16,18	34:14 39:9	110:5,8,25	175:4,5,6,8	47:17 52:19	179:4,13,14	137:11
tag 85:5	talking 31:22	39:21 43:16	111:25	175:19	52:20,21	179:19,22	145:8 163:4
take 6:11	42:21 61:6	43:16 45:13	113:7,11	176:4,22	59:8 62:25	182:5,7	193:6,15
29:11,22	87:23	46:17 53:8	114:22	178:3,13	66:9 72:17	184:7,10	195:21,23
34:17 35:14	136:10	59:19 60:5	115:20	179:2,10,12	74:4,19	186:22	ten-year 57:4
39:17 42:3	138:23	65:6,8,24	116:9,19,20	179:13,18	81:4,16	187:3,16,20	172:8
43:23 47:9	170:12	66:4,19	116:21	179:24	83:3 85:14	188:12,14	175:20
47:22 53:12	172:12,21	67:15 68:2	117:13,20	180:6,25	86:15 88:5	188:17	187:9
77:2 79:24	175:2,23	68:6,24	118:11	181:4,7,9	88:8,13,22	189:7,19,21	tenant 190:6
96:20	tank 106:24	71:9,10,15	119:21	181:23	88:23 89:6	189:23	tend 41:11
102:19	target 102:11	71:17,19,22	120:6,15,24	182:17,20	89:7,8,16	193:21	tendency
106:6 141:7	109:18	72:2 73:6,9	121:3	182:22	89:25 90:5	194:3,4,6	165:21
144:23	115:10	73:12,22	124:15,20	183:16,22	90:7 92:6,7	199:16	tends 162:22
148:16	187:4 201:6	74:2,6,11	124:21	184:8,12,13	93:4,22	taxing 124:22	tens 71:10,13
163:8	targeted 73:4	74:12,13,18	126:5,11,14	184:16,18	94:4,5,7,12	129:9	73:11
175:11	108:8 110:8	74:23 75:3	126:16,18	184:19,20	94:20 95:5	135:15	term 138:7
177:24	119:8,9,13	75:8,14	126:19,22	184:22	95:12 97:7	174:14	141:3
200:13	119:14	76:3,13,23	127:3,13,15	185:3,5,6,8	97:8,19,25	teach 56:8,10	terms 3:17,22
201:13	121:3 122:6	77:19 78:18	127:16,25	185:8,9,13	98:4,4,8	88:15	4:3,10,15
taken 12:15	140:16	79:5 80:3	128:3,15	187:2,7,9	99:7,10	team 65:16	4:22 5:5,10
96:16	156:11	80:11,14,14	129:3,8	187:13,14	100:3,11,11	tear 153:16	5:15 67:8
173:22	187:10	80:15,16,16	130:6	187:20,23	100:21	teasing	68:6 70:14
174:10	targeting	80:21,24	131:16	187:25	101:19	112:16	82:15 83:4
188:7	90:2 197:17	81:3,5	132:5,7	188:5,6,10	103:6	tech 53:25	87:8 104:16
201:12	197:18,20	82:15,18	133:11	189:3,5,11	104:25	56:17 57:25	105:17
203:6	task 20:11,13	83:8,8,11	135:2,4,6,9	189:14,22	106:12,25	196:24	133:13
takes 33:25	20:15,21	83:15,17,20	135:11,17	189:24,25	109:7,9,10	197:2	161:3 169:7
tale 40:11	23:8 29:10	83:23,24	135:19,23	190:3,8,17	109:16	technically	terrible 99:25
talent 24:3	33:9,15	84:2,6,18	136:7 138:4	195:3,7,11	110:21	139:9	testified
30:21 38:21	45:25 46:4	84:19 85:3	139:5	199:9,24,24	113:21	Technologies	140:15
39:3,19	46:16,18	85:12,18,24	140:16	199:24	116:6,9	191:23	181:13
40:2 45:21	50:4 180:5	86:2,2,7,10	141:4	200:4	117:9	192:5	188:16
