COUNCIL OF THE CITY OF PHILADELPHIA
PUBLIC HEARING - COMMITTEE OF THE WHOLE

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Room 400, City Hall
Philadelphia, Pennsylvania
Wednesday, June 9, 2004, 5:45 p.m.

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Bill 040640 - An Ordinance amending Chapter 19-2600 of The Philadelphia Code, entitled "Business Privilege Taxes," by establishing a program under which a Job Creation Tax Credit will be given to certain businesses creating new jobs in the City of Philadelphia, all under certain terms and conditions.

Bill 040642 - An Ordinance providing for the contingent exemption, abatement or credit of certain taxes within specified geographic areas, including by amending Bill No. 030242 (approved May 29, 2003), relating to the boundaries of the Keystone Opportunity Improvement Zone, and by amending Chapter 19-3200 of The Philadelphia Code, entitled "Keystone Opportunity Zone," including by revising the conditions for exemption from net profits tax and by clarifying and amending the provisions relating to relocating businesses, all under certain terms and conditions."

PRESENT:

COUNCIL PRESIDENT ANNA C. VERNA
COUNCILWOMAN BLONDELL REYNOLDS BROWN
COUNCILMAN DAVID COHEN
COUNCILMAN W. WILSON GOODE, JR.
COUNCILMAN JAMES F. KENNEY
COUNCILMAN JUAN F. RAMOS
COUNCILMAN FRANK RIZZO
COUNCILMAN FRANK DI CICCO
COUNCILWOMAN JANNIE L. BLACKWELL
COUNCILMAN MICHAEL A. NUTTER
COUNCILMAN DARRELL L. CLARKE
COUNCILWOMAN JOAN L. KRAJEWSKI
COUNCILMAN RICHARD T. MARIANO
COUNCILWOMAN DONNA REED MILLER
COUNCILWOMAN MARIAN B. TASCO
COUNCILMAN BRIAN J. O'NEILL

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P R O C E E D I N G S

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COUNCIL PRESIDENT VERNA: May I have everyone's attention, please. Thank you. And thank you so much for your patience.

This is a public hearing of the Committee of the Whole, regarding Bill Numbers 040640 and 040642.

I would ask Mr. McPherson to please read the titles of the bills.

MR. McPHERSON: Bill Number 040640, An Ordinance amending Chapter 19-2600 of The Philadelphia Code, entitled "Business Privilege Taxes," by establishing a program under which a Job Creation Tax Credit will be given to certain businesses creating new jobs in the City of Philadelphia, all under certain terms and conditions.

Bill 040642, an Ordinance providing for the contingent exemption, abatement or credit of certain taxes within specified geographic areas, including by amending Bill No. 030242 (approved May 29, 2003),

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relating to the boundaries of the Keystone Opportunity Improvement Zone, and by amending Chapter 19-3200 of The Philadelphia Code, entitled "Keystone Opportunity Zone," including by revising the conditions for exemption from net profits tax and by clarifying and amending the provisions relating to relocating businesses, all under certain terms and conditions.

COUNCIL PRESIDENT VERNA: Thank you. Our first witness is the Revenue Commissioner. Is the Revenue Commissioner here?

The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President.

I have some questions for the Revenue Commissioner before her testimony.

COUNCIL PRESIDENT VERNA: Before her testimony?

COUNCILMAN GOODE: Yes.

COUNCIL PRESIDENT VERNA: Very well.

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The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam Chair.

Good afternoon, Commissioner.

MS. KAMMERDEINER: Good afternoon.

COUNCILMAN GOODE: Can you tell me why you're testifying on one bill and the Commerce Director is testifying on the other?

MS. KAMMERDEINER: I don't know that there's a particular reason.

I'm testifying on this one because it's a direct tax program to be administered by the Department of Revenue, and it is a credit against the Business Privilege Tax; whereas, the Keystone Opportunity Zone Program which was established by the state is intended to be an economic development program.

And I'm supporting the Commerce Director's testimony but am not giving the main testimony.

COUNCILMAN GOODE: Well, both bills

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deal with tax incentives for job creation, so why aren't you testifying on the second bill? Are there any revenue concerns for the second bill?

MS. KAMMERDEINER: On the Keystone Opportunity Zone bill?

COUNCILMAN GOODE: That's correct.

MS. KAMMERDEINER: Yes, there are. And I just indicated that I will be with the Commerce Director in providing support and answering questions.

COUNCILMAN GOODE: So you advised the Commerce Director on her testimony for the second bill?

MS. KAMMERDEINER: We provided some cost analysis information, tax impact analysis information to the Commerce Director, that was taken into account in preparing her testimony.

COUNCILMAN GOODE: Can you offer that process? I mean, exactly how does the City reconcile revenue concerns with economic development policy?

MS. KAMMERDEINER: That's a policy

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issue that I would suggest you address to the cabinet members, not to me.

COUNCILMAN GOODE: Well, who does economic analysis?

MS. KAMMERDEINER: It comes through the Commerce Department, with input from various other departments and agencies: the Department of Revenue, PIDC. There are a number of departments and agencies that contribute. The Budget Bureau is also involved in doing some of the calculations and analysis. So, it's not --

COUNCILMAN GOODE: So the Commerce Director is responsible for economic analysis?

MS. KAMMERDEINER: It's a team effort.

COUNCILMAN GOODE: Okay. Thank you.

Madam President... Madam President...

COUNCIL PRESIDENT VERNA: Yes, sir.

COUNCILMAN GOODE: Will you please have the Commerce Director approach the witness stable?

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COUNCIL PRESIDENT VERNA: Certainly. Would the Commerce Director please approach the witness stable.

(Ms. Naidoff complies with request.)

COUNCIL PRESIDENT VERNA: Good evening.

MS. NAIDOFF: Good evening, Madam Chair.

COUNCILMAN GOODE: Good evening, Miss Naidoff.

Can you tell me why you're testifying on one bill and the Revenue Commissioner is testifying on the other?

MS. NAIDOFF: I believe that the answer that the --

COUNCIL PRESIDENT VERNA: I'm sorry. Would you pull the microphone closer to you?

MS. NAIDOFF: I'm sorry.

COUNCIL PRESIDENT VERNA: We're having difficulty hearing you. And identify yourself for the record before you respond.

MS. NAIDOFF: I'm Stephanie Naidoff,

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and I'm the Commerce Director.

(Discussion held off the record.)

COUNCILMAN GOODE: Miss Naidoff.

MS. NAIDOFF: Councilman.

COUNCILMAN GOODE: You were explaining why you're testifying on one bill and not the other.

Yes. Excuse me. Let me start again. I'm Stephanie Naidoff, and I'm the Commerce Director of the City of Philadelphia.

Councilman, I believe that the answer that the Revenue Commissioner just gave is the same understanding I have, that because the jobs tax credit is primarily a program that is administered would be administered by the Revenue Department going forward, the Revenue Commissioner was asked to prepare the testimony on that, and I was asked to prepare the testimony on the Keystone Opportunity Zone.

COUNCILMAN GOODE: So you have no economic development concerns with the first bill.

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MS. NAIDOFF: I don't think that's correct. I think that we worked together on these, and we hope that the policy with regard to economic development is consistent between the two, and between every other piece of legislation that has to do with economic development.

COUNCILMAN GOODE: Well, is the first bill good economic development policy?

MS. NAIDOFF: I believe that it is a tool, and an important tool. It is one that we already are beginning to see some response to. And I understand that the bill as it stands suggests certain changes which we believe deserve consideration, that we'd like to see.

COUNCILMAN GOODE: Well, what economic analysis did your department do in the first bill and why would you not come here and testify, in terms of economic analysis?

MS. NAIDOFF: We relied on the Revenue Department to do the revenue

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analysis.

COUNCILMAN GOODE: I'm just speaking about your responsibility as... according to economic development in the economic analysis, what economic analysis did you do in the first bill?

And why would you not come to this Council to testify on what is good economic development policy or not?

Let me ask this question: Who assigned you to testify?

MS. NAIDOFF: The Chief of Staff.

COUNCILMAN GOODE: Okay. Is anyone here from the administration to explain -- come here and explain to me why the Revenue and the Commerce Director... Revenue Commissioner and Commerce Director would not be testifying on both bills at the same time?

COUNCIL PRESIDENT VERNA: Is there anyone from the administration that can answer that question?

COUNCILMAN GOODE: Well, Madam President --

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COUNCIL PRESIDENT VERNA: Perhaps we can call someone to ask if they're available.

COUNCILMAN GOODE: That's what I'm going to ask. I'm going to ask that we bring forth some other witnesses. And I'm going to ask to continue the hearing on this bill until tomorrow, and bring the administration back when they'll be better prepared.

COUNCIL PRESIDENT VERNA: Are there any other witnesses that you would like to bring forward at this time?

COUNCILMAN GOODE: Yes.

I believe there's a witness list. The first one is David Campoli.

MR. McPHERSON: Mr. Campoli, come forward.

COUNCILMAN GOODE: Next witness, I believe, is Randall Scott.

COUNCIL PRESIDENT VERNA: Is Mr. Scott here?

UNIDENTIFIED WOMAN: I have his testimony. He unfortunately had to leave

for his daughter's 11th birthday party. I'll be testifying on his behalf.

COUNCIL PRESIDENT VERNA: If you don't mind coming to the witness table.

Good seeing you.

UNIDENTIFIED WOMAN: Nice to see you again.

Mr. Campoli's in the security line coming in. He's testifying.

And I have...

COUNCIL PRESIDENT VERNA: And you're going to present testimony for Mr. Scott?

UNIDENTIFIED WOMAN: I'll just submit it to you.

COUNCIL PRESIDENT VERNA: Is it rather lengthy or did you want to read it?

UNIDENTIFIED WOMAN: It's a little lengthy, and I think that Mr. Campoli's statements will cover much of it.

COUNCIL PRESIDENT VERNA: All right.

UNIDENTIFIED WOMAN: If there's any questions, we have Rick Reeves of Sun Belt, who will join us here, and Mr. Campoli --

COUNCIL PRESIDENT VERNA: I'm sorry.

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There's a point of order. The Chair recognizes Councilman Goode.

COUNCILMAN NUTTER: He's not here.

COUNCIL PRESIDENT VERNA: Oh, okay.

And if you want to leave Mr. Scott's testimony, we'll make certain that the stenographer transcribes it in full.

Thank you.

UNIDENTIFIED WOMAN: Mr. Rick Reeves is here from Sun Belt. He'll be joining you, and Steward Evy who is the counsel for the Center City Owners Association.

COUNCIL PRESIDENT VERNA: They're going to testify?

UNIDENTIFIED WOMAN: Just be here if you have any questions.

COUNCIL PRESIDENT VERNA: Good evening. Please identify yourself for the record, and proceed with your testimony.

MR. CAMPOLI: Good evening, Committee members and guests.

My name is Dave Campoli. I'm the President of both the Center City Owners Association, CCOA, and Keep Philly

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Competitive Political Action Committee.

The CCOA is an organization that represents approximately 80 percent of the total Philadelphia central business district office market.

Our members include both major, national and local investors, whose total national holdings exceed 214 million square feet of real estate.

According to the Center City District, the CCOA buildings, through its property and tenant taxes account for 24 percent of Philadelphia's annual revenue.

Many of our members are here today, along with employees and others, to support us. Also with me is Rick Reeves who is one of the members of CCOA and owns, well, Sun Belt -- President of Sun Belt Management that owns Liberty One and the Shops at Liberty Place, along with Stew Evy, who's counsel for CCOA.

Personally, I am the regional managing director for HRPT Properties Trust. HRPT is the largest investor in the

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Center City Philadelphia office market and has amassed 4.7 million square feet, with a market value in excess of $1 billion.

Currently in Center City we own Mellon Bank Center; Centre Square, the current home to Comcast; 1600 Market Street; One Franklin Plaza; and 1525 Locust.

HRPT owns an additional 2 million square feet throughout Pennsylvania and 33 million square feet nationally in 42 states.

While many people believe this debate is just about jobs, one important factor you must seriously consider is the investment of all those -- is the investments and all they represent to this City.

Our group is invested in this -- in this -- in Philadelphia in property value in excess of $15 billion.

We can not grow the City without outside and inside firms investing here. And if you move ahead with this KOIZ at

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17th and JFK, you are seriously discouraging the people we represent and the investment community as a whole --

COUNCIL PRESIDENT VERNA: Excuse me a moment, please.

The Chair recognizes Councilman Kenney for a point of order.

COUNCILMAN KENNEY: Just so I can orientate myself to the testimony, is Mr. Campoli testifying on Bill 040640 or 642?

COUNCIL PRESIDENT VERNA: 42.

MR. CAMPOLI: I believe we're testifying on... I don't know number order but --

COUNCILMAN KENNEY: Is it Councilman Goode's tax credit bill or is it the KOIZ?

COUNCIL PRESIDENT VERNA: It's the KOIZ?

MR. CAMPOLI: It's KOIZ.

COUNCILMAN KENNEY: Was that bill read?

COUNCIL PRESIDENT VERNA: Yes.

COUNCILMAN KENNEY: Oh, I'm sorry. I apologize. Thank you.

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MR. CAMPOLI: Back up a second. I'm sorry.

You cannot grow the City without both inside and outside firms investing here. If you move ahead with this KOIZ, you're seriously discouraging the people we represent in the investment community as a whole, staying invested or getting invested in our City.

Comcast is a highly respected industry leader, and we are pleased to have their pledge to continue to remain headquartered in Philadelphia.

Our political leaders in this City and state need to craft an incentive package for the cable giant, while at the same time understand the needs of the rest of the community, both business and residential.

This package should go with Comcast as portable, so they could use it wherever they go. And it should not be site specific.

The KOIZ, while touted as the only

tool in this effort, is the absolute worst tool we could ever allow in the central business district.

There are alternatives and compromises that must be worked out. Careful and sensitive planning and review is needed, instead of a rush to approve the legislation, out of a concern for rising steel prices.

The lifeline of our industry is jobs. Jobs fill office buildings and occupied office buildings create jobs.

Thousands of jobs, in fact, exist in janitorial, engineering, construction, administration and management.

Union members fill the majority of our jobs in Philadelphia. In addition to the steady employment we create, CCOA members pump millions of dollars into the City and state annually, through renovations, capital improvements, and tenant fit-outs.

This year HRPT will invest another $40 million in the Philadelphia area

buildings we own through capital projects and upgrades to our properties.

If you totaled the entirety of the 26 CCOA members in the 40 Center City office buildings that we own, this number would be in the hundreds of millions of dollars per year.

Practically all of these dollars are spent using union and professional labor, and all of it is taxed, providing significant additional revenue for both the City and state.

Vacant or significantly vacant buildings, on the other hand, eliminate jobs, defer investment, and reduce revenue to the City.

Unfortunately, due to tax structure in Philadelphia that's the highest in the nation, thousands of jobs have left the City over the last 15 years.

Whether Comcast brings these proposed jobs to the City or not, the debate over KOIZ has clearly pointed a spotlight directly at the underlying

problem of much-needed tax reform.

The fact that Mayor Street's administration is vehemently opposed as too expensive, a platform of tax reform that will lead to certain job growth, and then embraces a plan that entitles a very few to equally expensive tax breaks is beyond comprehension.

The Center City office market is comprised of just over 38 million square feet of office space, primarily in the West Market Street office towers.

Geographically this is a very small area, but it represents some of the highest valued real estate in the State of Pennsylvania.

This is certainly not a blighted and impoverished area, as defined as the rationale for designing -- for designating opportunity zones.

We previously forwarded you a study, the Grobe and Ellis Horizon Study which reflects 173 full-floor vacancies in the City of Philadelphia. That's three Liberty

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Place Towers empty currently.

These vacancies do not include the final resolution of the three remaining large deals that have yet to be completed. Towers Perrin, Comcast and Sunoco.

Towers Perrin and Sunoco will both shed significant space in the market when their new leases are finalized, thereby making the situation even worse.

While the current published vacancy rate is 14, this figure does not include all the impending vacancies resulting from some of the high-profile, recently completed renewals that will create additional space availabilities over the next 12 months.

It's a bad market. We recognize it. We know it. The sky is not falling in. But it's a very bad time to build a new building.

Coupled with the Cira Center and proposed One Pennsylvania Plaza, both of which represent 10.66 percent additional space, as compared to the West Market

Street submarket will cause vacancy levels to increase over 20 percent.

At today's vacancy, rental rates have significantly decreased, in some cases and some places as much as 50 percent, as landlords are forced to slash rents to fight for the few remaining tenants in the market.

The corresponding reduction in rental rates and increase in vacancies will directly correlate to lower tax revenue for the City and reduced employment.

The reduced valuation of office buildings will continue to erode but at a much faster space if the KOIZ is approved.

The zone at 17th and JFK has been approved by the Zoning Board at 1.7 million square feet of tax-free space.

We ask you: Who will fill the other 1.2 million square feet that Comcast does not occupy?

Based on recent history that Cira Center has provided, the overwhelming majority of these tenants will come from

the existing tax base fleeing the overbearing City tax burdens or the Pennsylvania suburbs, but not from New York and D.C.

The result will be a further erosion of value in rental rates, and a significant reduction in revenue for the City, state -- and most telling, the School District.

As you're aware, 58 percent of real estate tax and 100 percent of UNO tax, both assessed by property value, go directly to the School District.

There is no offsetting wage tax funding available to a School District that continues to face difficult challenges.

We believe you need to be absolutely certain that all school funding that may be given up is addressed and not disrupted.

A relatively stable real estate market would see vacancy rates below ten percent.

Developers avoid new construction in cities with soaring vacancies levels that exist in Philadelphia today.

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It is clear that the cost of a 60-story office tower and the accompanying rental rates it would require could not compete under today's -- not compete today under non-subsidized rates.

It is the reason most cities in the United States, unfortunately, have very limited new office construction.

Using the KOIZ tool in the downtown is the wrong method to create jobs.

The City of Philadelphia already provides the ten-year property tax exemption for any new construction and improvements.

That's ten years no property tax. It's available today. It's more than any of -- any of the -- at all of any of the existing buildings that were built with state or with City help before ever got. And that's available today.

Most of us representing new buildings were granted some type of public investment. None of them, however, came close to the existing ten-year full tax

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abatement, and none of them had State tax relief.

In addition, the City and Commonwealth have produced transparent incentive packages for a host of other firms to help landlords retain their tenants all over the state and City.

Incentive packages in downtown Philadelphia till now had been tenant specific, not site specific. We need to help Comcast. We don't need to help the plot of ground at 17th and JFK.

While KOZ's were originally designed to aid development in distressed sub-markets where it would otherwise be unprofitable, these benefits in a downtown, highly valued location would consume the most valuable part of the tax base, the tenants.

We have no objection to a new building. We want a level playing field. And we will not allow it to be paid for with our tax dollars nor stand by while a policy is enacted that amounts to a taking

of our investment.

Pennsylvania has a fair and equal taxation requirement. And while we agree that the KOIZ tool can be beneficial when applied as intended by law, such as the one proposed now for the fruit growers, vendors and distribution center, a KOZ at 17th and JFK is not only unfair, but could lead to other challenges to the premise of the designation across the state.

Some will say this whole debate is simply about jobs. In reality it's about much more: Fairness, stagnant to decaying market conditions, major revenue reductions, school funding deficits, city-wide service cuts, and the implosion of the real estate investment community.

There is a point where the cost is just too great. And that, members of the Committee, is why we're here.

As Jonathan Saidel, Philadelphia City Controller, asked recently, since when is Center City a blighted and impoverished area? Thank you.

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COUNCIL PRESIDENT VERNA: Thank you very much.

(Applause.)

COUNCIL PRESIDENT VERNA: Thank you.

Good evening. Please identify yourselves for the record.

MR. REEVES: Yes. My name is Richard Reeves. I'm President of Sun Belt Management, the owner of One Liberty and the Shops at Liberty.

I really can't add any more than what David has said. He clearly defines the position and thoughts of the majority of owners of office buildings in Center City Philadelphia.

I am here along with Mr. Evy to help answer any questions, clarify any details that members of the Committee would like to hear.

Thank you.

COUNCIL PRESIDENT VERNA: Thank you. If you'll just remain at the table. Are you going to testify, sir?

MR. EVY: I'm not.

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COUNCIL PRESIDENT VERNA: You're not.

MR. EVY: I'm here to answer questions.

COUNCIL PRESIDENT VERNA: Very well. The Chair recognizes Councilman Ramos. Your light is on. Do you have any questions?

COUNCILMAN RAMOS: No. I'm sorry.

COUNCIL PRESIDENT VERNA: Thank you. Councilman Kenney, your light is on.

COUNCILMAN KENNEY: Thank you, Madam President.

I just wanted to get an idea, relative to what happened years ago when we started developing in west of Market Street with Liberty One and Two.

I remember -- and I was younger then, and I wasn't as engaged, I guess, in public policy debate as I am now. But I remember what seems to be a totally ridiculous argument that was being made back in, I guess, the '80s or late '70s, '80s whether or not we should build above

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Billy Penn's hat.

And when I think back to that kind of argument or that kind of major public discussion, you wonder how the City survived as long as it did, when cities like Chicago and Boston, New York were just going gangbusters and building high buildings, you know, and that kind of stuff.

Back then, when we started going west on Market Street, a lot of arguments were similarly made, and could have been very solid arguments, that a lot of the big office space that would be created as a result of Liberty One and Two, for example, was going to cause a major hardship on the City's economy.

And for a number of years, there were some movement of firms to west of Market Street, leaving buildings like Land Title and other buildings on the east side of Market Street.

And as a result of Councilman DiCicco's legislation, we were able to

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rebound from that. And I'm not saying it's an exactly similar situation, but rebound from that by doing tax incentives which got those buildings renovated and used as residences.

Was there not subsidies also used in the expansion, City subsidies? I don't know if there were state subsidies also, used in the expansion of the building of buildings on West Market Street which has become our new skyline?

MR. REEVES: Well, yes, I think you're right. First of all, I think I've heard the argument that this debate is similar to the Billy Penn hat incident.

First of all, the real estate community --

COUNCILMAN KENNEY: I'm not -- Let me say, I'm not --

MR. REEVES: No, but I mean --

COUNCILMAN KENNEY: I'm not making that -- I'm not making that argument.

MR. REEVES: I've heard that come from the Governor's Office, but it just

would say we -- we were not --

COUNCILMAN KENNEY: So you understand, for the record, I did not talk to the Governor or anyone in his office. And I'm not making an exact comparison to that debate.

What I'm saying is that over the years, as we've progressed forward, there have been major obstacle issues that have arisen.

I don't think the Billy Penn hat argument is the same as the one that you're making. I'm not implying that.

MR. REEVES: Right. Okay.

COUNCILMAN KENNEY: But there were arguments made that, you know -- And I wonder how -- you know, how we progressed.

But I'm really concerned about the issue of subsidy vis-a-vis the buildings that were created as a part of West Market Street expansion.

MR. EVY: I think all buildings... I know most buildings were created with some form of subsidy.

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However, the subsidy, actually, that built Centre Square back in 1974 is the same subsidy that Liberty has for 18th and JFK, 17th and JFK. And in addition to that, they have an additional ten-year tax abatement available.

To my eyes, there has not been a building built in Philadelphia with anything more than that.

I know I could testify for Thomas Properties that owns Commerce which is one of the most recent buildings built or the last, really, multi-tenant.

They received a ten-year declining tax abatement, wherein in year one it was fully, the next year it was 90 percent, and therefore down.

But in no case has ever there been a talk of a 15-year, tax-free office building in one of the, as I said, most valuable parts of the state.

COUNCILMAN KENNEY: I understand. And I do recognize the difference.

But I think it's important in

context to recognize and to have in the record and in the public debate that buildings are subsidized often in order to get them constructed in cities that are competing and struggling with other cities for business and for construction.

I mean, for example, I have some numbers here from New York. And you would think New York would be in such a buyer's market, they could just sit back with their feet on the desk and wait for somebody to come in and build a building in New York because it's New York.

I mean, Philadelphia doesn't have the same panache or the same attraction as New York does. But I look at some of these numbers: Four Times Square received about $114 million in public assistance, and One Bryant Park is getting $175 million.

Time Warner. I can't get -- I think -- Is Time Warner a bigger company than Comcast? I'm not sure if they're on an equal scale. They're getting $50 million to do their building.

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And The New York Times new headquarters is getting $100 million in direct City subsidy for the City of New York.

So I don't... You can argue whether or not this makes sense for Philadelphia to do, but other cities like New York City, with their great attraction and great marketability, are doing some of the same stuff.

MR. REEVES: I'd like to tell you a little story. You remember when One and Two Liberty were built. And I was not here at the time. We did not own the building at the time. It was developed, as you know, by Bill Raus.

There was a lot of concern that there was no need for that much office space in Center City. And there was a debate whether some of the subsidies really were necessary, and whether the market would be hurt.

I can only tell you the effect of that was, is the person we bought the

building from, we bought it for a hundred million less than they paid for it.

The building was a failure, a financial failure, as far as attaining where they thought it was going to be because the market was, in fact, soft; rates were driven down; and the building wasn't as profitable.

We stepped up for a quarter of a billion dollars which is a lot of money, but felt that it couldn't go any lower, that the market as bad as it could possibly get.

And we foresaw some of the downsizing in tenants, but was going to be fine.

But we're going to run into the same scenario of falling values, falling rents, accelerated by adding close to 800 to a million square feet of vacant space, and not competitive space.

It will be super competitive in that the tenants will go there first because there's a 15-year tax abatement.

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As of two weeks ago, you may have read in the paper, we got a $20 million assessment reduction. That has nothing to do with the KOIZ. It has to do with current market conditions. Our vacancies have gone to 9 -- 9 percent.

I expect that that will continue and accelerate for myself and others in CBD, if this spec space is built.

COUNCILMAN KENNEY: What effect, not that it makes any difference to you on the bottom line, but what effect does 9/11 have on the vacancy rate in what are termed trophy buildings, high-rise, high-profile skyline buildings that could be subject to targets of terrorism?

MR. REEVES: It's very interesting. We happen to own five buildings similar to One Liberty around the country.

I was in Philadelphia on 9/11. Had to spend five days here. Couldn't get back to our corporate headquarters.

The initial fear was, is that people, one, were not going to move into

high buildings. And we actually saw tenants came to us and said, we want out of our lease.

That panic ended as people looked at the reality of what happened and the chance of it happening again, et cetera, and the odds of it happening to different buildings.

What was more important was people said, we're getting out of cities because if terrorist acts happen, it's going to happen in cities because that's where people got hurt, not the suburbs. That was a bigger effect than people saying, we're getting out.

To this day we are still having tenants talk to us about the lower floors, not the higher floors; and obviously a tremendous amount of extra money we've had to spend for security.

But to be honest, quite frankly, I think that the 9/11 will not keep people from staying into high quality buildings in the center district because, for a lot of

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reasons: Prestige; obviously a good working area for certain businesses. And quite frankly, the fear has subsided.

COUNCILMAN KENNEY: Are there insurance issues involving the insurance of employees --

MR. REEVES: Sure.

COUNCILMAN KENNEY: -- over a certain level of employees to a building like that?

MR. REEVES: Well, what happened initially was, the insurance market for terrorism insurance went away.

We ended up going from about a hundred thousand dollars a year to something like a million three in insurance premiums.

COUNCILMAN KENNEY: Right.

MR. REEVES: In some instances you couldn't get it for certain buildings. Sears Tower in Chicago, they almost said no way.

That created defaults under your loan documents because they required

insurance. And there was a lot of talk about defaults and foreclosures, et cetera.

That market has come back because the fears have gone away. And now it's about double, 200,000 a year, but not a million.

COUNCILMAN KENNEY: Okay. And just -- I know I'm taking some time, and I'll come back. But just curious. That site, the JFK site we're talking about has been vacant, I guess, for about 20, 20, 22 years?

MR. REEVES: Yes.

COUNCILMAN KENNEY: You guys are all in this business. Can you give me some idea as to why you think that that property has not been developed in more than two decades?

MR. REEVES: I can answer that. And I really don't mean to hog it, but I have actually spent some time studying this.

I have testified yesterday at another hearing that this site is one of the best development sites in the country

from a locational, and from an amenity standpoint.

It is one of the worst sites from an economic standpoint. And it's just fairly simple. The building cannot be built with open market leases, open market financing, without there heavy subsidy. If it could have been, it would have been. Developers love to build.

COUNCILMAN KENNEY: But doesn't that make an argument as to why we should consider seriously doing this?

And let me tell you. What I think makes great cities, in addition to good economy and good business opportunities and good neighborhoods, I think great cities have great, tall, beautiful buildings.

I go to Chicago, I mean, Chicago, New York. Those cities are vibrant and exciting because they just build downtown.

And in order for us in this economy and in this market, to get those building built, don't we have to do the things we did at Cera, at Brandywine? Don't we have

to do the things we're contemplating doing at Liberty.

MR. EVY: We need to build the buildings. We need you as a body to give us the ability to build the buildings.

This City has lost jobs for 15 years. We can't fill the buildings. I would love to have a 60-, 70-story skyrise -- skyline building. We can't afford it because which can't put anybody in it.

And what are you going to do with the rest of them? Are you saying to the rest of the investment community, we want this big deity in the sky, to say we're successful, when in the meantime the rest of the City is suffering? It's not -- It's not that simple, I don't think.

COUNCILMAN KENNEY: Well, the efforts that you guys could help us with is getting some type of reasonable rational effective tax reform for the entire business community and the entire City of Philadelphia.

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And, you know, we would have loved to have you come in and testify on behalf of the Tax Reform Commission's recommendations on how we could have made that happen.

MR. EVY: We supported tax reforms; we did.

COUNCILMAN KENNEY: I understand that. But I mean, as vocal as you are on this issue, I think we need to be equally vocal on tax reform for everybody.

MR. EVY: I agree. And our problem was, if we were fighting two competing forces --

COUNCILMAN KENNEY: I understand.

MR. EVY: -- we were at an issue where we're saying, how can you afford one for one but not for all?

COUNCILMAN KENNEY: Okay. I'm through.

MR. REEVES: The other thing is, you have a bill in front of you now that we support, is the Jobs Credit Bill, which we think is better economic planning.

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COUNCIL PRESIDENT VERNA: Excuse me. Councilman Kenney?

COUNCILMAN KENNEY: I'm through.

COUNCIL PRESIDENT VERNA: Thank you, Councilman.

Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam Chair.

For clarity of the record, I just want to state that I believe the testimony by Mr. Campoli was definitely in support of comprehensive tax reform, was definitely in support of subsidy for buildings, but a different type of subsidy.

COUNCIL PRESIDENT VERNA: A different type of subsidy?

COUNCILMAN GOODE: A different type of subsidy, a subsidy still in the amount of tens of millions of dollars.

So he testified on behalf of comprehensive tax reform and on behalf of subsidizing buildings, but not in the way proposed through this KOIZ.

COUNCIL PRESIDENT VERNA: Thank you.

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Are there any other questions or comments from members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: Gentlemen, thank you very much.

MR. REEVES: There's one more, ma'am.

COUNCIL PRESIDENT VERNA: I'm sorry.

COUNCILWOMAN BROWN: Point of information. The composition of the building owners, what percentage of them are Philadelphia based?

MR. EVY: Well, I haven't done a percentage, but we have -- we certainly have Miramar, we have... God. There's probably --

COUNCILWOMAN BROWN: What's the total number, just for --

MR. EVY: 20 percent.

COUNCILWOMAN BROWN: Forgive me?

MR. EVY: Half. Half. About half.

COUNCILWOMAN BROWN: Half of them are Philadelphia based.

MR. EVY: Yeah, about that.

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MR. REEVES: And Ma'am, I think it's very important that you have more than just Philadelphia based investors.

We're a national international investor. So I'm not a Philadelphia native. I'm not a native of any of the cities, quite frankly, that we've invested in.

But it's important you have those capital flows in and out, and that you don't just want local investors. No city should have local investors.

MR. EVY: I'm a Philadelphian.

COUNCILWOMAN BROWN: Thank you for your testimony.

COUNCIL PRESIDENT VERNA: Thank you.

Any other questions or comments of the gentlemen before us?

(No response.)

COUNCIL PRESIDENT VERNA: Seeing none, I thank you.

Our next witness is Kevin Gillen.

Good evening.

MR. GILLEN: Good evening, Madam

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President, members of City Council.

My name is Kevin Gillen. I'm a Ph.D. candidate at the Wharton School, and I'm a former consultant to the Tax Reform Commission.

Thank you for the opportunity to appear before you this evening. Philadelphia's high tax burden and complicated tax structure have been the subject of rigorous study for decades.

While there's a general consensus that the City's tax structure harms Philadelphia's ability to retain and attract jobs and residents, there's less agreement among decision-makers, in terms of a policy prescription to address this problem.

One tension lies between providing incremental tax relief for the general marketplace over time which is compensating for our high tax burden with more significant but narrowly-focused subsidies, targeted abatements, or tax breaks such as KOIZ's.

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In recent years Philadelphia has pursued both policies to some limited extent. Over the course of the last decade the City has trimmed it's wage tax, as well as the gross receipts portion of the business privilege tax.

At the same time, the City has often offered direct subsidies to certain employers and provided place-based tax abatements for small areas of Philadelphia.

Recently, however, support for the scale and extent of these programs has grown so tremendously that the City now faces a very stark choice.

Do we offer comprehensive and tax reform for all or do we give targeted but deep tax breaks for a few.

Although various studies have been commissioned in order to inform and guide debate over these issues, their estimates of the direct impact on City revenues have been contradictory.

The short-term forecasts of annual revenue losses ranges from approximately 6

million in the E-Consult study, to 24 million in the CCD study, to 44 million in my own study.

While I'm more than prepared to defend the particular results of my own research, I think we can all agree that none of these numbers are overwhelmingly devastating to a city with an annual budget over 3 billion.

However, I also believe that the true cost of this legislation will be in the negative signals broadcasted about how business is done in Philadelphia, and that this cost will likely be much greater than what any of these various studies, including my own, have predicted.

For starters, it actively encourages remaining businesses to threaten to leave, even if they have no intention of actually doing so, in the hopes of obtaining special tax breaks for themselves.

For another, this practice also creates a deterrent for outside businesses to ever locate here because they believe

that they will not receive equal treatment by the City's and state's tax codes.

And even those firms that might have considered relocating or expanding here will have an incentive to aggressively demand special treatment, even if they were not originally planning to do so.

The Comcast Corporation is a wonderful asset to the City, and everyone in this room, including myself, would love to see them grow and prosper here in Philadelphia.

I personally agree with Comcast's position that they are deserving of tax breaks in order to facilitate this growth, but granting tax breaks only to Comcast and other favorite firms only averts attention from the fundamental and unfortunate truth. If the cost of doing business here is too high for Comcast, it is too high for everyone.

While targeted abatements are a good and useful policy when properly applied, such as in the improvement of blighted

areas, the repeated application of ad hoc and one-off targeted breaks, as consistent policy amounts to treating the symptom rather than the disease.

As more and more site specific or firm specific tax breaks and subsidies are granted, the final outcome of this process will be the effective creation of two different tax codes, one for preferred insiders, and then a more burdensome one for the rest of us.

Granting profitability for specific firms via specific treatment, rather than creating a sound and fair economic environment for all is simply not a viable economic strategy for the long run.

It is a strategy that favors older industries over newer ones, established companies over up and coming ones, the politically connected over ordinary citizens, as well as preferring insiders to outsiders and the big guy over the average Joe.

Although I sincerely wish that

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Comcast will become to Philadelphia what Coke is to Atlanta or Microsoft is to Seattle, most economists are very skeptical that the government is better than the marketplace in predicting winners and losers.

It is not clear to me why Comcast should be specifically targeted for tax relief, at the expense of their competitors, such as Verizon.

In the end, the greatest cost of these KOIZ-induced projects may actually be their opportunity cost.

Because these projects will doubtless set back or even eliminate the other more widespread and fundamental tax reforms that are currently being considered, we will never know what might have been otherwise.

We won't see what existing businesses might have expanded or how many other firms might have started up or chosen to relocate here, in response to more widespread tax relief.

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Although the tax-paying public may be reassured by the fact that certain large employers have decided to stay in town, they will never know what potentially larger gains might have been realized for more equitable types of tax reform.

Madam President and Council members, as you are probably aware, the Philadelphia region's retention rate for graduates of top schools is quite low, relative to our competitors in other cities.

Speaking specifically for myself, I know that a substantially smaller percentage of graduates from the Wharton School decide to stay in Philadelphia, compared to our counterparts in top schools in cities like New York, Chicago, and San Francisco.

In the course of my six years at Wharton, I have had the opportunity to talk with many of our MBA's about their job interview experiences and their ultimate career decision.

As faculty at our school have

pointed out one, one phrase that is heard over and over from our MBA students is that Philadelphia is a place where commercial success is usually more dependent upon whom you know, rather than what you know. This should be very disconcerting.

When the success of a business becomes more contingent upon your contacts in government, rather than your ability to deliver quality products at a competitive price, it is a major signal that your economy is not structured in a fair and equitable way.

The fact that most independent entrepreneurs seem to decide to go elsewhere to pursue their dreams should then come as no real surprise.

Madam President and Council members, I sincerely wish the Comcast Corporation and Liberty Property Trust nothing but the greatest of success in their future endeavors.

But as a resident and taxpayer, I remain concerned that Philadelphia's future

not be solely reliant on the eventual future outcome of just one single company.

As such, I would respectfully request that Council keep this in mind as it goes forward with its discussion of these important and pressing issues.

And I thank you for the opportunity to be with you today.

COUNCIL PRESIDENT VERNA: Thank you very much for your testimony.

Do we have anyone who has a question of this witness? Council members have a question or comment?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you again for your testimony.

Michael Sklaroff is our next witness. Is Michael Sklaroff here?

MR. SKLAROFF: Council President, thank you.

We're going to defer to the Commerce Director, Stephanie Naidoff, and to the President of PIDC, Peter Longstreth, who will speak on behalf of the proposal with

respect to the produce terminal.

COUNCIL PRESIDENT VERNA: Thank you.

Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Referring to the Commerce Director or just 642?

MR. SKLAROFF: Whatever the -- Whichever the bill is, the KOIZ bill which I understand will cover the tract of land on Delaware Avenue and Oregon.

COUNCIL PRESIDENT VERNA: That's referring to the food distribution.

MR. SKLAROFF: The produce terminal.

MR. LONGSTRETH: Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

MR. SKLAROFF: Thank you may I be excused?

COUNCIL PRESIDENT VERNA: Yes, sir.

Thank you. Tom Ralph. Is Tom Ralph here?

While we're waiting for Tom Ralph, I understand there's a representative from Senator Fumo's office here. Is he present in the room? Would you please come forward, while we wait for our other

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witnesses.

Good evening. Oh, Councilwoman Krajewski.

COUNCILWOMAN KRAJEWSKI: Thank you, Madam Chair.

I would like to ask that to be excused for a short time, but in the event my absence of the bill, I would like to be voted favorably upon the bill and all bills and amendments.

COUNCIL PRESIDENT VERNA: Thank you. Leave will be granted, sadly to say.

COUNCILWOMAN KRAJEWSKI: Thank you.

COUNCIL PRESIDENT VERNA: Good evening. Please identify yourself for the record.

MR. HOFFMAN: Good evening, Council President.

My name is Charles Hoffman, and I'm from Senator Vincent Fumo's office here in Philadelphia.

COUNCIL PRESIDENT VERNA: Just a moment, please. The noise level is much, much too high.

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Thank you. Please proceed.

MR. HOFFMAN: I wanted to read a statement on behalf of the Senator, who is unfortunately still in Harrisburg on legislative business.

And it reads as follows: Thank you for giving me the opportunity to express my full support for two very important projects currently before City Council, both of which are in my Senatorial District.

The proposed new Food Distribution Center, to be located in South Philadelphia at Columbus Boulevard and Oregon Avenue, and the proposed One Pennsylvania Plaza Office Tower at 17th and JFK.

Both of these projects require Council approval for the designation of the Keystone Opportunity Improvement Zones or KOIZ's. And the designation for both projects is vital to our City's future.

The Food Distribution Center is a South Philadelphia institution, as we all know which for the last 50 years has

literally been the nerve center of food and produce distribution for the greater Philadelphia region.

It currently sits on 25 acres on Packer Avenue, contains approximately three million square feet of food-related uses, has 5,000 employees, and generates $2 billion in annual sales.

But the Food Distribution Center it showing its age. With increasingly tighter federal regulations governing and handling the sale of produce, plus the sheer volume of business that is transacted, the produce market and its companion seafood market, also located on the same property, accommodate approximately 1500 trucks per day.

It makes it critically important to develop a modern new center to replace this outdated facility.

And let's not forgot that we are not alone in competing for the Food Distribution Center.

Our neighbors in South Jersey are

openly courting the center, and they've had extended negotiations on the idea of developing an incentive package to move the entire operation to the Camden waterfront.

As a result, we have been hard at work to secure the development of a modern new state-of-the-art hundred million dollar produce market on approximately 70 acres of land at Columbus Boulevard and Oregon Avenue.

We have developed a proposal that will anchor the center and the seafood market in South Philadelphia for decades to come.

It will be large enough to accommodate the growing needs of the center, and it will be built to meet or exceed federal requirements, while at the same time creating a more friendly environment for customers.

This is a project that Philadelphia needs, if it is to continue to serve as the food and produce hub of the region.