62:25 64:22	Tasker 69:12	86:16,18,20	144:14	taxable 186:2	128:16,24	technology	189:9
66:23,23	Taubenber...	86:23 87:8	146:11,13	taxation	129:12	24:6 56:12	testify 9:16
67:3,18	1:12 169:24	88:7,10	146:16	36:11 41:16	132:13	96:24 97:11	11:20 12:6
75:8,12	195:14	89:2,4,18	147:4,11	42:9 90:14	138:20	154:20	91:19 123:6
128:17	201:9,11	90:3 91:4	150:25	112:24	139:3 142:6	176:12	183:18
talk 6:16 7:8	taught 181:6	91:21 92:2	151:19	118:6	143:24	tell 15:24	186:14
37:14 40:2	tax 14:24	92:4,10,10	160:14,21	121:10	145:7,16,18	30:3,5,5	190:15
40:17 42:12	15:4,21	92:14,15	161:20	142:12	146:4	32:17 43:2	testimony 2:7
43:12 76:20	17:12,17	93:18 94:25	162:8,9,21	145:22	150:22	45:24 46:22	2:24 3:5
80:10	19:7,11	95:2,4,7	162:23	167:14	154:8	76:4 119:11	5:22 18:16
111:23	20:11,14	97:17,22	163:4,10	174:20	161:22	152:10	19:5 20:19
132:20	21:3,22,25	98:6,7 99:5	164:5,18	183:19,20	162:11,13	telling 52:22	24:23,24
148:11	22:3,7 23:5	99:19 100:3	165:12,13	taxed 79:15	163:15	57:18	41:2 63:13
161:4 164:8	24:4 25:2,7	100:8,9,18	165:13,22	145:12	164:19	tells 31:7	63:22 77:25
200:21	26:9,16	103:18	165:24	146:24	165:9 172:4	56:13	106:21
talked 35:13	27:3,9,21	107:4,7,8	166:5	taxes 8:10,15	172:21	149:19	111:18
36:23,25	28:3,10,20	107:15,16	171:11,15	15:23 27:10	173:23	Temple 40:13	130:3
101:11	28:20,21	107:24,25	172:7,10	30:11 31:16	174:5,6,9	ten 31:15	150:20
106:3	29:18 31:5	108:9	173:7,18	35:18 38:22	174:25	55:2 61:16	156:21

Committee on Legislative Oversight
February 21, 2018

Page 24

158:16	186:6,13	40:4 41:2,3	150:9,24,25	71:11,13	140:21	tools 23:11	145:4,6
163:8	190:14,20	41:7 42:11	152:19	73:11	147:22	top 27:10	162:4
166:23	190:24	42:25 44:2	155:20	threat 70:17	159:23	36:5 75:7	trash 108:20
171:4	191:24	44:19 45:10	156:6 157:8	three 33:25	183:12	81:17 83:3	108:20
182:11	195:24	47:11 48:2	158:15,15	41:10 43:5	191:25	125:12	115:6
190:20	198:20,21	48:7,20,21	159:2 161:4	51:6,9,16	192:17	126:4 128:6	travel 32:18
191:12	200:10,11	49:17 50:7	161:8,12	52:15 53:24	198:11	178:16	traveled
195:25	200:14,16	51:2,5,8,13	162:25	54:3,5 65:4	200:17	194:19,21	152:3
199:3	201:15,18	51:16 54:7	163:22	69:9 74:6	201:13,14	topic 158:4	Treasurer's
200:15	202:6,9,10	54:18 55:4	166:4,18,20	79:5 97:14	201:19,21	168:10	25:18
202:11,12	202:15	55:8,16,19	167:22	117:16	202:2	topics 19:14	treat 78:16
202:16	thanks 11:8	55:20 56:22	168:4,12	133:13	time-sensitive	total 22:9	120:5
thank 5:23	14:15 77:23	57:10,14	176:24	136:23	153:18	94:14	tremendous
8:16,18 9:4	theory 117:12	61:11 66:16	177:23	151:8	timeline 48:9	totally 97:18	36:4
9:10 11:19	thing 34:11	68:9 72:3	178:5 182:9	159:21	times 14:15	104:22	trend 39:5
11:21 12:3	44:3 49:23	75:17,18	182:14,24	175:17	44:6 126:15	touch 36:11	96:22 136:6
12:4,9,18	54:13 63:8	77:9 79:13	183:20	176:6	145:9	touched	176:25
14:2,11	66:3 72:19	79:20,21	196:13,16	179:23	147:13	39:24 42:18	trending 69:7
15:6 24:18	87:21	80:5,13	196:18,19	184:2 191:9	189:12	tough 109:4	trends 22:25
24:21 25:8	104:13	81:22 82:2	197:11,13	194:21	tip 29:9	131:24	trickle-down
29:2,6 34:9	116:21	82:11,12	197:19,19	200:14	title 9:2 14:18	132:24	117:12
35:4,9,11	120:5	84:23 88:3	197:25	three-year	18:14 91:13	town 69:16	trillion
39:22 40:22	132:19	88:3 89:10	198:4,10,14	176:15	titles 3:8	137:22	117:15
40:24 50:14	137:6	89:16,22,24	201:12,24	thrive 193:9	today 2:20	144:4 195:2	trophy
50:15,17,20	138:22	90:3,9,10	thinking	throw 134:9	11:14,20	townhouses	123:14
50:23 56:24	156:7	100:19	31:13 77:19	135:14	15:11 19:4	153:17	trouble
56:25 58:10	167:22	101:13	170:13	thrust 91:24	20:22 24:19	track 116:18	140:16
60:8,12,12	196:15	105:11,24	192:17	Thursday	24:23 39:16	tracking	true 97:24
60:15,17	198:14	106:7,24	thinks 94:3	53:23	45:9 55:16	139:18	203:7
63:12,23	199:12	107:15,23	third 52:6	tie 109:13	63:3 64:11	tracks 142:23	truly 60:21
64:10 77:24	things 17:8	109:16,21	60:3 67:23	tie-in 89:10	65:11,18	154:3,4,5	62:16
78:2 90:19	35:18 36:10	110:6,7,17	68:4 195:8	tied 107:16	66:2 70:23	train 142:23	124:11
91:18 104:8	36:12 37:4	111:19,22	third-party	168:3	91:19 97:15	154:3,4,5	139:24
104:9	42:10,17	112:4,22	26:21	181:20	101:2 123:7	trained 39:15	Trust 16:9
106:20	44:20 49:20	113:4,16,21	Thirdly 21:17	tier 27:6	129:5,22,24	trajectory	123:5 201:4
110:20	53:5,18	114:17	Thornburgh	TIF 108:9	140:15	164:10	try 76:5
111:3,5,8	54:10 55:20	116:3,11,15	122:20	170:12	144:9	transcript	105:17
122:9,10,14	68:20 79:5	117:2,5,23	129:18,19	TIFs 106:16	166:23	203:8,21	108:24
122:16,23	81:23 88:9	118:3,15	148:20,24	time 6:13	168:11,13	transfer 22:3	122:7 133:2
123:5	90:2 116:13	119:4	149:11,14	15:15 23:18	171:13	173:25	161:4
129:15,16	120:20	120:19	150:6	24:8 28:9	172:13	174:7	trying 43:15
141:13,16	133:18	121:8 130:2	166:10	36:2 39:13	188:16	transit 36:15	43:20 49:15
141:19	137:10	130:19	Thornton	40:14 41:13	192:2	81:21	82:22 86:4
147:22	153:14	131:7,11,19	171:8	41:19 42:7	196:15	103:13	113:22
148:6	154:21	131:25	thought 75:4	55:11 56:3	197:15	112:6	117:6,17