And the competition for this

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facility makes it imperative that we act now to keep the center growing in our City.

For these reasons, I urge the members of Council to improve the creation of a KOIZ for this site.

Similarly, I strongly support the designation of the KOIZ for One Pennsylvania Plaza.

This is a tremendous project. It will be the tallest office tower in Philadelphia, and the tallest building anywhere between New York and Chicago.

And more important, it will become the world headquarters of Comcast Corporation, one of the fastest-growing companies in the country.

Let me offer some perspective on this project. We're talking about a private investment of nearly half a billion dollars.

It means securing Comcast's future for Philadelphia which could mean as many as 3,000 new, high-wage Comcast jobs over the next ten-plus years.

It will be a magnet for growth companies, particularly companies that do business with Comcast which means creating scores of additional new jobs in Philadelphia.

And it increases tax revenues for both the City and the state from day one of the project, right on through to the end of the 15-year KOIZ.

This is a deal that every other city in America would do anything to get their hands on, and we have the chance to bring it home for Philadelphia.

Comcast will be Philadelphia's Microsoft.

We have heard criticisms of the project from other Center City building owners, in most cases owners who bought their buildings with an understanding of the fluctuation of the City's real estate market.

They know that if they prevent One Pennsylvania Plaza from being built, they will enjoy greater profits.

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These owners portray the prospect of public subsidies for One Pennsylvania Plaza as unfair competition, yet many of these very same buildings: Centre Square, Six Penn Center, One Franklin, Three Franklin Plaza, Liberty Two, all had the benefit of receiving significant public subsidies when they were built.

Their argument about dramatic increases in vacancy rates are mostly unsupported speculation.

We must make our judgments in these matters on the basis of the public interest, not the interest of a few.

In this case, a signature new office space that moves Philadelphia's office market into the 21st Century, and helps us keep a major national Fortune 100 corporation headquartered here is in the public interest.

We have the chance to build one for the future, both in South Philadelphia with the Food Distribution Center, and in Center City with One Pennsylvania Plaza.

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These are Philadelphia institutions, great Philadelphia public citizens, and most important these projects mean jobs, jobs and more jobs for our people.

Let's capitalize on the opportunity to make Philadelphia a better, more competitive City.

For these reasons, I urge you to approve Council Bill 040642.

Thank you very much.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any questions?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you very much.

Tom Ralph; is he back?

MR. RALPH: Good evening.

COUNCIL PRESIDENT VERNA: Please identify yourself for the record and proceed with your testimony.

MR. EVY: My name is Thomas Ralph. I'm a partner in the firm of Dechert LLP in Philadelphia.

To my left is Dan O'Donnell also a

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partner in the firm of Dechert in Philadelphia. And to my right is Dale Heist, who's a partner in the intellectual property firm of Woodcock Washburn.

And you might ask why we're here. We are here not to talk about --

COUNCIL PRESIDENT VERNA: Excuse me. Mr. Ralph, I think your testimony is just being distributed. So if you don't mind waiting just a minute, please.

MR. RALPH: That's fine. Thank you.

COUNCIL PRESIDENT VERNA: Mr. Ralph, please proceed.

MR. RALPH: Thank you, Madam President.

You may ask why we are here. We're not here to talk about the two KOIZ's that have been proposed and mentioned in the prior testimony.

We're here because in 2003 our firm, as did Woodcock Washburn, entered into a binding lease with Brandywine Realty Partners for nine floors in the new Cira Center Building now under construction in

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the KOIZ, the Keystone Opportunity Improvement Zone, adjacent to 30th Street Station in Philadelphia.

Our lease there is for 15 years, and we are scheduled to move in there at the end of 2005.

Now, the amendments that you have before you, as currently drafted, would change the present KOIZ ordinance so that it would take away the KOIZ tax abatement benefits that were the law when Dechert and Woodcock signed their leases last year.

We believe that result would be fundamentally unfair, would constitute a violation of both state and Federal law, and would be bad public policy for the City.

We are here today to urge you not to support the amendments, to the extent that they would produce those results.

Now, who is Dechert? Dechert was founded in Philadelphia over 130 years ago. We provide jobs for more than 700 people in the City of Philadelphia, and we have more

lawyers here than any other firm.

Our personnel reside in the City, of course, and all of the surrounding counties. We are a good employer. We treat our people fairly. We contribute to the community. We are proud of our record of public service.

In my lifetime Dechert has produced a Mayor of Philadelphia; two United States Senators, both of whom came from Philadelphia; many judges; and many cabinet members, and other ranking officials at all levels of state, federal and City government.

We are also a leader in providing pro bono services for the poor. In Philadelphia, we serve all of the major pro bono referral agencies, including Philadelphia Volunteer for the Indigent Program, the Homeless Advocacy Project, and Philadelphia Volunteer Lawyers for the Arts.

We contribute significantly to Community Legal Services. Our lawyers and

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staff serve on numerous civic, charitable and educational boards, and play a constructive role in the life of our community.

Today Dechert is a worldwide firm with over 1,600 people in 17 offices, including five in Europe. We have become one of the largest law firms in the United States.

But most importantly, we have chosen to make Philadelphia our headquarters and the support center for our firm worldwide.

Our decision to move to the Cira Center and to make a financial commitment of $175 million in our lease demonstrates our continuing belief in the City.

Let me talk a little bit about the Cira Center. As you all know, it will be located in the 30th Street Station area. You can see the cranes out there today. It's now under construction.

It's across the Schuylkill River from our present space in Center City in the Bell Atlantic Tower.

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Since at least the 1970's, when I first knew about it, that area was talked about as a possible site for the 1976 Bicentennial Celebration, and later as a possible site for a baseball stadium for the Phillies.

And since that date, the development of that rail yard, the rail yard adjacent to 30th Street Station, has been recognized as an important part of the future of Philadelphia.

Development of the area is key to uniting University City and West Philadelphia to Center City. And that would obviously result in a more economically vital Philadelphia.

But I point out that despite many great ideas and many plans and many hopes, no significant development took place in that area, none, until Cira Center came along.

The Cira Center site was designated as a KOEZ in 2001, under a then existing state program originally enacted in 1998.

Dechert and Woodcock had nothing to do with the designation of the Cira site as eligible for tax abatements.

At the time the Cira site was designated, we at Dechert had not even started to look for new space in Philadelphia because we wouldn't need it until the very end of 2005, the beginning of 2006.

And, in fact, the tax benefits that have been granted to the Cira site did not make it an instant success.

In its search for a tenant willing to commit to the financial obligations necessary to justify the start of construction there, the developer Brandywine contacted more than 3,300 prospective tenants before Dechert ever had discussions with Brandywine.

None of those 3,300 prospects was willing to move there or to make the financial commitment necessary to give the redevelopment of that area a chance to become reality.

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And why was that? And that was because the Cira Center was going to be new construction, and therefore expensive.

It wasn't downtown, and it carries the significant risk that the amenities that people like to have near where they work: Places to have lunch, places to shop, might never develop there.

But Dechert and Woodcock made the commitment. We took the risk and made that commitment.

How did we come to do that? Historically our offices have been in Center City east of the Schuylkill River.

When we began to consider our space needs in 2002, we focused our efforts on Center City. And like most businesses our size, we retained a firm of real estate experts to help us conduct that search.

In the course of that search, those experts introduced the idea of a possible move to Cira Center as an alternative to other sites.

We were initially skeptical, but

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they explained to us that there were preexisting -- and I quote from the statute -- binding and irrevocable tax abatements that applied to the site because of its prior designation as a KOIZ.

And they explained to us that although the rent at the newly constructed center would be higher, and in fact 50 percent higher, than we would have had to pay in other downtown locations, and although the Cira Center site was in the ways I have mentioned a less desirable location for us, the tax abatements, we were told, might offset those disadvantages.

And after much discussion and internal debate, we decided to select that site, relying on the preexisting quote, and I quote again, binding and non-revocable tax abatements.

Before we did that, however, we obtained a private letter ruling from the Commonwealth's Department of Community and Economic Development, the DCED. And that

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is the only governmental body with the power to make decisions as to qualification for KOIZ benefits. And they gave us a letter stating that we would qualify for those tax abatements.

We are submitting a copy of that letter to you with this statement. The next to last paragraph of the DCED's ruling said to us -- and I point out this was given to us during the present administration in Harrisburg -- Dechert may rely on this ruling, notwithstanding a subsequent change in the department's position, whether arising from a change in the law, the promulgation of inconsistent regulations, or otherwise.

On this basis, I and my partners made a financial commitment of $175 million, and Dechert signed a 15-year lease for space in the Cira Center.

The ordinance you are considering today, with the language in it dealing with qualifications and tax matters, would retroactively reduce or eliminate the tax

abatement provisions on which we relied.

It would change the rules, after we were induced to rely on them. And to do this we think would be fundamentally unfair, illegal and unconstitutional. It risks having the City's and the Commonwealth's entire KOZ development initiative struck down.

And in addition, adoption of these amendments, with their retroactive and taking aspects will, we believe, have a significantly adverse effect on the important efforts under way to attract business to the City.

It will send a chilling message to businesses considering expanding in or relocating to Philadelphia. And that message would be, you cannot rely on promises made to induce you to invest in this City. Those binding promises can be broken for political expediency.

That is not the message that Philadelphians should be sending. It is precisely for these reasons that so many

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members of the Pennsylvania legislature and, particularly in the Senate Finance Committee hearings on KOIZ issues that were held yesterday, have been outspoken in opposing any amendments to the KOIZ rules that would change those rules after the Cira Center tenants relied on them.

The proposed amendments also address a number of important development issues, as I earlier mentioned, that do not directly affect us, such as the creation of the two new KOIZ's.

We have no position on those issues, except to say that what we have relied upon to commit to an existing project, the Cira Center, should not be taken away in order to broker political support for new projects, no matter how worthy they may be.

Let me close by identifying more specifically the aspects of this ordinance to which we object.

The sponsors of the amendments have used a number of devices to attempt to undo what has already been done. These would

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include a provision that would eliminate the abatement for net profits tax except for actual, quote, residents of a zone, and make other changes that the sponsors evidently believe will eliminate the net profits tax abatement for partnerships such as Dechert and Woodcock Washburn.

But of course, both current state law and the current City ordinance on which we relied, specifically prohibit the imposition of a residency requirement. And current state law on which we relied provides that the net profits tax must be abated in a zone.

The second aspect, device that's been used to affect us adversely, are provisions that would change the KOIZ eligibility requirements for tenants and establish a second local level of review of eligibility, even for tenants such as Dechert and Woodcock, who have signed leases based on the existing rules, and have received binding rulings from the DCED, the only agency, I again point out,

the only agency with authority under the law to make those determinations.

As applied to Dechert and Woodcock these devices are intended to accomplish the same retroactive result. All of them, as applied to businesses like ours, our firms, who entered into binding leases on the basis of existing law, these leases and with leases that demonstrate a long-term commitment to the City of Philadelphia, all of these devices are equally unfair, illegal and bad policy.

We think that they do not deserve your support. We urge you not to adopt the amendments in their present form.

Thank you for your time and attention.

COUNCIL PRESIDENT VERNA: Thank you very much, Mr. Ralph. I think you have presented a very clear case. And we appreciate your going into such great detail.

Thank you so much.

The Chair recognizes Councilman

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Mariano.

COUNCILMAN MARIANO: Thank you, Madam President.

I need to leave the chambers for Council business. I'd like to be recorded as voting yes for all bills and amendments today.

COUNCIL PRESIDENT VERNA: Leave will be granted.

The Chair recognizes Councilman Nutter. Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam President.

Mr. Ralph?

MR. RALPH: Yes, sir.

COUNCILMAN NUTTER: Good afternoon.

I wanted to ask you a couple questions with regard to your testimony. Let's go to Page 4.

MR. RALPH: Yes.

COUNCILMAN NUTTER: The first issue that you raised, is that covered by Section 19-3203, sub 4, in the bill on Page two?

MR. RALPH: Well, you'll have to let

me look at the bill, sir.

Would you repeat that, sir, for me, the section number?

COUNCILMAN NUTTER: Sure. At Section 19-3203 sub 4.

MR. RALPH: Subject -- The section says, subject to the conditions set forth in Section 19-320... and elsewhere.

COUNCILMAN NUTTER: Yes.

MR. RALPH: A taxpayer resident in this zone is exempt -- No. It -- It actually -- That's not the only place where the language defines -- requiring residency is set forth in the statute, sir.

COUNCILMAN NUTTER: I understand. I just want to walk through it.

MR. RALPH: Yeah.

COUNCILMAN NUTTER: I'm trying to understand the two items that you raised and where --

MR. RALPH: Yeah.

COUNCILMAN NUTTER: -- those provisions are specifically in the bill in front of us. Let's talk about the first

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one.

MR. RALPH: Yes.

COUNCILMAN NUTTER: When you read the bill, it's clear that the word taxpayer is being deleted, and resident of the zone is exempt from has been inserted here.

What is... From your reading or understanding, what is the effect of that language, as compared to what's being deleted?

MR. RALPH: I believe that the... that the effect of that is to eliminate the abatement of the net -- of the tax liability, based on net profits, to eliminate the abatement for anyone but a resident of the zone.

COUNCILMAN NUTTER: Okay. And I guess my question there is, how would a person be a resident of the zone? Don't these... Isn't there commercial space?

MR. RALPH: I'll let Mr. O'Donnell answer that question.

MR. O'DONNELL: Well, I think, sir, if the provision is intended to cover

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individuals, that would seem to imply that the individuals would have to live at work.

COUNCILMAN NUTTER: I didn't understand your response. Live and work where?

MR. O'DONNELL: I'm sorry. I said live... live within the zone.

COUNCILMAN NUTTER: Right. Well, does anyone live in your zone?

MR. O'DONNELL: No. Our zone is a construction site.

COUNCILMAN NUTTER: Right. I understand that. I've seen a couple cranes out there recently.

For the purposes of this bill and the concern with regard to 17th and JFK, do you have any information that would indicate that anyone will live, will be a resident in the zone?

MR. O'DONNELL: No, I don't.

COUNCILMAN NUTTER: Okay. So from your reading offer this, what exactly does this mean?

MR. O'DONNELL: From my reading of

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it, the intended effect would be to impose a requirement on taxpayers subject to the net profits tax that, as a practical matter, they couldn't possibly satisfy.

So that the practical effect -- I think the intended effect of the language is to eliminate the net profits tax abatement for businesses organized as partnerships that are subject to the net profits tax who occupy KOIZ's.

COUNCILMAN NUTTER: By establishing a standard that no one can meet.

MR. O'DONNELL: I think that's correct, sir.

COUNCILMAN NUTTER: Okay. And where are the other places, as you've read through the bill, that include the same provision, this residency issue?

MR. O'DONNELL: I believe, sir, that there's a definition in Section 19-3208. This proposes the addition of a definition...

COUNCILMAN NUTTER: Right.

MR. O'DONNELL: ...of residency, I

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think.

COUNCILMAN NUTTER: That would seek to delete items one, two and three and replace them with a new item one which is a new section on residency. Is that what you're talking about?

MR. O'DONNELL: That's my understanding. That's my reading of it.

COUNCILMAN NUTTER: All right.

And then your second concern, Mr. Ralph, on Page 4 of your testimony, this number two, would you highlight the area where this change in the KOIZ eligibility requirements for tenants and the establishment of a second local level of review of eligibility comes into play? What language directly affects you?

MR. O'DONNELL: In terms of the change in the standards of eligibility, sir, the changes are in Section 19-3204, with the italicized language, as I read it, being the new language.

COUNCILMAN NUTTER: No, no, no. That's the new language.

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Which specific provision affects you?

MR. O'DONNELL: The... The... I'm afraid I have to give a... The answer lies in part in legislation that is pending in Harrisburg.

The... The amendments to the KOIZ law that are... were the subject of? Senate hearings that Mr. Ralph referred to in Harrisburg yesterday...

COUNCILMAN NUTTER: I know. I know.

MR. O'DONNELL: ...include a provision there that would create -- authorize the City to impose a second level of review on -- on these eligibility requirements.

COUNCILMAN NUTTER: Is that second level of review encompassed in the bill that's in front of us or would that be an additional amendment to this particular bill to deal with that issue?

MR. O'DONNELL: To be honest, that's not clear to me, the way -- the way that this amendment is drafted.

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COUNCILMAN NUTTER: Okay.

COUNCILWOMAN BLACKWELL: Councilman, we did circulate and will do it at the appropriate time an amendment to add at the end of subsection three of section four dealing with the Brandywine Project, the Cira Center at 30th street.

COUNCILMAN NUTTER: I understand.

COUNCILWOMAN BLACKWELL: Thank you. Thank you.

COUNCILMAN NUTTER: And the Chair did point that out in a private conversation.

I just wanted to get a good understanding of where the different areas were, based on the testimony.

If it is okay with the Chair, what I would like to ask -- and if it not be of the gentlemen at the table, I can wait until the more appropriate person -- I would like to better understand who wrote these provisions and why.

So I'm not sure at the moment who -- whether... I know there were

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administration representatives at the table earlier, and then they left. I don't know whether they actually gave their testimony or they were trying to respond to questions.

COUNCILWOMAN BLACKWELL: Do you mean the amendment that we circulated?

COUNCILMAN NUTTER: No. I know you wrote your amendment, Madam Chair.

COUNCILWOMAN BLACKWELL: Okay. Thank you.

COUNCILMAN NUTTER: I'm talking about these provisions that are in the bill that are clearly new. I'd like to understand who wrote them, and why, and what the purpose was.

COUNCILWOMAN BLACKWELL: I don't know that they as prospective tenants were involved in that at all.

COUNCILMAN NUTTER: Oh, I assume they don't have an answer to that question. What I'm trying to figure out is --

MR. RALPH: Except to say it was not --

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COUNCILMAN NUTTER: -- will administration representatives be back at the table? And if they're the more appropriate person, I would ask them at that time.

COUNCILWOMAN BLACKWELL: Thank you, Councilman.

COUNCILMAN NUTTER: Thank you.

Are those... So has this pretty much covered the lot of the issues that Cira Center has?

MR. O'DONNELL: It certainly -- It covers the lot of the issues that Dechert and Woodcock, sir, have, where I think you're going to hear later from Mr. Sweeney from Brandywine.

COUNCILMAN NUTTER: Okay. Thank you, Madam Chair.

COUNCILWOMAN BLACKWELL: You're quite welcome. Thank you, Councilman.

Thank you, gentlemen.

MR. RALPH: Thank you.

COUNCILWOMAN BLACKWELL: Mr. Shine, you're next, sir. Reverend Shine, maybe

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you're here because we probably all could use a little prayer right about now. But we certainly welcome you. Thank you.

This is Reverend Robert P. Shine. Thank you and please identify yourself for the record. We welcome your testimony..

REV. SHINE: Madam Chairman -- Chairlady, thank you for allowing me this moment.

I am the Reverend Robert Shine, the immediate Past President of the Black Clergy of Philadelphia and vicinity, and Pastor of the Barocca Baptist Church of West Oak Lane; also a long-term activist for community causes and supporter of good government issues.

I'm here today, Madam Chairlady, on behalf of two vitally important issues. But first, allow me to speak very, very briefly on a major corporation in our City and in our region that have has been one of Fortune 500's major companies.

And I'm here on behalf of the grass roots and the communities at large that

uses the services of this great corporation.

And on behalf of the Comcast organization, I believe that their presentation and their proposal is vitally essential to the media and to what the people expect in the media.

This organization provides for us a serious but very intelligent outlet for intelligent information, and it brings to us a kind of prestige in media journalism that makes this City, again, among the proudest cities.

So we applaud what Comcast has done. And by virtue of this legislation that they offer before City Council, I'm sure that as representing the vast clergy organizations throughout our City, that we want to offer our support, and unqualified support, that we believe that what we are here today to see happen is that new and greater innovations, and because it works and operates, both, in every community, every ethnic community, every community, whether

minority or whether in the vast majority, this is a time that is well qualified for us to now progressively move into the future.

I believe we will benefit in the City, benefit as members of our communities from what they offer and will bring to us.

And I believe that that would conclude why I'm here in the first instance.

And I thank you for allowing me to share that brief but I believe important testimony on behalf of this organization and the project that they bring to us.

Secondly, I want to be -- Because of my time as a pastor, and I need to lead my congregation in prayer momentarily -- but I'm here because I support Bill Numbers 040560 and 040561.

Having said that, I want to go on record being in favor of this legislation that has been offered. And I do so as a strong community activist in support of good government issues. So I support this

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legislation on behalf of Councilwoman Donna Miller.

Thank you so very much.

COUNCILWOMAN BLACKWELL: Thank you, Reverend Shine.

Any questions for Reverend Shine?

(No response.)

COUNCILWOMAN BLACKWELL: Thank you very much, Reverend Shine. We thank you very much.

Councilwoman Blondell Reynolds Brown, you have a question for Reverend Shine?