150:19	155:22	132:9 135:8	85:10	56:23 60:21	today's 5:24	115:24	130:24
156:20,24	160:20	137:24	139:24	62:24 69:5	7:2 202:13	160:19	150:7 160:7
160:2	161:5 169:6	138:25	thoughts	73:20 76:19	toddler	167:17	167:18
163:20	173:20,25	139:6,13,17	42:20 45:8	92:24 93:12	191:15	transportat...	168:2
168:8,9	174:2,22	139:19	51:20 77:18	95:12	told 29:21	16:17	tune 160:14
169:11,16	think 26:6,7	140:4 141:5	thousand	132:16,23	54:7	142:14,17	tunnels
170:19,21	29:21 35:12	147:12	71:20	133:24	tomorrow	142:25	142:23
180:8,11,12	36:6 37:2	149:19	thousands	136:6	197:23	143:4 145:2	turn 30:16

Committee on Legislative Oversight
February 21, 2018

Page 25

80:4 97:3 turned 99:21 124:6 turns 87:16 tweak 33:21 tweaks 33:2 twice 125:23 two 22:24 37:20 39:4 39:5 40:11 41:10 43:6 46:4 51:12 51:21,22 53:5 54:8 69:8 71:7 81:6 97:13 97:24 98:13 104:3,12 117:17,22 136:11 139:23 157:2 178:3 182:13 192:23 200:15 two- 38:13 type 42:4 43:22 44:23 61:20 74:19 117:24 152:17 167:21 169:13 197:11 types 26:12 36:12 37:4 72:17 160:19 typical 70:20 typically 88:16	8:10 62:17 80:21 84:7 unable 171:12 unaffordable 150:9 uncompetiti... 71:15 74:9 189:9 underfundi... 51:11 undergrad 41:9 undergrad... 91:10 underinvest... 37:24 underlying 96:21 undermined 100:4 underneath 154:6 understand 47:15 113:4 145:14 160:8,24 understand... 120:2 160:11 understated 57:9 understood 185:19 undertaking 127:23 undertoe 131:8 132:16 uneconomic 127:14 unemploy... 22:21 69:17 70:7 125:15 unfair 183:10 195:2 unfairly 179:14 unfamiliar 64:14 unfold 58:5 unfortunate 100:24	153:4 uniform 90:3 90:9 118:20 119:24 120:6 uniformity 116:16 120:16 157:5 unifying 123:25 unintended 50:2,9 104:21 union 70:19 unique 6:14 58:3 99:19 120:12 121:16 123:21 unit 10:9 65:10 130:12 United 20:3 Units 5:14 universal 191:16 universities 75:7 University 40:13 43:20 66:25 72:8 72:8 78:15 170:9 unlimited 176:24 unnecessarily 185:14 unneeded 10:14 unnoticed 148:15 unrecognized 148:15 unveiled 72:5 up-zoning 106:8 upcoming 61:3 updated 14:14 183:6 updates 187:19	upper 134:8 149:4 uptick 39:10 urban 95:20 96:17,19 181:14 urge 139:14 urgent 23:12 use 39:12 61:15 106:16 109:5 112:5 112:11 119:10 127:23 157:25 162:8,11 165:11 189:18 190:6 useful 76:8 107:6 120:20 user 108:15 108:18 112:3 115:13 170:12 Utilities 16:16,17 utilize 112:10 121:6	103:5 126:23 128:13 150:14 174:13 182:23 183:8 190:5 VandenBrul 169:19 171:5,6 Vanguard 66:21 variations 93:18 101:18 various 6:21 7:21,23 17:2 26:4 48:10 133:22 