Point of order, Councilman Kenney.

COUNCILMAN KENNEY: I believe the Reverend has read the two bill numbers, but I don't know if they're the same bill numbers that we're considering now. They aren't? They're not.

I think the record needs to reflect -- the Reverend may have been a different sheet of announcements?

REV. SHINE: Yes, that's correct.

COUNCILMAN KENNEY: Okay. I just

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don't want the record to be --

REV. SHINE: Councilman Kenney, you're absolutely correct.

COUNCILMAN KENNEY: Thank you.

REV. SHINE: These bills, the numbers that I have just read, are in reference to the next hearing that will be presented, that's absolutely correct.

COUNCILMAN KENNEY: I just didn't want the record --

REV. SHINE: I stand corrected, that those are not pertaining to the former.

COUNCILMAN KENNEY: Thank you.

COUNCILWOMAN BROWN: I rescind my question.

COUNCILWOMAN BLACKWELL: Thank you.

Thank you very much. Thank you again, Reverend Shine.

REV. SHINE: You're more than welcome.

COUNCILWOMAN BLACKWELL: Always a pleasure.

Jonathan Stein.

Thanks, Reverend Shine.

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And while he's coming forward, next we'll have Jerry Sweeney and Brad Milotsky from Brandywine.

Good evening. Thank you very much. Please identify yourself for our record and begin your testimony.

MS. CLAUSING: Good evening.

COUNCILWOMAN BLACKWELL: Good evening.

MS. CLAUSING: I'm Gretjen Clausing. And I'm here on by half of the Philadelphia Community Access Coalition, joined by Jonathan Stein and George McCollough. And I want to thank City Council for the opportunity to speak today.

Over the past six years, the Philadelphia Community Access Coalition has grown to include nearly 100 groups, including arts and cultural institutions, labor unions, religious organizations, neighborhood civic associations, economic development and youth training centers, health care, and community organizers, and hundreds of media-concerned citizens, all

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dedicated to the establishment of public access television in Philadelphia.

And here's why we're here, testifying on Comcast Corporation's request for a Keystone Opportunity Zone in the City.

Philadelphia is the only large city in the country without public access television, in a nation where 2,000 communities from major urban centers to rural suburban towns have had a great track record with public access television.

Indeed, this Council unanimously passed an as of yet unenforced City ordinance in the 1980's to establish public access television in Philadelphia, and to utilize five public access cable channels that federal law has authorized for public and community use.

Comcast now uses and profits from the so-called lapsed public access channels in Philadelphia.

So what do these 2,000 communities around the country already enjoy that we

here in Philadelphia are unable to do so?

Public access television allows ordinary citizens to participate in the information age by providing equipment and training resulting in new locational careers to any individual or community group that wants to make and air non-commercial programs or publicize their activities at little or no charge on cable television. They do so under strict professional guidelines and supervision.

Public access television programs promote youth activities; and neighborhood sporting events; local, vocal and dance performances; public health information on substance abuse and AIDS prevention; African American and Latin American history; and programming in foreign languages for immigrant residents.

In Manhattan entire channel is administered and programmed by young people, and in Chicago two entire public access channels are dedicated to nonprofit group programming, and there's always a

waiting list.

Public access increases and diversifies the voices in the media. It empowers those in under-served and disenfranchised communities with the tools to be heard by others.

The wonderful diversity of Philadelphia's neighborhood certainly ensures a source of rich local programming.

Our efforts on behalf of public access have not gone unnoticed. Innumerable groups have endorsed our efforts.

And a recent Philadelphia Inquirer editorial, which we have attached in our materials, urge the Mayor to establish access now.

They see public access as a good thing for Philadelphia. It will create civic dialogue and allow all the aforementioned groups and others to have a visible voice. And it will also spur economic development at a grass roots level.

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The skills that can be learned at a proposed public access facility in Philadelphia could some day inspire, nurture and train the next Spike Lee, Jim Gardner, Ed Bradley or Oprah Winfrey.

The funding for access is simple. In exchange for granting a monopoly to operate in the City, the cable companies via their franchise agreements agreed to pay for capital costs of establishing public access production and broadcasting facilities.

That includes money for studios, mobile production units, editing facilities and more.

When the City entered into these franchise agreements with the cable companies, they also entered into an agreement with the public.

City residents obtained access to largely commercial cable TV programming. Comcast has certainly prospered, now the largest cable provider in the country.

But what about the promise made to

the public? Since the City granted these monopoly contracts in 1983, it is sad to say that Comcast has not taken pro-active steps to see that public access television is established in the City.

The official Comcast position is that they must wait to fulfill their bargain until the City first establishes a public access television nonprofit corporation.

But the City is refusing to do that until it is assured that there are sufficient capital and annual operating funds available to get the system started and running.

For over 20 years the City has been pocketing our cable user fees from our monthly bills that should be going to public access operations.

But Comcast could step forward today, indeed at this hour before you, City Council, to publicly commit itself to adequately fund both the capital and operating costs of a public access system.

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This, after all, is their national headquarters. And yet, it is the only city in the nation without a public access system, that City Council has required by ordinance.

If this City were to grant Comcast its special tax-free Keystone Opportunity Zone, the City and the public must be assured that Comcast will no longer sit on the sidelines, but meet its civic responsibility as a good corporate citizen by providing the funds to make public access a reality for all the residents of our City.

We ask that Comcast make this commitment to City Council today, and that the Keystone Bill before City Council be amended to assure that this commitment will be honored.

Thank you for the opportunity to express myself today. Thank you.

(Applause.)

COUNCILWOMAN BLACKWELL: Thank you very much.

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Are there any questions for the witnesses?

(No response.)

COUNCILWOMAN BLACKWELL: Thank you.

Jerry Sweeney and Brad Milotsky.

COUNCIL PRESIDENT VERNA: Good evening.

Please identify yourself for the record.

MR. SWEENEY: My name is Jerry Sweeney. I am President and Chief Executive of Brandywine Realty Trust.

I have with me Brad Milotsky and Steve Rush, also of Brandywine Reality Trust.

Good evening, Madam President, and other members of Council. Appreciate the opportunity of being invited here to present our perspective on the KOIZ debate currently taking place in Center City.

First, I'd like to introduce Brandywine Realty Trust, and then talk about our Cira Center project at 30th Street Station in University City.

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Then I'd like to discuss a little bit the provisions that are in the proposed piece of legislation before Council, that in our estimation essentially incorporates changing the rules after the fact, relative to existing KOIZ Zones in the City of Philadelphia; and then finally address the KOIZ proposal for CBD Philadelphia.

Brandywine is a publicly held real estate company. We are trading on the New York Stock Exchange. We are a regional company, with operations in Philadelphia and in the suburban counties.

We are the largest Class A owner of office space in the suburban regions, and have 242 employees based in the Philadelphia area.

Cira Center, which has been talked about this evening, is a 727,000 square foot, 32-story building under construction at 30th Street Station in the rail yards adjacent to the Penn Coach Yards at Amtrack.

I actually saw some of the building

trade folks here. We will be employing through that construction process almost 2,000 people over the next couple years, as that building reaches construction.

When we announced that building in May of 2002, our objective was really for the first time to try and tie together the pieces of the City, tie in the central business district with the western side of the Schuylkill River.

For those of you who are not familiar with it, Cira Center is located on the western side of the Schuylkill, approximately 14 blocks from downtown Philadelphia.

The 30th Street site where we're building Cira was originally designated as a Keystone Opportunity Zone before Brandywine became involved.

Brandywine became involved after Amtrack, the site's owner, went to the marketplace for a request for proposal from developers to develop an office project.

We responded to that. We were

awarded those development rights in November of 2001.

And I can assure you that despite our enthusiasm at trying to accomplish that public policy goal of tying pieces of the City together, the existing legislation on KOIZ benefits was a key part of our investment decision.

And that those benefits would not be available in sites that were not deemed to be blooded or part of the existing KOIZ designations.

In December of 2003, we exercised our option with Amtrack, committed to a 100-year ground lease, and commenced construction.

To date, as you heard in other testimony, we have contacted over 3300 companies outside of Philadelphia, in an effort to try and attract organizations to the City.

The project right now is about 65 percent leased. When completed, that project will house approximately 2200

employees.

Already we have added to the City of Philadelphia over 260 new jobs, including about 120 new jobs into the Commonwealth of Pennsylvania. That represents approximately a 20 percent increase in jobs over the employment base at Cira Center.

As we look at the legislation that Council is considering, we look to the public policy intent of the Keystone Opportunity's legislation that was originally approved in 1998.

The clear objective of that legislation was to take blighted areas that had been completely unable to attract private capital, and turn those sites into long-term revenue producers for the City and the Commonwealth, not simply to select sites in well-developed areas.

In particular, the site at 30th Street Station has been singularly unsuccessful in attracting private development, since the station was built in the 1930's.

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Many development schemes were tried. Every single one failed. What we saw was an opportunity to create something of great value for the City, try and create a world Class $200 million investment that would be located in an area of the City that had really never seen any private capital before.

We were convinced, as we are today, that our investment will undoubtedly spur additional development opportunities in University City, provide a true catalyst for reincorporating the Schuylkill River into the lifeblood of the City of Philadelphia, create a new gateway entrance for the City, and present tremendous long-term value.

In our estimation, Cira Center embodies exactly what the Keystone Opportunity legislation was intended to do.

We have retained jobs in the City. We have created new jobs, both new to the City and new to the Commonwealth.

We have created a long-term valuable

tax ratable that will certainly increase surrounding neighborhood values.

We are using our private financing to improve existing infrastructure around 30th Street, and we have embarked on a marketing campaign that, as I mentioned, has touched 3300 companies outside of the Philadelphia County, in the attempt to attract businesses.

Make no mistake, if you would, please, Brandywine placed great reliance on the integrity of the public policy process, and specifically relied on the existing qualification test when we exercised our hundred year ground lease, signed leases with two tenants, then four tenants, have made countless representation to other tenants, and made a decision to invest approximately $200 million of our shareholders' money in the City of Philadelphia.

The proposed amendments do serious damage to our project and others located throughout the City.

Adoption of these revised tests will change the economic underpinnings that were in place when our investment decision was made, and it seems to be unfair on the surface of it, and creates a material adverse change to our existing vested rights.

The specific provisions have been discussed, so I don't need to go into those, but they were laid around retroactively changing the rules that were in place when we moved forward with our investment.

In addition to that, recent changes to the KOZ statute that occurred in December of 2003, specifically the inclusion of a five percent gross revenue test, occurred after our transaction was done with Amtrack and our two lead tenants.

That's important to understand and emphasize because this new qualification test was not requested by either Brandywine or our Cira tenants.

And our tenants intend to qualify,

using the original test. And we work closer with some of the governmental agencies to ensure that we have in writing that they do in fact qualify.

Moving on to the more challenging issue before Council, which is the designation of a downtown site as a Keystone Opportunity Zone, it's complicated from a number of perspectives.

First, Comcast is clearly a premiere corporate citizen and one that we are all proud to have in our region. They have been a significant contributor. They have made tremendous contributions.

They are entitled to, as other companies in Philadelphia have been, to tenant specific relief, in order to induce them to grow their businesses here and bring in additional jobs.

The point that is being debated is the mechanism to do that. So when you look at the KOZ statute and the reasons why that was put in existence was really to drive growth in heretofore undevelopable areas.

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When we compare Cira Center to some of the CBD sites that are talked about, Cira is in a blighted area, and for 70 years; whereas, the sites downtown clearly look at development surrounding those locations.

Amtrack obtained the KOZ benefits with the consent of Council, and held an open RFP competition that any developer could participate in, versus now looking at assigning KOZ designation to a site after the fact.

As we look at it, we are a full supporter of providing strong incentives for Comcast. We simply don't agree with designating a site in downtown Philadelphia that will provide approximately a million square feet of vacant space that will, as some of the building owners indicate, create a dislocation in the marketplace.

But in conclusion, we'd like to reiterate the following: We made our decision in 2003 to invest approximately $200 million in an area of University City

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in West Philadelphia that heretofore had not seen any private investment.

With all this debate going on, the benefit that we see is by the end of 2005 there will be a world class office building housing over 2200 people at that location.

In making that investment decision, we placed strict reliance on public policy intent, existing legislation, and written assurances that we were entitled to the KOZ benefits.

We trusted the integrity of that process, and expected that it would not be compromised.

We firmly believe that one of the most powerful economic engines is consistent application of public policy.

This amendment that you're proposing is not just about giving Comcast tax-free status in a downtown zone. There are provisions in it that significantly and adversely affect our site, our tenants, and our ability to make Cira Center very successful.

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We would respectfully ask Council to focus in a deliberative manner on the potential implications of the proposed amendments, and what they will render to our project and others who operated on the premise of making an investment decision under a given set of facts.

Madam President, thank you very much.

COUNCIL PRESIDENT VERNA: You're welcome.

Mr. Sweeney, did you indicate when this building will be completed?

MR. SWEENEY: This building will be ready for occupancy by tenants in the end of September of 2005. So, actually those who drive by the site, there's two cranes there. The steel has started to be set, and the steel will be topped out in November of 2004.

COUNCIL PRESIDENT VERNA: And you indicated that 65 percent of the building is leased, and we would be seeing 260 new employees?

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MR. SWEENEY: Out of that 65 percent, yes, through both organic job growth by the existing tenants, plus the designation by of our tenants of their location at Cira Center as their North American headquarters, with the expectation that they'll be bringing people in from other states into Philadelphia and into the Commonwealth.

COUNCIL PRESIDENT VERNA: Fine. Thank you.

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair.

Mr. Sweeney, thank you for your testimony.

Councilwoman Blackwell had indicated and has circulated a proposed amendment to Bill 040642, in an effort to, I am sure, make sure that the benefits that you have received under the rules that you've played by at the time are kept in effect.

The representatives from Dechert,

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one of your tenants, pointed out on Page 2 of the bill, Section 19-3203 sub 4, and then another section, I believe, in 19-3208, a new number one with regard to residency; and then this issue about a second test for tenants, a second local level of review of eligibility.

Can you speak briefly to those issues? And does the proposed amendment take care of the concerns that at least were expressed by the Dechert representatives or any other concerns you may have with regard to Brandywine and Cira?

MR. SWEENEY: Certainly, Councilman.

As we look at the proposed language changes -- And Brad will talk to the specifics -- as we view it, we're looking at existing zones with the existing rules.

So, any changes to the rules that were in place at the time that we exercised our option, commenced construction, signed the leases, we view as detrimental to both our investment base of $200 million,

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potentially our existing tenants, and certainly our ability to successfully market the remaining 250,000 square feet.

COUNCILMAN NUTTER: Do you have any information with regard to the proposed amendments which may affect you and what either the purpose was or what the intention is of those amendments? Do you have any information in that regard?

MR. SWEENEY: Councilman, my opinion on that would be pure speculation, in terms of what the motivations were behind proposing retroactive adjustments to an existing site. So, I do not have any particular insight onto what was driving that.

COUNCILMAN NUTTER: Okay.

MR. MILOTSKY: Councilman, if I could add a moment on that point.

COUNCIL PRESIDENT VERNA: Excuse me, sir. You're going to have to identify yourself for the record, please.

MR. MILOTSKY: My name is Brad Milotsky. I'm general counsel to

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Brandywine Realty Trust.

Councilman Nutter, the question went to what were the changes. Again, Mr. Sweeney stated that we don't know what the motivation was behind the request.

What we do know is that the changes that were proposed affect two specific areas. One was the existing historic capital investment test that existed since 1998, when the statute was originally enacted, that was subsequently approved by City Council twice, as well as by the Mayor twice when they approved KOEZ's and then KOIZ's.

COUNCILMAN NUTTER: And the issue to which you're speaking, where is that --

MR. MILOTSKY: That issue --

COUNCILMAN NUTTER: -- in the bill?

MR. MILOTSKY: -- is in two different places. Relative to the bill itself, if you go to Section 19-3204 of the City -- the proposed City ordinance.

COUNCILMAN NUTTER: Is that 3C?

MR. MILOTSKY: 3C, correct.

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Subsection C is a new requirement that did not exist when we proceeded forward with our investment.

So, the two changes there are requiring equity ownership in improvements, as well as in point two or C.2, restricting the application of tenant improvement dollars for purposes of qualification to manufacturing, industrial and research and development sites alone.

COUNCILMAN NUTTER: And who would have to -- And is it that the business or the tenant would have to have the equity ownership interest?

MR. MILOTSKY: That is correct. That's my interpretation, at least, of what the words mean, which we're not sure how you would do that, but that's what we...

COUNCILMAN NUTTER: Well, I guess that was actually going to be my next question. I mean, tenants just normally pay rent, right?

MR. MILOTSKY: Correct.

COUNCILMAN NUTTER: Okay. How is

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it -- I mean, you guys are in the real estate business. How normal is it for a tenant to have an equity ownership interest?

MR. MILOTSKY: In the building? Extremely rare to remote.

The only guess I would hazard, having asked the question but not gotten an answer, would be if the words were intended to mean equity ownership in the improvements within their leased premises, like the desks, chairs, computers...

COUNCILMAN NUTTER: Mm-hmm.

MR. MILOTSKY: ...then I might understand what it meant, but I'm not sure that's what the words say. I would suggest, through, that the City might be a better person to ask the question.

COUNCILMAN NUTTER: I understand. Okay. Thank you.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: You're welcome.

Are there any other questions of the

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witnesses before us?

(No response.)

COUNCIL PRESIDENT VERNA: Gentlemen, thank you very much.

COUNCIL PRESIDENT VERNA: Our next witness is Sonny Dececchio, from the Philadelphia Produce Regional Market. Is he here?

(No response.)

COUNCIL PRESIDENT VERNA: Gabriel Bevilacqua.

May I say, you've been extremely patient. Thank you so much for waiting.

MR. BEVILACQUA: It's great to be here.

COUNCIL PRESIDENT VERNA: Thank you.

MR. BEVILACQUA: It's a little bit like going to the doctor's.

COUNCILMAN NUTTER: In what way?

MR. BEVILACQUA: You have to wait for the doctor.

COUNCILMAN NUTTER: Oh.

MR. BEVILACQUA: And I'm pleased to wait.

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COUNCILMAN NUTTER: Depends on which doctor.

MR. BEVILACQUA: Council President Verna and members of City Council, again, on behalf of the 13,000 members of the Philadelphia Bar Association I offer my thanks and appreciation for this opportunity to once again testify on tax matters.

I am here today because I am concerned about legislation which may prevent partnerships, including law firms in Philadelphia, from qualifying for net profits tax exemptions under the Keystone Opportunity Improvement Zone Program.

We believe that such a move applied to law firms retroactively would be illegal and unconstitutional, but just as importantly, this sort of targeted action against the leading segment of the local economy service sector would be capricious and counterproductive.

As I explained during my recent testimony on tax reform, the legal services

sector is a regional economic powerhouse.

The jobs that Philadelphia law firms bring to the City are well-paying jobs. The ancillary businesses that these law firms support are good businesses.

And Center City Philadelphia, as it exists today, would be totally unrecognizable without Philadelphia's law firms. Without these firms, whole parts of the downtown area would be deserted, blighted and barren.

When you consider that the 23 largest Philadelphia law firms employ nearly 10,000 people, and you realize that these law firms are but a third of the entire legal community, you can see that it is very hard for me to exaggerate the importance of the legal services sector to the region's economy.

Indeed, if all of Philadelphia's law firms were part of one company, they would constitute one of the biggest corporations in this region.

We urge your opposition to

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legislation and/or amendments which would economically scapegoat partnerships, lawyers and law firms.

At the same time, we stand ready to assist the City and all other appropriate governmental agencies in the development of equitable tax policies.

As I have said before, the road to tax reform must be fair, sustained, and even handed. Reform cannot be accomplished by searching for convenient scapegoats or attempting to pit one group against another.

Philadelphia's law firms are part of the City and its economy. Our professional family is committed to Philadelphia. We want to see the City grow and prosper.

We seek tax equity and reasonable reform, and trust that our legislators will move in a prudent, fair and balanced manner, avoiding the type of arbitrary and discriminatory tax policies which have been suggested.

Madam Chair, I do have a copy, if I

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can...

COUNCIL PRESIDENT VERNA: Of your testimony?

MR. BEVILACQUA: Of my testimony.

COUNCIL PRESIDENT VERNA: Fine. Thank you.

Are there any questions or comments from Mr. Bevilacqua?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you again for your patience. We appreciate your coming in to testify.

MR. BEVILACQUA: Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

MR. McPHERSON: The next witness Fred Cazenza (phonetic). Fred Cazenza.

COUNCIL PRESIDENT VERNA: While we're waiting for Mr. Cazenza, who is the next witness?

MR. McPHERSON: Mike Sencindiver.

COUNCIL PRESIDENT VERNA: From Keating Company.

Madam President, the gentleman, Mike Sencindiver from the Keating Company, was

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not able to continue to stay here to present his testimony, so I'm either glad to read it into the record...

COUNCIL PRESIDENT VERNA: That would be fine or if it's rather lengthy, we will make certain that the stenographer gets a copy of it.

UNIDENTIFIED MAN: Very good.

COUNCIL PRESIDENT VERNA: And it will be transcribed in full, and perhaps you can simply abbreviate what he has to say.

UNIDENTIFIED MAN: Very good. Then I will.

Dear President Verna, as a major owner and operator of real estate in and around Center City, Philadelphia we at Keating would like to express our full support for the creation of a Keystone Opportunity Zone at the One Pennsylvania Plaza site.

Cementing Comcast and its new job growth to Philadelphia is critical to the long-term economic health of the region.

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Creating new modern office space is important in order for the City to attract growing companies.

The use of economic incentives to achieve this goal has been successful in the past, and will be successful in connection with the One Pennsylvania Plaza Comcast project.

An additional benefit of creating new office buildings is that it allows older, obsolete buildings to be recycled into new uses.

A recent example of this in Philadelphia is the former home of the Insurance Company of North America on the Parkway, which our firm successfully redeveloped into the Phoenix, an $80 million modern apartment and retail complex.

Opponents of the KOIZ designation, who are largely from outside of Pennsylvania and Philadelphia, speak of fairness. Please do not be misled. Their motivation is avoiding new competition and

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the additional investments in their properties which such competition will inevitably require.

Philadelphia should encourage real job residential and retail growth and investment. And we believe this can be advanced by designating the 17th and JFK site as a KOIZ.

Very truly yours, Mike Sencindiver, Executive Vice President of the Keating Company. Thank you.

COUNCIL PRESIDENT VERNA: Thank you very much.

And if you would submit a copy -- Is that all of the testimony? We will make certain that the stenographer receives it.

UNIDENTIFIED MAN: Thank you.

COUNCIL PRESIDENT VERNA: Has Fred Cazenza come back into the room?

Please approach the witness table.

Good evening. Please identify yourself for the record and proceed with your testimony.

MR. CAZENZA: Fred Cazenza. I'm

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here for Pat Gillespie who couldn't be here.

Madam President and members of City Council, the Philadelphia Building Trades strongly support the proposed KIOZ designation for the three proposed new construction projects: The Cira Center, One Pennsylvania Plaza, and the new Food Distribution Center.

The One Pennsylvania project, in particular, is extremely important. The 60-story office tower will be the tallest building in Philadelphia, and would generate $1.4 billion in economic activity during the two-year construction period.

It would also create 200 million in increased regional wages and earnings during that period, as well as $37.2 million in increased state taxes and 7.2 in City wage taxes.

In short, this project will put many members of the Philadelphia Building Trades Council to work.

One Pennsylvania Plaza is slated to

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become the new world headquarters of Comcast Corporation, and will be built by Liberty Property Trust, two of our City's most successful and loyal corporate citizens.

Comcast has committed to creating as many as 3,000 new jobs over the next ten years at its new Philadelphia world headquarters which will translate into more jobs, more residents, more tax revenue.

The same can be said for the Cira Center and Food Distribution Center projects.

The Philadelphia Building Trades council respectfully urges City Council to approve and retain the KIOZ designation for all three of these important projects for Philadelphia's future.

Sincerely, Pat Gillespie, Business Manager, Philadelphia Building Trades.

Also, I want to thank Councilwoman Joan Krajewski and Rick Mariano for their support of this project.

(Applause.)

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COUNCIL PRESIDENT VERNA: Thank you very much.

MR. CAZENZA: Thank you.

COUNCIL PRESIDENT VERNA: Stephanie Naidoff. Do we have copies of your testimony?

MS. NAIDOFF: You do.

COUNCIL PRESIDENT VERNA: Please proceed.

MS. NAIDOFF: Thank you.

Good evening, Madam Chair and members of the Committee of the Whole.

My name is Stephanie Naidoff, and I am the Director of Commerce of the City of Philadelphia.

And with me today is Dwayne Bum, the Deputy Director of our Department; Nancy Kammerdeiner, the Revenue Commissioner; and Richard Feder, the Deputy City Solicitor.

I'm here today to testify on behalf of the administration to testify in support of Bill 040642. This bill would authorize the City to amend the boundaries of its existing Keystone Opportunity Improvement

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Zone, and revise the conditions for exemption from net profits tax, and clarify and amend the provisions relating to relocating businesses.

Enactment of this bill would be contingent upon passage of enabling legislation by the Commonwealth of Pennsylvania.

Before I get into the substance of my testimony, I'd like to address the issue of the timing of the introduction of this bill.

As you know, the normal course of events for legislation such as this would be for the state to pass enabling legislation, followed by the City enacting legislation based on that authorizing legislation.

Unfortunately, in this particular case, the driving factor is time. House Bill 1321 being considered in Harrisburg requires that the City apply for KOIZ designation of sites within 90 days of notification by the state.

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The application requires the legislative approval of this body, as well as that of the School Reform Commission. City Council's summer recess would preclude us from meeting that 90-day deadline.

In addition, we have been advised that any additional delay could make these projects unfeasible. These two critical factors, both beyond our control, are what drives this schedule.

The Keystone Opportunity Improvement Zone, an offshoot of the original Keystone Opportunity Zone Program, was created to allow the Commonwealth to work in partnership with local governments, like the City of Philadelphia, to encourage substantial job retention and job growth and to spur significant private investment, where the existence of specific, substantial and imminent economic development opportunities exist.

The benefits of the KOZ program were critical elements to many of the decisions by businesses to invest in our City.

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Unfortunately, in many cases, the existing KOZ designated sites had not met the needs of the interested companies.

In an effort to meet those needs, and to maximize job growth potential, the Governor, with the consent of the state legislature, was authorized to designate certain properties or areas throughout the Commonwealth as Keystone Opportunity Improvement Zones.

The Department of Community and Economic Development and the Governor's Office stressed to City officials at that time that only sites and projects that meet the criteria of specific, substantial and imminent would be considered for KOIZ designation.

The administration fully supports the concept of expanding the KOIZ's in the City, to allow us to address two such specific, substantial and imminent economic development opportunities that have been presented to us.

These opportunities are, first, the

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development of One Pennsylvania Plaza as the world headquarters for the Comcast Corporation, one of our City's largest and fastest-growing companies, and secondly, the construction of a new modern produce market and seafood market at our Food Distribution Center that will retain 47 businesses and 1,375 employees.

With respect to the Food Distribution Center Project, it is no secret that neighboring states have coveted the produce market, in particular, for years, and have consistently been willing to be extremely generous in their offers to make such a move happen.

In fact, it's widely reported that the produce market has had extended and in-depth discussions over the last few months with officials from New Jersey, regarding moving the terminal to Camden.

It is our understanding that New Jersey has offered a very significant incentive package to move the produce market across the river.

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In many ways, the produce market can be considered the anchor tenant that attracts other businesses within the food distribution industry to the Center.

As a result, the loss of the produce market to New Jersey would have a very detrimental impact on the remainder of the Food Distribution Center, resulting in significant job losses for the City and the Commonwealth.

For that reason, the Commonwealth, acting through the Philadelphia Regional Port Authority, and in cooperation with the City of Philadelphia, is preparing an offer to the produce market that will allow the PRPA to develop a modern, state of the art, hundred million dollar produce market on 60 to 70 acres that will meet the current Federal food handling requirements and create a more customer friendly environment. Under this scenario, the merchants will enter into a long-term lease with PRPA.

In addition, the PRPA site has

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sufficient capacity to house the seafood market. Talks are currently under way with representatives of the seafood market to determine whether all of its needs can be met at the site.

This new complex for the produce market and the seafood market is proposed for a site in the immediate vicinity of the existing Food Distribution Center, and will allow for additional growth of both markets. It will also continue to anchor the Food Distribution Center.

Finally, the facilities being vacated when the new site is ready will allow us to create much-needed land for new and expanding food companies within the Food Distribution Center.

We believe that the threat of losing the produce market to New Jersey is real. As a result, it is important to provide significant incentives from the City and the state by designating the proposed site for the produce market as a KOIZ.

We retain the wage tax that we

presently receive from the 1375 jobs at the market now, we create a brand new modern produce market where our existing companies can grow, and we preserve the integrity of the entire Food Distribution Center.

Now I'd like to turn to the Comcast Liberty Project.

COUNCIL PRESIDENT VERNA: Please proceed.

MS. NAIDOFF: The second specific, substantial and imminent economic development opportunity in the City of Philadelphia is the proposed development of One Pennsylvania Plaza, a Class A office complex being developed by Liberty Property Trust.

This development is proposed for a 2.15 acre site at 17th and JFK Boulevard in Center City, Philadelphia.

The complex will include 1.5 million square feet of space in two new office towers, with a public plaza, and direct connections to the Regional Rail Line, through a new entrance to Suburban Station.

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The first tower encompassing over 1.2 million rentable square feet of office space will be the tallest office building in the City of Philadelphia.

The project will cost $500 million which will be funded by Liberty Property Trust.

This project, together with the Cira Center development, will be the first significant new commercial office infrastructure in this City in over ten years.

Comcast, the lead tenant in this new development, is one of Philadelphia's major corporations, with 21 million customers in 41 states, and total employment of 60,000 people.

Comcast headquarters is currently in an existing Center City building, and the company has expressed interest in relocating to Liberty Property Trust's new development under a long-term lease, with options to expand.

With respect to One Pennsylvania

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Plaza Comcast Project, the primary reason for our strong support is the opportunity to create thousands of new high-paying jobs.

Comcast is a unique company to us, in that it is the one market leader in its respective industry with a corporate headquarters in Philadelphia.

No other Philadelphia company has the market dominance and growth potential of Comcast, and its technology based businesses.

Although Comcast has committed to keeping their headquarters in the City, the benefits of the KOIZ will incentivize this company to bring operating divisions to Philadelphia from other parts of the country.

As a preview to this potential, last year alone, Comcast added 400 jobs in the City. The company projects even greater growth at One Pennsylvania Plaza, growing from 1,100 current employees to more than 2,000 employees at the new headquarters

location.

We know that states and cities across the country would offer extremely generous incentive packages to attract a company of Comcast's caliber.

Earlier this year, the State of Delaware provided a $7 million incentive package to Triple A Mid Atlantic in order to get that company to commit to moving its 350 employee office out of Philadelphia.

The projected job growth at Comcast is supported by the company's proposed lease commitment. As we understand it, the initial Comcast lease includes an initial occupancy of 500,000 square feet, a space sufficient to house 2,000 employees.

When all lease options are added in, Comcast can ultimately house 4,000 employees at this new headquarters, nearly quadrupling its current employment level.

Having Comcast headquarters here in the City within a new signature high-rise building would be a symbol of success throughout the country.

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The Comcast name emblazoned across the skyline sends the message of Philadelphia's economic vitality and optimism.

Comcast would be would be to Philadelphia what Microsoft is to Seattle or Coca-Cola is to Atlanta.

Furthermore, One Pennsylvania Plaza, in and of itself, will be a symbol to the world. No major new office building has been developed in Center City for over a decade.

Not only will it be the tallest office building in the City of Philadelphia, but its urban design will include a new public plaza, connections to the SEPTA concourse, and a new entrance to Suburban Station.

This building will create modern 21st Century space that does not presently exist in Philadelphia today.

If we are to compete in the global office marketplace, we need to have a wide range of products to offer, including those

that contain all of the latest technology.

The final argument in support of this project is competition. While no new major office construction has occurred in the City over the last ten years, the suburbs have been extremely active in developing new space.

One need only look to Conshohocken, Cherry Hill or Northern Delaware to see the extent of the new office development.

As our inventory continues to age, the suburban alternatives offer a very attractive alternative to Center City locations.

While both the produce market and One Pennsylvania Plaza offer great opportunities for the City and state, there are issues and concerns that have been raised by this legislation.

And I would like to spend a moment reviewing them and address how these concerns can be reasonably responded to.

The first issue is the effect on the City budget, and in particular the School

District.

As you know, there have been various analyses done by various interested parties to this legislation. The primary focus of each of these studies has been on the impact on the local office market if additional office space was introduced.

The conclusion of each report, as a rule, supports the position of the interested party that commissioned the study.

We have reviewed each report, and with the assistance of the Revenue Commissioner have undertaken our own internal analysis.

We have concluded that with modifications to the taxes abated by the KOIZ legislation, and an emphasis on job growth as a necessary condition in certain circumstances, the City would greatly benefit from the development of this additional office capacity.

One of the legitimate concerns raised in these studies is the negative

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effect of existing office tenants in the Center City marketplace, to move into a building with KOZ benefits, without increasing company employment levels.

As you know, to avoid such occurrences, the original KOZ legislation required any business located in Pennsylvania that relocated to a KOZ would be required to increase employment by 20 percent in the first year or invest the equivalent of 10 percent of the previous year's gross revenues in capital investment at the KOZ site.

In December of 2003, the state enacted legislation that created a third test for relocations. This test is referred to as the long-term lease test which in short would allow relocating companies to receive the KOZ benefits by signing a long-term lease in a KOZ property.

Tenants would not be required to add jobs or make any investment in a KOZ property. This third test allowed for

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relocations, with no return on the City and state's KOZ investment.

We are proposing that the state eliminate this long-term lease test except in the narrow exception of the Food Distribution Center.

In addition, we are asking the state to strengthen the capital investment test for relocating businesses.

We are recommending that language be added to express that mere tenant fit-out expense by a lessee would not satisfy the test, with certain exceptions for manufacturing, industrial, and research and development purposes.

In the case of commercial businesses, the proposed changes would expressly provide that capital investment must consist of an equity ownership interest in the improvement to real property, and must have the effect of improving such property.

There is an appropriate tenant improvement exception that is limited to

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improvements made for manufacturing, industrial or R & D purposes by a business whose predominant activity in the building will be manufacturing, industrial or R & D.

We believe these changes are consistent with the original intent of the KOZ law, and will assure that only growing businesses will be able to relocate to a KOZ, while the City and state will reap an actual benefit from their investment.

Many have asked how we reconcile the need for tax reform with these special incentive arenas.

While we may all agree that lower taxes are critical to the long-term future growth and economic competitiveness of the City and the state, we cannot ignore the present economic development environment in which we compete.

As mentioned in the Triple A and Food Distribution Center cases, governments nationwide are willing to invest significant tax dollars to lure prime businesses from other localities. It is

critical that we continue to have economic development tools like the KOZ program to compete in this environment.

Some people have made the comment that government, and therefore tax dollars, should not be spent to create or indirectly affect the private marketplace.

The fact of the matter is that every time government decides to build a new road, expand our airports, or place a military facility or on the downside close the facility, they affect the marketplace.

In fact, one need only look at the Blue Route corridor to see how government has affected our regional marketplace. By building this road, the Commonwealth opened the Conshohocken and Plymouth Meeting areas to new development.

What was once undeveloped land, vacant, industrial brown fields or old under utilized industrial buildings, are now mega shopping centers, restaurants and office complexes. Government decisions will always affect the marketplace.

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The final major issue that's been raised is the net profits tax. The NPT issue, as it relates to large partnerships, can be classified simply as a case of unintended consequences.

The City's net profits tax is the equivalent of the wage tax for the principals in sole proprietorships and partnerships. The tax is tied directly to that of the wage tax.

When the KOZ concept was developed, the idea was not to penalize small businesses that were organized as sole proprietorships or partnerships under the KOZ program.

It was never anticipated that the program would include large professional firms, organized as partnerships, to receive an unfair benefit as the result of the net profits tax exclusion.

The public perception is that we have created a tax loophole for such partnerships. To correct this inequity, we would propose that the City of Philadelphia

be allowed to remove the net profits tax exemption from the KOZ program except, like wage tax, where it would continue to be applied to residents of a KOZ. This change would create parity for all people earning a living in the City.

With the removal of the net profits tax exclusion, and a greater focus on job creation, the proposed legislation addresses many of the concerns that have been raised by the owners of existing office buildings in the City.

The concern that is most often raised is one of moving office tenants from one building to another within Center City, with no resulting benefit to the City.

The proposed legislation addresses this important issue by emphasizing the requirement for 20 percent job growth, greatly limiting the capital investment test, and eliminating the long-term lease test as ways for current office tenants to receive KOZ eligibility.

The only tenants who would be

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incentivized to consider a KOZ location are those few businesses that are growing rapidly.

With the further condition that partnerships would remain liable for payments of net profits tax, there is even less incentive for the movements of tenants from one City location to another. Recent tenant leasing patterns would further support this conclusion.

Over the past two years, the City has been successful in retaining 80 out of 81 renewing office tenants.

In most cases these tenants, representing 20,000 employees in over 5 million square feet of space, renewed in their existing locations.

By refining the KOZ eligibility criteria, as the current legislation proposes, the threat of that so-called vacuuming effect for existing office buildings becomes negligible.

To summarize, we strongly support the passage of Bill 040642. We believe

this bill, with the proposed amendments to the existing KOZ program, would better protect the City's tax base by narrowing the benefit to companies that are truly growing jobs or are willing to make significant investments in our City.

With such modifications, I am confident that providing KOIZ benefits to the two projects I discussed are a great opportunity for the City to invest in our economic future.

And now, if you'll permit me, Madam President, I'd like to also offer an amendment to Bill 040642. In addition to some technical adjustments, the amendment would allow for great flexibility to ensure that our bill will be compatible with the pending state enabling legislation.

The bill currently requires state legislative approval of net profits tax and elimination of the long-term lease test as conditions to allowing the approval of new sub-zones for the Comcast site and the produce market site.

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The amendment would narrow the site legislative requirement to only the new sub-zones as a condition for those sub-zones being approved.

I'm happy to take questions. Thank you for allowing me to speak on this area.

COUNCIL PRESIDENT VERNA: Thank you.

I don't know what page number it is, but I think you just gave us an amendment to Section 4; am I correct?

MS. NAIDOFF: Yes.

COUNCILMAN GOODE: Madam President, I need to be excused from the Council chambers. As mentioned before, I would like to see Bill 640 continued to tomorrow at 1 o'clock, to take testimony from the administration, and anyone else.

I want to be recorded as voting in favor of Councilwoman Blackwell's amendment to 642, but also want to be recorded as voting against 642, even as amended.

COUNCIL PRESIDENT VERNA: Very well.

Thank you.

COUNCIL PRESIDENT VERNA: As I said,

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I think you indicated the amendments in Section 4. Just above that, Section 4, there is one section regarding residency.

In order to qualify each year for the exemption... (Loud talking.)

COUNCIL PRESIDENT VERNA: We are still trying to conduct business.

...from the net profits tax under this chapter, a person must be domiciled and shall reside in the zone for a period of 184 consecutive days. Somebody's going to have to clarify that for me.

MS. NAIDOFF: I'll ask Mr. Feder to comment on it.

MR. FEDER: Madam Chair, members of Council, my name is Richie Feder. I am Chief Deputy City Solicitor for Appeals and Legislation.

The purpose of that provision, Madam Chair, is to conform the net profits tax exemption to precisely the same terms as the state has required for the wage tax exemption.

As you may recall, to get a wage tax

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exemption in a Keystone Opportunity Zone, under state law, you need to live in the zone.

Now, I recognize there is probably nobody in this City who lives in a Keystone Opportunity Zone. But the state has required that as a condition for our approving the Keystone Opportunity Zone -- and this Council has done this on several prior occasions, with respect to several of the other -- with respect to all of the other zones -- one of the tax benefits that we've given as part of a Keystone Opportunity Zone is that if you live in a zone, regardless of whether you work there, if you live in a zone you get exempt from all wage tax.

If you work in the zone, there's no exemption from wage tax. That has been in Council legislation since 1998, recognizing that probably nobody does live in a zone. But the state insisted on that as a condition for approval of the zone.

What we've done here is make the net

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profits tax provision identical to the wage tax rule because it's our feeling that the net profits tax is simply nothing more than the wage tax component -- the net -- the tax -- the income -- the earned income component for self-employed people. It's the same as the wage tax.

And so this would say the same thing. Net profits tax. You no longer would get an exemption from the net profits tax by working in the zone.

You would get a net profits tax exemption by living in the zone, full well recognizing that there probably is nobody who actually lives in the zone. But that's what the state legislation would require us to do.

COUNCIL PRESIDENT VERNA: You know, it would almost sound as though you would have to live in the building in order to be eligible.

The Chair recognizes Councilwoman Brown. Thank you.

COUNCILWOMAN BROWN: Thank you,

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Madam Chair.

Good afternoon, Commerce Director and members of the administration.

Thank you for your testimony wherein you give a lot of discussion to the number one test which is job creation.

The other test, I believe, carries -- that should carry equal weight is the ultimate impact on the Philadelphia Public School System.