162:14 181:9 183:16 varying 173:11 174:19 180:22 vast 98:15 vehicles 156:13 vehicular 4:21 10:4 vein 184:5 venture 196:9 venues 142:22 version 103:9 110:21 192:6 versus 44:7,8 81:15,16 178:23 viability 127:8 viable 144:2 152:21 154:9 vibrant 102:14 view 37:13,15 71:21 82:3 82:9,11 90:11 120:9	152:7 163:5 173:8 viewed 175:25 Vine 159:11 visit 38:12 61:17 157:22 visitors 62:4 143:20 157:23 Vista 192:3 voice 129:21 voices 93:4 volatile 74:8 74:24 volatility 68:8 volumes 154:19,22 vote 166:2 voted 190:7 votes 139:12	179:19 187:13 189:7,11,20 wages 68:10 150:15 wait 202:3 waivers 188:24 walk 59:25 119:11 192:18 walked 106:2 want 5:18 14:2,11 15:9 29:23 34:25 35:23 42:3,19 43:3 46:13 47:25 51:18 51:19 53:11 56:18 66:23 67:14,24 81:9 82:11 82:19 87:14 88:4,19 89:2,4,5,25 91:23 97:14 99:2,4 100:6,25 102:17 106:6,19 113:24 114:21,21 117:8 118:2 118:7 121:12,12 152:19,20 152:21 153:23 154:22 155:14,15 156:11 159:12 164:2 168:22 173:19 192:21 200:13 202:2,15 wanted 14:10 20:8 85:4 104:13 160:4	171:20,23 wanting 79:25 113:23 wants 66:24 67:4 Washington 82:5 99:18 149:7 152:12,16 wasn't 174:4 water 109:3 way 7:25 28:15 29:13 47:4 50:20 50:22 52:17 52:22 53:9 53:10 64:3 74:11 100:24 104:5 116:6 119:10,15 128:18 131:18 138:21 139:4 147:12 148:14 176:4 178:18 183:14,21 189:5 196:20 ways 17:21 35:14,17 36:8 49:20 80:2 105:17 105:18 112:4,24 135:3 152:5 155:21 178:4 180:22 182:9 197:20 we'll 5:21 8:11 29:21 34:22 41:25 47:11 62:9 79:23 141:5 155:25 164:11,22 164:24
U U&O 116:19 126:19 146:13 189:22,25 190:7 U.S 126:17 197:8 Uber 154:20 155:4 157:25 ultimately							

Committee on Legislative Oversight
February 21, 2018

Page 26

202:13 we're 7:7 16:13 30:6 41:7 42:9 42:10 46:11 47:7 48:25 49:5 53:15 54:3,5 55:3 55:19 56:5 58:6 61:6 63:3 69:4 72:24 74:17 77:9 80:22 82:4,22 113:21,22 116:14 123:17 138:23 141:10 148:22,22 148:24,25 149:5 151:6 151:12 154:5,6 156:8 160:17,18 163:24 164:7,20,21 167:18 168:2 172:12 175:2 178:2 178:9 190:15 we've 32:15 37:23 38:7 39:6,14 49:24 54:16 62:24 64:25 66:20 67:2 69:3 71:16 71:18 76:4 76:6 84:21 87:23 107:4 125:11 132:18 136:10 147:13 158:12 159:22 168:13,19 171:21 172:2 189:8	201:14 wealth 69:19 70:13 71:4 71:5 134:7 135:10,10 wealthy 135:12 148:23 149:2 wedded 118:4 Wednesday 1:7 week 72:6,9 weekly 33:17 weeks 65:5 weigh 26:23 weight 41:12 42:4,14 183:8 Weintraub 171:12 welcome 35:6 105:15,20 147:23 well-known 68:24 went 26:11 55:10 118:24 161:23 weren't 91:7 92:23 101:5 West 130:22 Wharton 43:21 78:4 78:14 130:13 what-have-... 