So, over the end on Page 5 of the testimony you do mention that you and members of your team, particularly the Revenue Commissioner, did do an internal analysis.

However, no hard number is given, as a result of the outcome of that analysis. So over the 15-year life of the KOIZ, what would you determine the financial ramifications to be?

And I asked that because I've heard numbers from 3 million to 25.6. The Center City Owners Association claim a total of 25.6. Could you speak to that, please?

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MS. KAMMERDEINER: Good evening. I'm revenue Commissioner Nancy Kammerdeiner.

I have some charts here I can share with members of Council that provide the net results of the analysis that we have done.

Let me just as a matter of introduction, while these are being passed out to you, give you an idea of how we conducted this analysis.

You will probably recall that when the discussions about Keystone Opportunity Zones being applied in Center City began several months ago, there were several studies that were circulated.

One of those was done by the Center City District, and it included a number of scenarios and assumptions that provided different mixes of activity, in terms of how the buildings would be filled, whether they would be filled by people moving from another Center City building to the new buildings, all coming from outside or some

mix in between.

The Department of Revenue obtained a copy of the computer model on which that Center City District report was developed. And we have worked with that raw data.

So what we're doing and what we're looking at is very similar to what many of you have already seen in the Center City District Report.

We took their worst case scenario where a hundred percent of the building would be occupied by relocating tenants from other Center City buildings, and their best case scenario where their a building was occupied by an anchor tenant that moved from Center City, but the balance of the building was occupied by firms moving in from outside the City.

We averaged those two, because we felt that the real truth was going to be somewhere in between those two extremes.

And we also looked at the assumptions on which that study was based. And it was determined, after discussions

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with a number of people in various areas, that what's called the absorption rate, the reuse of the buildings that people move out of, that was used by Center City District at that time, was too low, that the typical absorption of businesses into a building that's been vacated in Philadelphia has been at a higher rate. And so, we made an adjustment for that.

We also looked at the difference between the current KOZ law, where the net profits tax is exempt, and what we are proposing in terms of having the nets profit tax taxable going forward.

One other thing I'll mention. That study was done, including both the Cira Center and One Pennsylvania Plaza. But there was enough detail in the background there that we were able to separate the two buildings, because the nature of the tenancy in the two proposed buildings is different, because Comcast being a corporation isn't subject to the nets profits tax in the same -- excuse me -- in

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the same way that the partnership that was the main tenant in the Cira Center.

What I have distributed for you is a breakdown that shows over the years of construction and for the remaining years of the KOZ eligibility what the net result would be of the gains we would have from the increased wage tax from job creation, the losses we would have from the taxes that would not be paid during the life of the KOZ, and we looked at the net result of that in each and every year.

The top portion of that chart is the combined City and School District, but we've separated it so that you can see that the impact on the City with the growing wage tax really goes away very, very quickly.

But in the School District case, because they don't have the wage tax and it takes a while for use and occupancy tax to come back up in the buildings that were vacated in Center City, there are a few years that are negative.

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But even there, you start to see with the tax mix that occurs on a City-wide basis, as a result of people moving back into the buildings that were vacated, and new growth that we have, we see a positive impact.

So there are about three years, four years there where the School District would see a decline in revenue, but the net result over all of the years of the zone is a $1.2 million advantage or plus for the School District.

For the City on average in each year when you average out those losses and gains, it's about $15 million.

COUNCILWOMAN BROWN: Thank you for that information.

MS. KAMMERDEINER: That was per year.

COUNCILWOMAN BROWN: Let me do a follow up and ask... You discuss it at the top paragraph on Page 6. Does this include -- Does this figure include potentially depressed property values of

surrounding buildings? Would that be a task to be --

MS. KAMMERDEINER: I don't believe the Center City District study took that into account in their initial characterization. To the extent that they did, we factored that in. But we didn't do a specific calculation on that basis.

But as I indicated at the outset, we started with an analysis that had already looked at pluses and minuses of the various interacting taxes.

But I don't believe they had factored in a reduction in real estate values of the Center City buildings.

COUNCILWOMAN BROWN: Would you suspect that that is an important consideration when --

MS. KAMMERDEINER: It could be. I know that in the years right after the One Liberty and Two Liberty buildings were built, there was a spin-off effect, but that need not always take place.

There were other economic conditions

at the time. And I believe also right about that time we had the fire, the Meridian Bank Building. And having a burned-out building in the same neighborhood also had a deterring effect.

So, your conditions at the time include a number of different things. And that's one thing I should stress here. These aren't accurate figures.

These are based on a whole series of interacting assumptions, not one of which is a hard fact, particularly when you're looking out to 2018.

COUNCILWOMAN BROWN: Sure.

MS. KAMMERDEINER: We've taken a lot of assumptions, and interacted those assumptions using a computer model. And this is our best guess, using very conservative numbers.

I've had people tell me that the absorption rate should actually be much higher in this instance because you're looking at Comcast bringing in, according to their proposal, bringing in people from

other areas.

So that you would be even less likely to have a movement of tenants from another Center City building into that building than you would if you looked at your model differently with someone who's not already making a commitment to grow from outside.

COUNCILWOMAN BROWN: Again, I thank you for your testimony. And in no way to discredit the numbers arrived at by Kevin Gillen who said about 20 million and Center City's Owners Association which said 25, I would lean heavily on the analysis done by the administration.

So thank you for your testimony.

MS. KAMMERDEINER: Thank you.

COUNCILWOMAN BROWN: Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: You're welcome.

MS. KAMMERDEINER: Excuse me. If I may, I was just told that there was, in fact, some provision made for a decline in

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the assessed values in the downtown buildings when Center City District did that study.

I stand corrected, and want to make sure you're aware of that. I don't know whether it was a full and complete adjustment, but there was some consideration for that.

COUNCILWOMAN BROWN: Thanks again.

MS. KAMMERDEINER: Thank you.

COUNCILWOMAN BROWN: Thank you. Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair. Excuse me. Director Naidoff, I wanted to ask you a couple questions about your testimony.

The first thought I'd like to raise with you is, on the first page you make reference to the schedule that we find ourselves under.

And is it possible to actually have

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for the members a copy of House Bill 1321?

MS. NAIDOFF: Yes. We'd be happy to provide that.

COUNCILMAN NUTTER: Okay. And I guess the place where I'd like to start is, you talk about the schedule, the House Bill. Was this bill drafted as a result of provisions in that bill?

MS. NAIDOFF: I'm sorry? Is that the end of your question? I didn't...

COUNCILMAN NUTTER: Bill 040642, was that bill -- Was this bill drafted as a result of the provisions in House Bill 1321?

MS. NAIDOFF: In light of the amendments that are being considered, yes.

COUNCILMAN NUTTER: Okay. And when was that bill introduced?

MS. NAIDOFF: We don't have it with us, but we believe it's in December of 2003.

COUNCILMAN NUTTER: You think House Bill 1321 was introduced in December of 2003.

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MS. NAIDOFF: I believe. We're looking for it right now.

COUNCILMAN NUTTER: And the bill in front of us today, when was that drafted?

MS. NAIDOFF: Shortly before the date of introduction.

COUNCILMAN NUTTER: I'm sorry?

MS. NAIDOFF: Shortly before the date of introduction.

COUNCILMAN NUTTER: Okay. And do you know why it was drafted at that time, as opposed to sometime closer to when House Bill 1321 was drafted?

MS. NAIDOFF: Mr. Feder will address that.

MR. FEDER: Councilman Nutter, if I may, this bill as introduced is designed to track the state legislation as we anticipated coming out.

Yesterday in Harrisburg there was an extensive informational meeting of a Senate committee that's considering HB 1321.

COUNCILMAN NUTTER: Yes; I know.

MR. FEDER: HB 1321 is not going to

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come out of the General Assembly looking very much like the HB 1321 that was introduced.

And so, although 1321 has been around since December 2003 or thereabouts, we're working off a moving target. We had been hopeful that we would know much better what 1321 would look like.

COUNCILMAN NUTTER: I understand that.

MR. FEDER: Okay.

COUNCILMAN NUTTER: And what happens if this particular bill passes in either the form it was introduced or now you've handed up pretty much the same bill with a few amendments in it, if this bill is passed and House Bill 1321 is changed subsequent to this legislation possibly being passed?

MR. FEDER: Two answers. First of all, we are fairly confident that this bill contemplates many, if not all, of the possibilities as to what 1321 will end up looking like.

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But the precise answer to your question is there are very specific contingencies clauses in this ordinance, most of which say the ordinance only takes -- only works up to the extent authorized by the General Assembly.

To the extent it's not authorized, this Council doesn't have the power to enact different conditions than the state gives it.

COUNCILMAN NUTTER: Well, I would -- I would think not.

I guess what I am trying to figure out is, you go through the effort to at least lay out how we ended up where we are. And now you have there's a 90-day notification by the state.

I guess I'm wondering whether or not such a bill with such contingencies could have been drafted some time ago, and we could have had at least the first part of a hearing about it, with the details that we knew at the time; not find ourselves in this particular situation.

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And then, I guess to kind of wrap that up, notwithstanding all of that, City Council's summer recess precludes you from meeting the 90-day deadline. Is that somehow our fault now?

MS. NAIDOFF: No. It's certainly not, and we apologize for needing to be before you on such short notice.

It is... It's unfortunate that the bill in Harrisburg that we expected to move along at a quicker pace than it has really kept us from responding more promptly to you. And we apologize for not giving you more time to consider it.

COUNCILMAN NUTTER: Well, I appreciate that, but I guess the larger point is, I had asked you, unless there is some incredible action taken by this body, I think it's inappropriate to put in testimony that somehow, some way our advertised departure date would somehow leave the public or the business community with the impression that if there were some serious matter that this body had to take

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up, that our quote unquote summer recess prevents from us exercising our duty and responsibility in an appropriate fashion, and that as a result because there is now this summer recess, we have to do this right now because this City Council wouldn't respond somehow to an emergency if necessary.

I just think it's an inappropriate reference, and is not consistent with this body's activities.

MS. NAIDOFF: Point well taken.

COUNCILMAN NUTTER: Everyone knows when we're in session and when we're not in session.

MS. NAIDOFF: Point well taken.

COUNCILMAN NUTTER: Okay. Let's talk about the testimony.

First, who wrote this bill?

MS. NAIDOFF: Mr. Feder.

(Laughter.)

MR. FEDER: On behalf of my clients.

COUNCILMAN NUTTER: Mr. Feder, let me say that if you ever do anything wrong,

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and you find yourself out with the Commerce Director, rest assured you are probably going to jail because she's going to give you up real quick.

(Laughter.)

COUNCILMAN NUTTER: Let's talk about Page 5, and go back to where Councilwoman Reynolds Brown was. The statement is the first issue is the effect on the City budget and in particular the School District.

Now, the Councilwoman did ask you about that. And I listened to the response and I saw a two-page printout. But to be honest with you, I still have no idea what the answer is because I don't think there was a specific answer.

So I'd actually like to hear an answer to the statement that you put out because I'm not sure what the sheet tells us, with regard to all of the benefits that a KOIZ provides.

And so, what is the effect on the City budget or what are the -- what's the

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value of the benefit that is being provided?

MS. NAIDOFF: The value of the benefit that's being provided unfortunately exists right now in a very extensive computer model, and Revenue Commissioner Kammerdeiner is going to comment briefly about that. But the modeling itself, the computer material itself, will be available to you if you'd like to examine it.

COUNCILMAN NUTTER: I'm sorry. I didn't hear the last part of what you said.

MS. NAIDOFF: Will be available if you would like to examine it.

COUNCILMAN NUTTER: Well, yes. I'd like to know what the value of the benefit is before there would actually be action taken on the legislation. I think that's the minimum amount of information we should have.

Are you talking about what the Revenue Commissioner later refers to as is referred to as your own internal analysis?

MS. NAIDOFF: The material that we

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have submitted to you is the netting out effect. And what she will now address is how that was arrived at, and try to address for you in a very summary fashion the issue of the value.

COUNCILMAN NUTTER: Okay.

MS. KAMMERDEINER: There are a lot of interacting factors here, as you can imagine. There's growth in wage tax. There is the loss of revenue from taxes that are exempted during the time that the Keystone Opportunity Zone exists. And there are so many interrelated factors here that it really is best handled through the computer model.

One of the things that I have with me -- and it's not an exact piece, but we some time ago, in the early part of this process, looked at what the impact would be on a per square foot basis with each tax, and looked at what would be foregone and what would be paid under a number of different scenarios: With partnerships, with corporations, whether they were in the

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top ten or the next tier of corporations or partnerships.

And we looked at this, as I said, on a per square foot basis, and have a summary here that represents a hundred thousand square feet of office space. And with that, we would be foregoing a different amount, depending upon the kind of business you are.

I'd be happy to share this with you, and then we can try and provide something in more detail. My problem here is that it is a complex formula. And it has a lot of interacting parts, with various assumptions. And to try and lay it out simply is very, very difficult. That's why in trying to display something --

COUNCILMAN NUTTER: Well, I understand that; but, I mean --

MS. KAMMERDEINER: -- you could see that we looked at the net.

COUNCILMAN NUTTER: I understand that, Commissioner Kammerdeiner.

I guess I am just asking what is the

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value that is placed on this particular designation? Is it true that it's 1.7 million square feet of office space?

MS. KAMMERDEINER: 1.5.

COUNCILMAN NUTTER: 1.5?

So I guess all I'm really asking is, what value has the City placed on, in your words, the taxes that are being exempted? What's the number?

MS. KAMMERDEINER: Looking at it... And -- And there is no certain number. That's part of what I'm trying to say. There's no certainty here with any of this.

It's based on a whole series of assumptions. But using the assumptions we were looking at about four months ago when we first did this on a per square foot basis and looked at it as 100,000 square feet, we were looking at -- And both with the current KOIZ rules, with the net profits tax exempt, and with the proposal that the net profits tax be removed from the KOIZ abatement, and therefore be taxable.

And we looked at what are termed in the Center City District study as A-1 tenants, a top ten partnership, a second ten partnership, a top ten corporation, and a second ten corporation.

With the scenario that we're looking at today with the net profits tax taxable, an A-1 tenant would -- The City would forego from A-1 tenants $798,000 in 100,000 square feet.

COUNCILMAN NUTTER: Commissioner...

MS. KAMMERDEINER: I know it's complicated, and it probably doesn't make sense. And I'm trying to do it orally.

COUNCILMAN NUTTER: No. I heard everything you said. I'm actually rather alert, even at this point in the day. And I think that I can, you know, comprehend relatively large numbers.

The fact that I have no idea what you're talking about is no reflection on whether I can understand anything.

I'm asking you, what is the value of creating a KOIZ at 17th and JFK? Someone

must know that there is a value to this. The company would not be trying to do it if they couldn't calculate a value.

I mean, this is not like an erector set situation here. I mean, they're going to build the tallest building in the City. Some smart person somewhere has figured out that there is a value to this.

And if they figured it out, then I assumed that the smart people in the government would figure out, you know, what it's costing us or what we're getting out of it.

MS. KAMMERDEINER: The best way I can -- can try to display this, using the average numbers, because as you can appreciate, I cannot provide any information on a particular taxpayer and what that taxpayer may be paying us today.

But using the numbers that -- that were developed for this analysis, with -- I'll round it. $800,000 for 100,000 square feet, we're looking at a building with a little over a million square feet --

COUNCILMAN NUTTER: Tell me quickly --

MS. KAMMERDEINER: -- would be ten times that.

COUNCILMAN NUTTER: -- what did that translate into for a million and a half square feet.

MS. KAMMERDEINER: I was about to say, a million square feet would be ten times that or $8 million. And you can add another half million square feet to that would be another $400,000 or a million two. Excuse me. A million two. 12 million. I'm sorry. It's getting late.

COUNCILMAN NUTTER: Oh, you don't know late it is.

(Laughter.)

COUNCILMAN NUTTER: So is that $12 million a year in value?

MS. KAMMERDEINER: I'm looking to see whether that was annual or if that was over the life of the zone. I believe it's annual.

COUNCILMAN NUTTER: I would think.

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Life of the zone is 15?

MS. KAMMERDEINER: 20 years?

COUNCILMAN NUTTER: 15 years?

MS. KAMMERDEINER: 15. I'm sorry. 15 years.

COUNCILMAN NUTTER: So what is that, 180 --

MS. KAMMERDEINER: That would be for the entire building.

COUNCILMAN NUTTER: What is that? Is that... Is that 180?

MS. KAMMERDEINER: And you also have to realize that some of the time that the zone exists is construction, when the tenants would not be in the building. And we wouldn't be looking at the impact that we've been discussing during those first two-and-a-half to three years. During that time the City will have a net gain in wax tax from the additional construction activity.

COUNCILMAN NUTTER: I understand. So answer the statement that you made earlier. What's the total value of the

loss of exempted taxes for this project?

MS. KAMMERDEINER: I think then we would be using about ten years, in terms of the loss, at $800,000 a year, for --

COUNCILMAN NUTTER: Why would you use ten years?

MS. KAMMERDEINER: -- a hundred thousand square feet.

COUNCILMAN NUTTER: I thought the KOIZ was 15 years.

MS. KAMMERDEINER: During... During the first three years, you're talking about construction. We're not losing...

COUNCILMAN NUTTER: Okay.

MS. KAMMERDEINER: ...the taxes from the occupants of the building during that time period.

COUNCILMAN NUTTER: Right.

COUNCILMAN KENNEY: Point of information, Madam President.

COUNCILMAN NUTTER: Sure.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Kenney for a point of information.

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COUNCILMAN KENNEY: Thank you, Madam President, and thank you, Councilman, for allowing me a point of information.

I was just curious as to whether anyone on the panel would deem any of the projections on both the impact of the City and the School District as potential supply side advantage or would you term that a supply side effect on the increase in tax revenues?

COUNCILMAN NUTTER: I thought -- I thought the tax --

COUNCILMAN KENNEY: You know what? You know what? You're such a nice person --

COUNCILMAN NUTTER: I thought the tax hearings were tomorrow.

COUNCILMAN KENNEY: -- I'll withdraw the question. You don't have to answer it.

(Laughter.)

COUNCILMAN KENNEY: I don't want to get you in trouble. I'm sorry, Councilman.

COUNCILMAN NUTTER: That's okay.

(Laughter.)

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COUNCILMAN NUTTER: I thought we were at, like, last week or something.

Commissioner, can you provide to us prior to any final action, not -- not this sheet, the one that I can't understand, but some other analysis that lays out in a schedule that shows the array of taxes that are being exempted here and what your projections are for each of those taxes, and then a total on what those the total exempted taxes would be?

MS. KAMMERDEINER: Yes, we will.

COUNCILMAN NUTTER: Okay. Could you also tell me why this particular project, unlike many other projects, especially the Tax Increment Financing Districts that we get and some of the others, there does not appear to be one official piece of paperwork on the financials of this?

MS. KAMMERDEINER: I'm not sure I understand what you're asking.

COUNCILMAN NUTTER: Have you been to any of the wonderful TIF hearings that we've had? There's usually a project

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statement. It usually comes with an array of sources --

MS. KAMMERDEINER: I've seen --

COUNCILMAN NUTTER: -- and uses and schedules that tell us everything we want to know and more about the project.

MS. KAMMERDEINER: I have seen those and...

COUNCILMAN NUTTER: All right.

MS. KAMMERDEINER: They're prepared by PIDC, with all the particulars of a project, where you can predict who's going to be, a lot more than we know in this instance about who's going to be there and what's going to be happening. So, we did not prepare anything in that level of detail.

COUNCILMAN NUTTER: Okay.

Mr. Feder, can you tell me what the purpose is of sub 4 on Page 2 in the legislation in front of us, before we get to the proposed amendment by the administration?

MR. FEDER: This is the provision

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that begins "subject to the conditions set forth"?

COUNCILMAN NUTTER: Yes.

MR. FEDER: That is the provision that... We call it repeals the net profits tax exemption.

But more precisely, what it does is it says that no longer will you be entitled to a net profits tax exemption merely for working in a KOZ.

The only way you would be entitled to a net profits tax exception is if you live in a KOZ. So, effectively, we are eliminating the net profits tax exemption because, as I mentioned before, there probably is nobody who lives in a KOZ.

COUNCILMAN NUTTER: We would hope.

Now, how long has that provision been in existence?

MR. FEDER: I'm sorry. This is a provision we're proposing, so...

COUNCILMAN NUTTER: No.

MR. FEDER: I don't understand.

COUNCILMAN NUTTER: The present

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provision...

MR. FEDER: Subsection four is --

COUNCILMAN NUTTER: You're obviously deleting taxpayer and replacing it with resident of the zone.

And the provision that allows, apparently, the net profits tax eligibility that you are now trying to rescind, how long has that provision been in the Code?

MR. FEDER: Since the inception of the Keystone Opportunity Zone.

COUNCILMAN NUTTER: And when was that?

MR. FEDER: I believe it was 1998.

COUNCILMAN NUTTER: Okay. And when was the last time we approved the Keystone Opportunity Zone?

MR. FEDER: You've done perhaps... 2002.

COUNCILMAN NUTTER: How about maybe 2003? Didn't we approve the West Philadelphia Zone for the Cira Center and a bunch of others just last year? I think it was last either April or May?

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MR. FEDER: I don't recall the specific dates, Councilman. I'm sure you're correct.

COUNCILMAN NUTTER: Well, I think the state approved it in December of 2002. And I believe we had to approve our application by the spring. And I think it was May 1 of 2003; isn't that correct?

MR. BUM: Dwayne Bum, Deputy Commerce Director.

My recollection is the legislation was required to be submitted, I believe it was, in June 1st of 2003. The state approved it in the fall of 2003. It became effective -- This is the KOIZ legislation became effective as of January 1st, 2004.

COUNCILMAN NUTTER: Would do we do -- What did the state do in December of 2002?

MR. BUM: In December of 2003, the state passed other legislation.

COUNCILMAN NUTTER: Okay.

MR. BUM: Which we did not consider in the City.

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COUNCILMAN NUTTER: Okay.

This issue, has it ever been raised in any of the prior KOZ or KOIZ legislations --

MR. BUM: No.

COUNCILMAN NUTTER: -- that we've approved?

MR. BUM: No.

COUNCILMAN NUTTER: Why is that?

MR. BUM: Because it is only the recent actions by large professional associations or partnerships that caused us to realize the actual tax impact of including net profits tax.

Before that we only saw small organizations, generally manufacturers, sole proprietors. It was nominal impact to the tax base. This is a much more significant impact.

COUNCILMAN NUTTER: So you're saying that the opportunity was always there and we just didn't notice it. Is that what happened?

MR. BUM: Because of the type of

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product that was on the market which was commercial office building --

COUNCILMAN NUTTER: I'm sorry?

MR. BUM: With the introduction of the KOIZ, it was the first opportunity that we saw any real office... commercial tenant movement as a result of the KOIZ legislation.

COUNCILMAN NUTTER: No; I understand that.

But this provision exists for some time.

MR. BUM: Correct.

COUNCILMAN NUTTER: We approved a new KOIZ. No one raised the issue at the time? Is that your testimony?

MR. BUM: I'm not aware of anybody raising the issue.

COUNCILMAN NUTTER: Okay. And now that something has happened in the marketplace, we have now decided that we're going to take it away? Is that what's going on here?

MR. BUM: Well, I'm not sure... I

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don't think we would characterize it as taking away.

I think we want to at least prospectively about it is not available in the future.

COUNCILMAN NUTTER: Well, how would it affect an existing?

MR. FEDER: Councilman, this bill does not take a position on that. That's going to be decided either in Harrisburg or I understand Councilwoman Blackwell has introduced an amendment which would address at least the particular --

COUNCILMAN NUTTER: I'm talking about what's in front of us right now. What is the effect of this language?

MR. FEDER: It is silent. It will depend on what Harrisburg authorizes the City to do.

But what this language says is, it is effective to the extent authorized by the General Assembly. If, indeed, the General Assembly allows it, this would apply to existing tenants and existing

buildings, to the extent they exist.

We've heard from a couple today who do exist. I understand that there's going to be an amendment that's going to address their particular concerns.

COUNCILMAN NUTTER: What's the City's position on that?

MR. FEDER: I don't believe the City is taking a position on that amendment, Councilman.

COUNCILMAN NUTTER: Well, I'm asking you now what the City's position is on it.

MR. FEDER: I don't believe the City has a position on that amendment.

COUNCILMAN NUTTER: Well, Miss Naidoff, as the Commerce Director, do you have a position on it?

You've written a brand new amendment and you put it in, so you must have a position on the amendment. You submitted this legislation. You must have a position on it.

MR. FEDER: Let me -- Before Miss Naidoff answers, let me just clarify the

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question.

No position was on Councilwoman Blackwell's amendment. The amendment that we've been discussing for the last 15 minutes the City certainly supports. I apologize if I misunderstood your question.

COUNCILMAN NUTTER: And what does the City anticipate the net effect of the amendment to be? What is it that you're trying to accomplish with this language? You wouldn't put it in if it had no meaning. So what, in your world view, depending on what Harrisburg does, what would you like this to accomplish?

MR. FEDER: At an absolute minimum what it will accomplish is that any new tenants in new zones, for example, the Liberty Property Zone, the Food Distribution Zone, they would not be exempt from net profits tax.

COUNCILMAN NUTTER: What does it do for any existing zones?

MR. FEDER: For any existing zones, if -- if -- if -- if written as this way,

and there are no changes, it would apply in existing zones also, the rules that I just described.

COUNCILMAN NUTTER: Right. And so, is it the City's intention to have it implemented in that fashion?

MR. FEDER: As written, yes.

COUNCILMAN NUTTER: Okay. And why would you do that?

MS. NAIDOFF: We were trying to address what we perceived to be a fundamental fairness, that people who are wage earners --

COUNCILMAN NUTTER: We're making a fairness argument now?

MS. NAIDOFF: Yes, sir.

COUNCILMAN NUTTER: Okay. I can't wait.

MS. NAIDOFF: That people who are wage earners in these zones are paying wage tax and highly compensated partners of partnerships and professional service firms will not be paying the equivalent which is the net profits tax. And we believe that

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in an attempt to address that, we would like to remove that exemption.

COUNCILMAN NUTTER: Well, I guess I would only have to respond back, Madam Commerce Director, do you think it is fair that once the provision has been granted, and just because the City didn't notice it before, and this Council has approved it, and it was signed by the Mayor, that you should subsequently take it away? Is that fair?

MS. NAIDOFF: I understand the concern. And we certainly have considered it. But the fact is that the people that we're talking about are not currently in those buildings yet. This issue has not affected their individual situations, and --

COUNCILMAN NUTTER: Well, I think the people who are building the building or selling the building made a sale based on certain representations and certain expectations.

If someone gives you a benefit, and

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you go out and make a sale on it, and subsequently the government changes it, what does that do to the sale that was made?

MS. NAIDOFF: I understand that that is the argument that has been raised, and it was raised yesterday in Harrisburg as well. And that's why, as Mr. Feder said, we're waiting to see what the response is in Harrisburg.

COUNCILMAN NUTTER: Well, I understand that. I'm not just raising an argument for the sake of having an argument.

What I'm also raising is the integrity of our actions as public officials. And if people come here and get a particular benefit in good faith, approved by this particular body, and less or about a year or so later it is taken away, I think it raises a credibility issue about what we do and how we conduct ourselves.

So I'm actually concerned a little

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more about that at the moment than I am about someone who has never moved into a particular building, although their company was sold on an idea that certain things would happen. I'm actually more interested in the integrity of our actions.

MS. NAIDOFF: I understand that concern, and I think we did consider that when we were drafting this.

The issue that we had as a counterbalancing factor was our concern about the fairness to employees who were paying the wage tax. And this was, in our view, an unintended consequence that we were trying to address.

COUNCILMAN NUTTER: Okay.

MS. NAIDOFF: I think there is no absolute certainty of anybody putting up a building that all circumstances will always remain the same. Tax rates may change. Other regulations may change.

COUNCILMAN NUTTER: I understand that.

MS. NAIDOFF: If this Council chose

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to address that fairness question, I think it would be on pretty sold ground, in terms of the disparity between wage-earning employees and partners who are subject to the net profits tax.

COUNCILMAN NUTTER: And when you were taking into consideration your concern about the Council's integrity of this or the integrity of the Council's actions, who did you talk to at City Council about that?

MS. NAIDOFF: We did not talk to members of City Council. We were considering this within the administration, and we are proposing it to City Council for its consideration.

COUNCILMAN NUTTER: All right. So in developing your position on the concern about Council's actions, you only talked within yourselves and the administration, did not talk with anyone at City Council, and then gave us a bill with a provision in it that is, at least from my own personal perspective, patently unfair and impugns the integrity of the body, in terms of

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previous actions taken because we now rip out a benefit that we granted in good faith.

COUNCILMAN RIZZO: Right.

COUNCILMAN NUTTER: And in that context, you took into consideration the integrity of our actions but never talked to us about them.

MS. NAIDOFF: I do believe that we're talking about the City as a whole. And I understand your concern about the perception about integrity. But I think there's also a body of thought that there is a perception of fairness here.

COUNCILMAN NUTTER: All right. We don't have to debate that any longer.

Let's talk about Page 3 and this issue of an equity ownership interest in an improvement to real property. What exactly does that mean? And that's a new provision as well; is that correct.

MR. BUM: Dwayne Bum. Yes, Councilman, that's a new provision. Again, it is an attempt to address sort of the

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changing circumstance with a multi-tenant office construction, when in previous KOZ developments we were dealing primarily with single tenant or whether when they were multi-tenant buildings, they were industrial or manufacturing in nature.

COUNCILMAN NUTTER: Mm-hmm.

MR. BUM: And to meet a capital test, someone actually has to have something that they can capitalize or depreciate over time. They have to have some evidence of ownership. They should either have taken out a loan or a mortgage against it.

Generally, that's easy for a building owner to do. It is much more difficult -- It should be much more difficult for a tenant. A tenant that needs lots of data equipment, one could sort of see that tenant meeting this test.

If it is sort of a vanilla office tenant, I think what we're trying to sort of eliminate here is building out walls and putting carpeting down. These are typical

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tenant fit-out issues.

They are not capital eligible, sort of, improvements on a tenant's behalf and they should be not be allowed for a capital investment test.

Again, what we're really trying to do is focus on companies' job growth which is one of the other tests that has always existed as well, the 20 percent job growth test.

COUNCILMAN NUTTER: Two last questions. I read a story some time ago in the news that the Mayor, I think, was at a level of grave concerns. Seem to recall those words, the Mayor had grave concerns about this proposal some number of months ago. What changed?

MS. NAIDOFF: I can't respond to that, Councilman. It's before the time I entered City service, and I don't know what exactly you're referring to.

COUNCILMAN NUTTER: I'm referring to a news account about this particular proposal. And it was stated that the Mayor

had grave concerns about it.

Is there anyone else on the team of slightly longer tenure who may have a recollection of that and tell us what happened between then and now.

MR. BUM: I'm going to hazard a guess. I think we're referring to the period after the state legislature passed House Bill 521 which added the long-term lease test that we've talked about wanting to eliminate here, which the City and City Council has never considered but which were sort of imposed by the state upon us.

And the fact that we saw the effect of that being large organizations moving without job growth, and getting what appeared to be windfall benefits, especially those that pay -- would otherwise be paying net profits tax.

I think that was the concern the Mayor was speaking of. And again, I think that our proposed changes here are addressing that, and that is why the administration would be supporting it.

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The whole sort of concern that was out there, and you hear building owners still talk about the vacuuming effect, that one building's going to empty out and they're just going to move into another building.

Again, that's the whole idea that there's a... you're in a taxable zone right now, and the only thing that changed the next day was that you moved... you didn't necessarily invest in anything more, you didn't add any jobs --

COUNCILMAN NUTTER: No; I understand. So let's address the grave concern issue.

MR. BUM: The legislation that the -- the amendments that we've proposed in the Harrisburg legislation, and the corresponding legislation in front of you today addresses all three tests that are there: The net profits or the long-term least test we are asking for it to be eliminated. We've never seen it before and never approved it.

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The job growth test obviously is the one that we've always wanted to sort of see happen. We want job growth.

the second test being the capital investment test, where we're looking to tighten it so there are no loopholes there.

And then finally this one tax bill -- tax which is the net profits tax.

COUNCILMAN NUTTER: Last question. In Exhibit A, how is the that you guys somehow figured out that 17th and JFK could be in the West Philadelphia Zone?

MR. FEDER: Two answers to that.

COUNCILMAN NUTTER: Do you guys work on Congressional District maps also in your spare time?

MR. FEDER: No, but I did spend some time doing Council Districting.

COUNCILMAN NUTTER: You had to remind me.

MR. FEDER: You brought it up.

COUNCILMAN NUTTER: Yeah. It was four-and-a-half months with no pay, but that's okay.

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MR. FEDER: Two answers to your question, Councilman. First of all, in our amendment -- This will not satisfy you, but the second half, I think, will.

In our amendment we proposed changing that to the Naval Business Center subzone.

COUNCILMAN NUTTER: Oh, okay. That's much closer to South Philly than it is to West Philly. Absolutely.

MR. FEDER: The answer to your question is, it is not clear to us yet whether HB 1321 will require that the new designated areas be attached to an existing subzone or whether they will be created as new subzones.

As amended, you'll see it -- it -- the legislation would allow for either one. If it requires attachment to a preexisting subzone, we had to pick a subzone.

COUNCILMAN NUTTER: Gotcha. Thank you.

Thank you, Madam chair.

COUNCIL PRESIDENT VERNA: Thank you.

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The Chair recognizes Councilman Cohen.

COUNCILMAN COHEN: Council members have suggested cuts in wage taxes.

The Mayor has somehow been able to furnish us with a loss to the City that would result -- In fact, you could do it precisely year by year, even up to 2020, I saw once.

Could the same standards be used in this case? What would the City lose from normal taxation, if the building were rented in the normal way and KOZ did not apply? Is that the figures that you were working toward, Miss Kammerdeiner?

MS. KAMMERDEINER: Yes.

COUNCILMAN COHEN: That's what you had in mind?

MS. NAIDOFF: That's what she has agreed to provide.

MS. KAMMERDEINER: What we've provided so far is the net result counting those losses and gains. And what we've agreed to do is to look at it and separate out the losses and the gains so that you

can see them discretely.

COUNCILMAN COHEN: Now, with respect to one word that appears -- maybe it's two words that appear -- pretty frequently in your message, and I'm suggesting that to the Director of Commerce, you were saying that this is going to be the tallest building.

Now, I have a kind of half institutional memory because of my years of service. And I remember when Willard Rouse built Liberty Place.

It divided the City greatly because of building bigger. It was the biggest in the City, and it dwarfed City Hall and interfered with the view of City Hall of many people.

Now, why do we still have that inferiority complex in Philadelphia, if we have to prove that something is the biggest because we're still competing somehow with New York and we feel very inferior.

Because I never felt that way, and I fought against that extension of the

limitation on the ability of people to see City Hall.

I think City Hall is a beautiful building, even though sometimes those of us who pass laws may foul its reputation.

But I think in general to people in Philadelphia City Hall represents a great idea. We try hard to keep it that way.

Why does there building have to again create an obstacle to the sight of City Hall, and why do you have to boast that this is going to be the tallest building? What does that have to do with its merit?

MS. NAIDOFF: Your view is admirable, Councilman Cohen, and particularly the part that talks about the fact not having an inferiority complex. I wish we could say that everybody in the City shared that.

I think the important thing to note about this is that it's not just that it would be the tallest building in our skyline; but it would be, first of all,

along with the Cira Center, the first time we've had new construction in Philadelphia in Philadelphia in the last 10 or 12 years.

And that is a sign of a growing, vital City. And we believe that it sends a very strong message to people, not only in this City but around the country, in fact around the world, that this City has the vitality and the dynamism to continue to grow.

I think it's not just that it's the tallest, but that it will be a brand new, wonderfully designed building, and it will be the headquarters of a market leader, a company that is a market leader and dominant in its industry.

And Philadelphia will be seen in the same way that Atlanta is seen with regard to Coca-Cola, and Seattle is seen with respect to Microsoft. That's a wonderful message and a wonderful image of a growing, vital, dynamic city, that will carry us a long way to achieving the kind of economic development goals that we've all aspired

to.

COUNCILMAN COHEN: And, therefore, it's necessary to have this building taller than everything else? You know, I think you're renewing an old slight that's going to hurt rather than help because I believe it does show people still have an inferiority complex. They think bigger is better. And it may be sometimes and it may not be on other occasions.

And in Philadelphia we've prided ourselves on our uniqueness as a City, not on our being able to grow as tall as New York and competing with New York. Most of us don't want that, except New Yorkers, who are making the mistake of coming to live in Philadelphia and then get that.

MS. NAIDOFF: Not a mistake at all. We want them all to come and live here.

COUNCILMAN COHEN: I would just like to suggest that that matter might be worthy of being reconsidered.

The other questions that Councilman Nutter raised are equally disturbing. I

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think we've got to get as much information.

I've always assumed that the reason why you were moving ahead in Philadelphia was that probably you had a signal from Harrisburg that didn't look too good, and you wanted to show people in Harrisburg that Philadelphia really was serious about wanting this building; and therefore, you would change the schedule. You would reverse the schedule so that Philadelphia would vote its approval first, instead of being the ones to express their approval after Harrisburg authorized it.

MS. NAIDOFF: Not at all.

COUNCILMAN COHEN: Is there any truth to that?

MS. NAIDOFF: No, not at all. That is not the truth. No. In fact, I would say that the sense we all had yesterday is that it looks very good, in terms of Harrisburg voting this legislation out.

It was simply a matter of timing. This bill got tied up in Harrisburg for other reasons, other legislative priorities

that were being advanced, and it simply got delayed. And so, we got caught up in a timetable problem.

COUNCILMAN COHEN: Has there been any study made in any city of the consequence of new building on space of old buildings?

For example, I was told that the reason we haven't built anything in the last ten or more years is that we over built originally, but the result would create enormous amount of empty space in the City.

And despite the passage of time, I'm told that the empty space is still very large in the City. I'm talking about buildings that existed for a while.

And I'd like to know: Are there any studies on that kind of an impact? Is there anything we could lay our teeth into and see what really has happened somewhere else?

MS. NAIDOFF: I'm sure there are. I think there are a couple of facts that I

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would point out, though, just in direct reference to your question.

One is that there are a variety of studies about our vacancy rate, a variety of opinions about what the vacancy rate is now.

But by any indication, it is lower than the national average. So, in many sense -- In some sense, I would say that some of the discussion has been overstated.

The other thing to keep in mind is that the Comcast, Liberty Trust building will add only three percent to our existing capacity.

So we're now talking about a tremendous risk of over supply, when you have a building that will only add three percent and has a major tenant already committed to occupying most of that space, much of that space.

COUNCILMAN COHEN: All right.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: Welcome.

Are there any other questions of

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these witnesses?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you very much.

MS. NAIDOFF: Thank you.

COUNCIL PRESIDENT VERNA: I don't know if my colleagues received a copy of the letter that I received from the School District signed by Mr. Nevels and Mr. Vallas, supporting the Keystone Opportunity Improvement Zone legislation. I think everybody must have gotten a copy.

At this time I call Peter Longstreth, PIDC.

Good evening.

MR. LONGSTRETH: Good evening, Council President Verna and members of the Committee.

My name is Peter Longstreth, and I'm the President of Philadelphia Industrial Development Corporation, PIDC.

And I'm here today to testify regarding Bill Number 040642. This bill authorizes the expansion of the existing

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Keystone Opportunity Improvement Zone to include a 63 acre site at the Southwest corner of Oregon Avenue and Christopher Columbus Boulevard.

COUNCIL PRESIDENT VERNA: Good.

MR. LONGSTRETH: This site is proposed as the new location for two of the largest employers in the Food Distribution Center, the Produce Terminal, and the Seafood Market.

The Philadelphia Regional Port Authority, PRPA, is assembling the site, and will be the developer and landlord of two new facilities.

The first of these will be a new state-of-the-art produce terminal, funded through the state capital budget and private investment.

This will be leased to the Philadelphia Fresh Food Terminal Corporation, which is a cooperative of 40 produce businesses with 1100 employees. These businesses currently generate about a billion dollars of annual sales, and they

pay $2 million of annual wage taxes and $1.5 million of annual businesses taxes to the City of Philadelphia.

The second will be a smaller facility for the Seafood Market which is a cooperative of 6 businesses employing 275 people.

The existing Seafood Market generates $150 million of annual sales and pays $600,000 dollars of annual wage taxes and $220,000 of annual business taxes.

The existing produce and seafood markets were, of course, built when the City relocated these merchants from the old Dock Street Market in Society Hill in the late 1950's.

And although PIDC, as owner of the buildings, and manager of the Food Distribution Center itself have upgraded the facilities over the years, we now face the urgent need to provide significantly expanded modern buildings to keep the markets in Philadelphia, and to maintain their competitiveness in a fast-changing

business and regulatory environment.

I'm sure the committee is, of course, aware of the immediate challenge, the fact that New Jersey has made a very attractive offer to the produce merchants to build a new market in Camden.

PIDC has been working with the City's Commerce Department and the Commonwealth to respond to this offer with competitive financial terms and an attractive site, and the creation of this KOZ on the PRPA site at Columbus Boulevard and Oregon Avenue is a critical component in our counteroffer to the merchants.

As already stated, these businesses now pay a total of $4.3 million annually to the City in wage and business taxes. If they relocate to New Jersey, the entire amount will, of course, be lost.