131:21 137:16 wheelhouses 64:21 wherewithal 119:3 white 95:22 widely 99:12 widespread 110:11 widest 183:25 willing 129:12 137:11 willingness	138:5 win 31:3 win-win 106:14 wisdom 92:21 92:22 93:7 111:15 wish 136:12 169:25 witness 8:23 18:10 63:18 122:21 169:20 191:6 witnesses 5:18,21 8:21,23 18:7,10 63:18 122:21 169:20 191:6 witnessing 185:24 woefully 165:14 wondering 36:24 112:16 118:8 160:22 164:15 Wonderling 6:10 33:14 46:17 Wood 152:2 word 23:23 38:3 202:7 words 108:24 work 7:14,20 14:5,12,16 16:8,14,18 16:21 20:5 25:4 30:25 32:15 36:20 42:13 44:4 45:13 47:7 60:23 62:4 65:12 77:21 77:22 81:3 83:13,14 84:17 87:12 107:14	122:7 125:22 129:3 131:13 142:15,19 144:21 145:5,6 156:5 162:18,21 168:19,23 168:25 169:4 171:16 188:10 worked 20:2 63:10 70:18 162:18 187:21 worker 66:13 83:11,12 114:8 workers 172:5 workforce 23:10 36:17 37:3 38:22 39:16 46:16 72:4 77:3 124:10 working 6:5 6:20 15:17 17:13 24:10 58:7 61:2 77:19 129:22 140:22 161:2 188:3 working-cla... 71:5 workplaces 66:15 works 199:11 world 32:18 49:4 53:25 170:25 184:12 201:3,5 worried 159:23 worry 69:24 98:25 worst 85:2 125:18	worth 70:23 202:3 Wow 110:19 wrestled 56:21 write 88:18 written 130:3 199:3 wrong 117:24 184:12 wrote 55:12 94:23 X Y Yard 16:11 Yards 23:24 148:8 Yeah 54:23 91:7 119:25 121:16 123:2 year 6:3 34:22 39:18 51:2 52:3 54:4 67:21 68:5 98:10 115:3 134:13,14 134:19,21 142:6 147:18 159:21 160:12 165:9 189:17 192:8,9 193:22,25 194:3 196:3 196:5 years 22:24 37:18 39:4 39:5 42:13 46:4 51:21 55:2,9 58:20 61:16 61:19 65:7 65:10,12 68:15 70:19 70:22 77:18 78:17,23 84:20 93:3 94:17 96:9	97:6,14 101:6 106:25 117:12,19 124:5 125:9 128:8 130:8 130:12,14 130:17 131:11,18 133:19 136:24 137:11 139:8,19 145:9 147:8 149:16,16 151:9,9 152:3 159:21 160:15 163:4 171:23 172:13 175:6,17 176:6,18 181:10 183:3 193:19 yield 27:13 33:22 York 62:22 82:5 90:5 99:17 102:5 125:24 154:12 155:10 167:16 196:11 young 43:18 98:21 168:20 younger 138:6 Z zero 82:20 114:21,22 147:5 175:20 zone 136:12 Zones 76:8 zoning 102:23 103:7 104:18	105:2 Zuritsky 122:20 141:19,22 150:19,24 151:18 152:9 153:6 156:4 158:3 0 1 1 21:2 83:25 84:2 114:25 115:9,10 1,000 115:3 1,500 153:9 1,670 147:20 1,700 147:15 1.05 87:17,18 87:19 1.20 85:21 86:13 121:25 1.25 85:22 1.3 23:6 52:2 52:7 125:8 1.36 85:11 113:7 1.45 22:19 1.57 22:20 1.9 94:13 1.25 1:7 10 87:6 151:2 151:9 155:7 178:12 10-800 3:11 4:12 5:7 10-806 3:14 10.1 22:21 100 49:22 56:4 116:24 100,000 21:16 55:3 67:21 115:3 134:13,19 109-year-old 64:15 10th 16:21 11 145:9 115.7 22:4 12 55:4,8 56:12 101:17	130:12 134:18 125,000 143:15 12th 56:9 13 147:18 13-700 5:13 14 55:9 15 94:17 97:13 101:6 127:17 135:24 141:24 146:11,23 158:12 171:23 172:13,23 175:5 190:3 15-member 171:15 150 142:5 157 56:22 16.4 134:13 17 15:23 27:9 30:12 170179 10:12 170942 1:15 2:10 3:6 14:20 19:6 171118 1:14 2:1,8 3:1,10 4:1 5:1 6:1 7:1 8:1 9:1 9:20 10:1 11:1 12:1 12:11,19 13:1 14:1 15:1 16:1 17:1 18:1 19:1 20:1 21:1 22:1 23:1 24:1 25:1 26:1 27:1 28:1 29:1 30:1 31:1 32:1 33:1 34:1 35:1 36:1 37:1 38:1 39:1 40:1 41:1 42:1 43:1 44:1 45:1 46:1
--	---	--	--	---	---	--	--

Committee on Legislative Oversight
February 21, 2018

Page 27

47:1 48:1	153:1 154:1	10:8 12:13	81:1 82:1	187:1 188:1	2018 1:7	126:20	583.1 22:2
49:1 50:1	155:1 156:1	12:21	83:1 84:1	189:1 190:1	21:12 194:5	130:8	
51:1 52:1	157:1 158:1	180077	85:1 86:1	191:1 192:1	2022 164:7	196:10	6
53:1 54:1	159:1 160:1	195:15	87:1 88:1	193:1 194:1	164:11,22	30's 137:12	6 21:11
55:1 56:1	161:1 162:1	19 30:13	89:1 90:1	195:1 196:1	2025 21:4,11	137:13	184:21
57:1 58:1	163:1 164:1	190:8	91:1 92:1	197:1 198:1	2026 39:14	306.1 22:11	6.3 21:12
59:1 60:1	165:1 166:1	1987 149:21	93:1 94:1	199:1 200:1	2028 164:10	33 149:16,16	178:16
61:1 62:1	167:1 168:1	1990 125:5,6	95:1 96:1	201:1 202:1	164:24	35 158:23	6.4 76:2
63:1 64:1	169:1 170:1		97:1 98:1	20 46:21 51:3	20th 180:18	184:21	6.45 21:11
65:1 66:1	171:1 172:1	2	99:1 100:1	86:11	21 1:7 93:3	36 85:7 116:8	6:00 114:7
67:1 68:1	173:1 174:1	2 21:9 123:9	101:1 102:1	126:20	184:21		60 84:9
69:1 70:1	175:1 176:1	2,500 142:3	103:1 104:1	131:10	195:11	4	60s 96:7
71:1 72:1	177:1 178:1	2.4 134:20	105:1 106:1	139:19	21st 183:9	4 75:8	67 55:18
73:1 74:1	179:1 180:1	2.7 21:3	107:1 108:1	140:9	22 127:12	4.3 197:3	
75:1 76:1	181:1 182:1	2.8 125:12	109:1 110:1	144:12	146:12	4:30 202:18	7
77:1 78:1	183:1 184:1	2/21/18-LE...	111:1 112:1	151:9	147:4 190:3	40 37:18	7 86:17
79:1 80:1	185:1 186:1	2:1 3:1 4:1	113:1 114:1	176:22	232,000	52:10	70 84:9
81:1 82:1	187:1 188:1	5:1 6:1 7:1	115:1 116:1	190:9	125:3	117:12	700,000 69:5
83:1 84:1	189:1 190:1	8:1 9:1 10:1	117:1 118:1	194:21	232.9 22:4	121:25	70s 96:7
85:1 86:1	191:1 192:1	11:1 12:1	119:1 120:1	20's 137:11	24 55:10	125:20,20	75 154:13
87:1 88:1	193:1 194:1	13:1 14:1	121:1 122:1	20-year	192:11	134:11,16	75,000
89:1 90:1	195:1 196:1	15:1 16:1	123:1 124:1	176:20	240 160:15	145:20	143:13,14
91:1 92:1	197:1 198:1	17:1 18:1	125:1 126:1	200 153:11	164:5,12	168:24	7th 7:20
93:1 94:1	199:1 200:1	19:1 20:1	127:1 128:1	153:12	165:17	40,000 155:4	
95:1 96:1	201:1 202:1	21:1 22:1	129:1 130:1	200,000	25 61:19	400 1:6	8
97:1 98:1	171119 1:14	23:1 24:1	131:1 132:1	134:14,21	70:22	153:12	8.1 16:14
99:1 100:1	2:8 3:18	25:1 26:1	133:1 134:1	2002 94:23	125:12	400,000 23:3	8:00 114:7
101:1 102:1	9:21 12:11	27:1 28:1	135:1 136:1	2003 124:20	127:5 128:6	403.4 21:25	80 154:13
103:1 104:1	12:20	29:1 30:1	137:1 138:1	171:16,18	139:19	40th 69:11	80s 69:6 96:8
105:1 106:1	171120 1:14	31:1 32:1	139:1 140:1	173:14	25,000 68:5	44.9 22:12	88 56:15
107:1 108:1	2:8 3:23	33:1 34:1	141:1 142:1	179:11	25.7 23:3	45 52:8,10	
109:1 110:1	9:22 12:12	35:1 36:1	143:1 144:1	187:7	53:2	45,000	9
111:1 112:1	12:20	37:1 38:1	145:1 146:1	195:12	26 52:25	143:13	9-400 3:19
113:1 114:1	171121 1:14	39:1 40:1	147:1 148:1	2007 22:11	149:3	49 55:11	9-600 4:6,25
115:1 116:1	2:8 4:5 9:24	41:1 42:1	149:1 150:1	2008 19:24	28 125:3		9-630 5:3
117:1 118:1	12:12,20	43:1 44:1	151:1 152:1	2009 20:12	172:6	5	9-700 3:24
119:1 120:1	171122 1:14	45:1 46:1	153:1 154:1	20:21 22:2	173:10	5 198:7	4:18
121:1 122:1	2:9 4:11	47:1 48:1	155:1 156:1	22:4,20,21	174:3,4	5.7 22:22	9-704 4:2
123:1 124:1	10:2 12:12	49:1 50:1	157:1 158:1	28:10		5:00 42:16	9-708 4:20
125:1 126:1	12:20	51:1 52:1	159:1 160:1	124:21	3	50 123:14	90,000 128:9
127:1 128:1	171123 1:15	53:1 54:1	161:1 162:1	171:18	3 123:10	126:16	91 52:4 56:13
129:1 130:1	2:9 4:17	55:1 56:1	163:1 164:1	180:5	162:12	158:24	91,000
131:1 132:1	10:3 12:12	57:1 58:1	165:1 166:1	2012 190:7	163:4	194:19	149:22
133:1 134:1	12:20	59:1 60:1	167:1 168:1	2014 21:24	3,000 115:7	197:9	92 132:12
135:1 136:1	171124 1:15	61:1 62:1	169:1 170:1	2015 134:11	115:22	50,000 70:22	
137:1 138:1	2:9 4:24	63:1 64:1	171:1 172:1	134:18	3.4 83:16	70:23	
139:1 140:1	10:5 12:12	65:1 66:1	173:1 174:1	175:21	3.4741 21:5	500 159:14	
141:1 142:1	12:21	67:1 68:1	175:1 176:1	2016 21:14	3.7 34:14	192:10	
143:1 144:1	171126 1:15	69:1 70:1	177:1 178:1	192:9	164:11,22	500-page	
145:1 146:1	2:9 5:6 10:7	71:1 72:1	179:1 180:1	2017 10:12	3.9004 21:5	172:14	
147:1 148:1	12:13,21	73:1 74:1	181:1 182:1	21:20 22:2	30 34:3,16	51 55:16	
149:1 150:1	171127 1:15	75:1 76:1	183:1 184:1	22:5,11,20	58:20	55 52:8	
151:1 152:1	2:9 5:12	77:1 78:1	185:1 186:1	123:17	117:12	555.8 22:10	
		79:1 80:1			121:25	57 145:20	