If the businesses remain in Philadelphia at a KOIZ, $2.6 million in annual wage taxes will be retained, with obviously additional growth in employment, generating additional taxes, as well.

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This is an excellent location for the new facilities. The proposed site is mostly publicly owned, is minutes away from the existing Food Distribution Center, and provides the rail, highway, and port access needed by this industry.

This location also will prevent the disruption of the existing center, where many of the produce and seafood merchants own other buildings and conduct a significant amount of their activity.

Overall, the businesses in the Food Distribution Center as a whole employ 5,000. Moving the two anchors out of the City could jeopardize the retention of many of the jobs not directly housed in the markets themselves.

So as a result, PIDC strongly believes that the KOIZ incentives, combined with an attractive site, close to the existing Food Center and capital funding from the state will keep these 1,375 jobs in Philadelphia and provide for the future growth of the food industry in the City.

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Thank you for the opportunity to testify, and I'm happy to answer any questions.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilwoman Brown.

COUNCILWOMAN BROWN: Thank you, Madam Chair.

Good afternoon, Mr. Longstreth.

Again, this testimony, like the testimony of the administration, gives extended discussion around the number one test which is job creation.

However, in this testimony there is no mention of the impact on the School District. Is that a part of the discussions? And respecting the mission of PIDC which is principally economic development and job creation, when we're talking about KOZ's there is an impact on the School District. So, can you speak to that at all?

MR. LONGSTRETH: I'm really probably not the right person to talk about that.

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The Revenue Commissioner, obviously, gave her opinion which includes the input from us.

COUNCILWOMAN BROWN: Okay. That's what I was not aware of. So that answers that question.

MR. LONGSTRETH: I would emphasize that the KOIZ business taxes that would be abated total $1.7 million a year, and the net wage taxes retained are $2.6 million, as I indicated.

So it's a net retention. And that's, of course, a very important thing, given the alternative of losing all $4.3 million.

COUNCILWOMAN BROWN: Okay. Thank you.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: And I guess I should have asked this of the Commerce -- Revenue Commissioner.

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Would the Food Distribution Center be afforded the use of other tax credits that's given by the City, such as in relationship to job creation?

I know Councilman Goode has introduced several bills that provide some credits, tax credits, to businesses if they create so many jobs. Would you...

MR. LONGSTRETH: I believe that job creation tax credit program relates to the business privilege tax. And in a KOIZ that would be fully abated, so I don't think the credit would apply.

COUNCILWOMAN TASCO: All right. Thank you.

MR. LONGSTRETH: I believe. Correct me if I'm wrong.

COUNCIL PRESIDENT VERNA: I think you're right.

Mr. Longstreth, is it anticipated that with the new facility and the certainly the chance for expansion, that at the Distribution Center that they will be hiring more employees?

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MR. LONGSTRETH: That's certainly implicit in the fact that there will be a substantial growth in the facility. It will be state of the art. It will be extremely well located, will be well financed, and it's certainly something we're encouraging them to focus on.

COUNCIL PRESIDENT VERNA: And I know that you will agree with me, particularly with the Seafood Market, there have been so many different regulations from the Federal Government that they have to abide by, and they are not equipped to do that in the space that they're in now.

MR. LONGSTRETH: No, no. That's absolutely one of the driving elements in this whole project.

COUNCIL PRESIDENT VERNA: Fine. Thank you.

The Chair recognizes Councilwoman Brown again.

COUNCILWOMAN BROWN: Clarity, Madam Chair.

The grid that the Revenue

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Commissioner distributed, what I hear you saying is that these numbers include all two, all three KOIZ projects that we're discussing this evening. Is that not so?

MR. LONGSTRETH: Well, that was my understanding, but I could be wrong.

COUNCIL PRESIDENT VERNA: Is the Revenue Commissioner here? Please come to the witness stable.

COUNCILWOMAN BROWN: Madam Chair, Councilwoman Tasco has a point of information.

MS. KAMMERDEINER: Excuse me. I was just catching up on what happened. I was out. I didn't hear the full question.

The calculations that I shared with you earlier were only for the One Pennsylvania Plaza. They did not include the Food Distribution Center.

But the same kind of situation will occur with the Food Distribution Center as with One Pennsylvania Plaza, in that the School District will have some time where there is a loss of use and occupancy tax.

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And because they don't have the benefit of the wage tax or growth in wage tax to overcome that, there will be some period of time where they would have a decline in taxes.

And I'm not as conversant with the situation on the Food Distribution Center. We have not reviewed those figures in as much detail as PIDC has.

MR. LONGSTRETH: Yeah. I would sort of emphasize that this is a state project, that the Philadelphia Regional Port Authority is the developer and the landlord. They own the site. The funding is coming from the site. KOIZ is, of course, a state program.

COUNCILWOMAN BROWN: Okay.

MR. LONGSTRETH: So we're not really directly involved. I was ask to give testimony because we have a lot of background.

COUNCILWOMAN BROWN: Okay, then. So you, therefore, are not held by the standard as discussed with One Pennsylvania

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Plaza.

MS. KAMMERDEINER: I'm not sure I understand what you mean by standards.

COUNCILWOMAN BROWN: We should not be concerned about the impact on the Philadelphia Public School System as we are with Comcast. Is that what I hear you saying, that because of the state project we should not be concerned about the ultimate impact on the Philadelphia Public School System?

MS. KAMMERDEINER: I think the one area of concern is with the use and occupancy tax. But because they're moving from one place to another, and there's an opportunity for expansion of other businesses into the area that they're vacating, I think we have much the same kind of situation where there would be some replacement of what is lost.

But again, I have not looked at it in detail. Perhaps there's some information that's just been shared that will help.

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MR. LONGSTRETH: Yeah. The produce terminal and the Seafood Market are currently paying $140,000 of real estate and U and O taxes.

COUNCILWOMAN BROWN: Okay. That's helpful.

MR. LONGSTRETH: And that would be abated in this program.

COUNCILWOMAN BROWN: And that is for what time period?

MR. LONGSTRETH: That is their annual tax.

MS. KAMMERDEINER: And the real estate would be divided between City and School District, although, as you know, the majority of that is School District.

COUNCILWOMAN BROWN: That is useful. Thank you very much.

COUNCIL PRESIDENT VERNA: Thank you. Any other questions of Mr. Longstreth?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you very much.

I would suggest that Mr. Hankowsky

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and Mr. David Cohen come up to the witness table together.

Good evening, gentlemen.

MR. COHEN: Good evening.

MR. HANKOWSKY: Good evening.

MR. COHEN: It's a pleasure to be back at this witness stable.

COUNCIL PRESIDENT VERNA: I'm sure.

MR. HANKOWSKY: Madam President, Council President Verna, Bill Hankowsky, C.E.O. of Liberty Property Trust.

I've been advised that it might be in the best interests of our cause if we put our testimony on the record and paraphrased it.

COUNCIL PRESIDENT VERNA: That would be great.

MR. HANKOWSKY: So if that's acceptable, that's what we will do, both David and I.

So, I'd like to make a few basic points, I think David would like to make a few, and then obviously entertain questions.

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First, I have several letters here from property owners in Center City in support of the project that I'd simply enter into the record.

First let me start by thanking Council for taking the time today, this afternoon, now into the evening, to consider this issue.

And obviously, you've heard a lot. And it's a complicated and somewhat controversial issue, so let me talk a little bit about just a couple key elements.

One, let me just briefly make a couple points about Liberty Property Trust. We're a publicly-traded real estate investment trust worth about $5 billion. We're headquartered in Pennsylvania. We've had a long history in Philadelphia.

Councilman Cohen recognized a piece of it a moment ago when he spoke about Liberty Place which was developed by our founder Bill Rouse, who founded this company some 32 years ago.

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Our biggest concentration activity, though, is the Delaware Valley, Philadelphia.

We're active in other parts of Pennsylvania. We recently won an award up in Allentown for a new environmentally-safe building. That's partially while the building is tall. I can talk about that later, if Mr. Cohen would like.

But we are looking today and trying to develop in Center City Philadelphia a new state-of-the-art, 21st century, high-rise office building, a product that doesn't totally exist anywhere today in Center City Philadelphia. So it is a unique product. It is somewhat new.

As I said... Actually, we've built the last office building in downtown Philadelphia, Three Franklin Plaza, that this deliberative body was helpful, in terms of public assistance. That was a tax increment financing, a TIF; to allow another big corporation, GlaxoSmithKline, to expand; to allow another big corporation

like Comcast to bring new jobs to Philadelphia. In that case it was 600.

I only point that out because at that time the vacancy rate was about 13 percent, what it is today in the marketplace.

And instead of solving their problem in existing buildings, they elected to get new product and have a new building brought into the market. And we were pleased to be part of that.

We also have a long history with KOIZs and KOZs. I think we're all familiar with the TJ Maxx transaction up in Northeast Philadelphia. Employs 1500 people. They speak 22 languages. It's one of the largest employment KOZ projects ever executed in the Commonwealth.

We just opened a building up in Allentown, in downtown Allentown, a office building for PP&L. That was a KOZ project. And we've just recently completed one at the Navy Base, Council President, in your District, for Abtech.

All of these were job creation or bringing jobs in. So between us and our tenants we've added about 2,000 jobs in KOZs. So we're believers in it, used well, to help economic growth. And that's what we're here today to talk about.

We've looked at designing a state-of-the-art building, using Bob Stern as our architect. This is a building that would cost over $400 million.

And when you include costs for tenant improvements and costs that they would all put in, you're talking about a half-a-billion-dollar project, as far as we can recall, the largest pure private investment made in the City of Philadelphia ever.

And we are asking for consideration for a KOIZ. We're not asking for any public dollars. So we would execute this from this point forward, should you be so receptive to this request, as a private transaction between us and Comcast.

When we started this four years ago

and bought this piece of ground, what we did was, we started talking to a lot of the big companies in town who had future needs for office space.

And we began to have a fairly intense dialogue with Comcast. And what came to bear was that between us we had a physical real estate solution that married up with a company that was trying to deal with its long-term growth problem which was that they were going to grow organically over time, so they would initially take about 508,000 square feet in this building, but would have the right and want the rights to grow into more of the space over time; in fact, would want the right any time space became available, if they needed it at the time, to have a first look at it. So to some degree they could ultimately take it all.

There's also a capacity on the site to do a second building, a small second building. They would actually control the right to build that building.

We would not be able to put it in the market. We wouldn't be able to build it as spec space, you know, empty space, and take tenants from anywhere.

The only thing we could do with it is if Comcast ordered it up, so to speak, they could expand.

The result is they really can grow here from about half a million square feet to a million square feet over the life of this arrangement between the two of us.

It gives them great flexibility should they, for example, make a big move and need to expand quickly or just grow organically over time.

I point that out also because part of the big controversy is how much space are we putting in the market to affect the market?

If you take the half a million square feet they lease, the 200,000 square feet that they will have a right to expand into that basically we can only lease for like the two or three years or five years

between then and when they have the right to take it, that's about 56 percent of the building.

So the remaining 44 percent of the building, about 500,000 square feet, yeah, we're going in be in the marketplace and we're going to go after tenants.

The KOZ that we would be interested in having here -- And there has been lots of dialogue about laws and when dates happen.

We are perfectly comfortable living with the KOZ that does not have the benefit of the net profits tax. So, we have no interest in professional service firms enjoying that benefit moving into this building.

We're also perfectly comfortable having a KOZ that does not use what's called the lease test, as you've heard, you know, where you can sign a lease and move from one site to another. Some people call it the musical chair problem. We have no interest in participating in that.

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We're interested in using the test that sort of we're there initially, what I would call the economic growth test.

Comcast obviously passes that because they're thinking of going from where they are today, about 1100 jobs, to about 1900 jobs just in that first 500,000 square feet they go into. That's what we're interested in doing here.

We also have thought about this from the standpoint of the City. And I just want to spend one minute about the civic nature of this project.

This is a site we're talking about that has been vacant for about 22 years. I think some of us remember the old hotel that used to sit on that site, the old Center City Hotel, right? Probably went to affairs there.

It's been knocked down. That site's been vacant there for years. We have looked at that site and said, what could you do with this?

And what we think you can do with it

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is build a new high rise, have a pad for a smaller building, and create a new plaza and a new connection into Suburban Station.

About $30 million of this cost will open up and expand Suburban Station, and we worked with SEPTA to coordinate how that all would occur.

And again, this will be done sort of with our dollars, as part of a coordinated effort. And we all know that Suburban Station's been... you know, the rejuvenation of that has been under way.

The reason the building is as tall as it is, to the question that was raised earlier, is because each of these floors are about 25 percent taller than floors in existing buildings today.

It's actually the same rough number of stories, it's actually the same rough number of square feet in some of the biggest buildings in town, but it will be state of the art.

It will be higher ceiling heights, more window, more natural light, lower

energy use, all of which will make it what's called a leadership and environmental design type building, a 21st century type building. That's what we're trying to do here.

And we did try to take a look at what this would cost the City and what this would benefit the City.

We commissioned a study, a consult. It's been circulated. And we tried to look at both the pluses and minuses, in terms of the losses and the gains.

And from the perspective of taking this scenario, Comcast in this building and then leasing the rest of it to others, we anticipate that this project would yield to the City a net benefit of between $20 to $27 million net present value over the 15-year period as a result of this transaction.

And we believe that's conservative. We didn't even increase the wage rates over the 15 years. There's no inflation on the wage rates. This is a pretty conservative

estimate because at least for myself, speaking for myself -- And I'm sort of used to coming here and making sure that we didn't overestimate what we were trying to achieve. And hopefully, therefore, we can exceed the expectations that we're trying to create here.

Bottom line is, we're prepared to proceed with this. And there's been lots of talk about the timing aspects of where we are.

We had hoped that we would be in this chamber one day with legislation done in Harrisburg, we'd all understand what was happening, and it would be in a nice sort of logical step.

Unfortunately, that's not exactly what happened. And we have asked for Council's consideration to pass legislation that would parallel what hopefully will come from Harrisburg shortly, in the next several weeks, to put us in a position where we could start this building this summer.

And we have a need to do that, to meet Comcast's needs, in order to hold the project together because of rising costs and inflation and interest rates.

So, I know we are asking a lot. We're asking a lot for you to be here this evening; we've asked a lot for you to introduce this, to schedule this hearing; and obviously, we're asking a lot if you would consider moving on the bill in short order.

That's the request, that's the reason, that's the rationale.

And we deeply appreciate the consideration you've given us through the course of this entire process.

Let me turn it over to David.

COUNCIL PRESIDENT VERNA: Thank you. Thank you, Mr. Hankowsky.

I just have one question of you, if I may. You referred to the second building. Is that in the footprint of the KOIZ?

MR. HANKOWSKY: Yes.

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COUNCIL PRESIDENT VERNA: Okay.

MR. COHEN: Council President Verna, I am David L. Cohen, Executive Vice President of Comcast Corporation, and actually do enjoy being back at this witness table in the wonderfully re-renovated Council Chambers which are spectacular.

COUNCIL PRESIDENT VERNA: And we're very happy to see you and to have you with us. Thank you.

MR. COHEN: I even liked that.

I want to start, really, where Mr. Hankowsky led off, and thank the Council President and her office, and all of the members of Council for again tolerating a last-minute request by Bill Hankowsky and David Cohen.

We were joking in the hall that we always seem to be here in the last two weeks of a Council session with some emergency.

And I say it with a smile on my face, but I understand that it puts this

body under incredible pressure. And we really appreciate the grace with which you have treated us, and in which you have attempted to accommodate this year's emergency. And we are very, very appreciative for the consideration.

I also will only summarize my testimony which has been submitted for the record.

I also want to start with a little bit of the story of Comcast. Everyone knows about Comcast, but it's a story about which we're incredibly proud.

This is a company that was formed over 40 years ago in Pennsylvania, actually in Bala Cynwyd at the time. It started with 1200 community antenna television subscribers in Tupelo, Mississippi which until we came along was known only as the birthplace of Elvis Presley. We, by the way, still own the cable television system in Tupelo today.

40 years after our founding, we are now the largest cable company in America.

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We have 68,000 employees, 21 and a half million cable customers. We are the largest cable company, the largest broadband provider in the United States of America.

Throughout our history, throughout all 40 years of our history, we have remained firmly anchored in Philadelphia and Pennsylvania.

We serve nearly 2 million cable customers across the Commonwealth and more than 250,000 in the City of Philadelphia alone.

In 2003 -- And I have to tell you this: Until we prepared for this hearing, I did not know this number. But in 2003 Comcast and its employees paid more than $33 million in taxes and franchise fees in Philadelphia, the vast majority of which were paid by our operating subsidiaries, and will not be affected by the KOIZ designation that we are discussing today.

The only Comcast entity that is moving into the KOIZ is Comcast Corporation

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which is the parent entity, and the vast majority of those taxes were paid by entities and employees who are employees of our operating subsidiaries. And those tax revenues, therefore, will continue to be enjoyed by the City.

We are enormously proud of our Philadelphia roots and have resisted numerous attempts to have us move our headquarters outside of the City of Philadelphia, first in the AT&T broadband transaction where the AT&T board initially insisted that our corporate headquarters be moved to New York.

And Ralph and Brian Roberts said, no way, that was a deal breaker. And we ultimately were able to prevail.

And most recently through this corporate headquarters search where, although we have entertained numerous options, the one option we have never considered is moving our corporate headquarters from Philadelphia.

Today Comcast is the largest

company, measured by market capitalization, headquartered in the Commonwealth of Pennsylvania. We are the only Fortune 100 company headquartered in the City of Philadelphia. We are proud of how we have grown, but we are not done. We think we have a terrific growth potential moving forward into the future.

Now, what's interesting is, for all the jobs and all the economic impact, Comcast has never sought or received any economic development assistance from the City of Philadelphia or the Commonwealth of Pennsylvania. We have never asked for special treatment as a company, and we're not doing that today either.

Our only request is that we not be punished for our longstanding commitment to this City, and that we not be discriminated against because we had the integrity to stand up at the beginning of the process and say that we were not going to leave this City, and that we remained committed to the City.

All we would like is to be treated comparably to any company with our employee head count, with our tax contributions, charitable and civic contributions to the community, with our commitment to and prospects for growth, and with the job profile of the types of employees we're talking about adding to our headquarters presence.

We are now in the market negotiating for sufficient expansion space to accommodate as many as 3,000 to 4,000 people in our headquarters over the next decade or so. That is from a baseline of about 800 only a year-and-a-half ago and about 1100 employees today. So that's the type of potential growth profile that we see for our company.

You've heard today fears about the costs to the City for the KOIZ designation. I think that the E-Consult study and Bill's comments and our prepared testimony addresses the fact that in a very real sense, with very conservative assumptions,

this zone presents a net plus to the City of Philadelphia.

I want to have one specific comment, though, about the School District, in isolation from the City as a whole. I think the credible analyses have demonstrated that at worst there will only be a relatively small loss to the School District as a result of the KOIZ designation; and that, in fact, it's more likely that the School District will gain over the entire life of the zone as a result of the increased economic activity that will result from this particular designation.

Most important, though, is Comcast's commitment to the School District and the school children of Philadelphia. We are a long-time partner of the School District, since before anyone even heard of Keystone Opportunity Zones.

It's a perfect demonstration of why this City needs significant headquarter companies because those of us who live

here, who raise our children here, will be committed to the City and to the School District of the City.

And we have been in discussions with the School District to ensure that the kids in our school system are not hurt as a result of this designation in any way whatsoever.

And I think it's those discussions that stimulated the very strong letter that this Council has received from Jim Nevels and Paul Vallas, I think designed to put your minds at rest that there is any jeopardy to the School District or the kids who attend our School District as a result of this KOIZ designation.

In view of our many decades of commitment to Philadelphia, in view of the continuing commitments that we have made and are prepared to make, in view of our desire to grow and to thrive in the City of Philadelphia, we would ask for this Council's favorable consideration of this legislation.

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And I will... I can't control myself, having been here before. I don't think I've heard anyone else say this. So I'm going to say, at the end of the day, we would ask that the committee report out Bill Number 040642 with a favorable recommendation, and a recommendation that the Rules of Council be suspended to allow for first reading at tomorrow -- and it's still tomorrow's -- session of Council.

Thank you very much.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilwoman Brown.

COUNCILWOMAN BROWN: Thank you, Madam Chair.

Let me first thank you for acknowledging that, in addition to the impact on the City of Philadelphia, there is potentially an impact on the School District.

And though I am extremely encouraged by the letter from Mr. Nevels and Mr. Vallas, and recognizing it would be

premature for you to speak in specifics, can you speak generally to currently what you're doing, what Comcast has done in a magnificent way for the School District, and what you anticipate over the life of the KOIZ?

MR. COHEN: Comcast's partnership with the School District has involved a number of items. We are a significant cash contributor, as I believe the Councilwoman knows, to the School District and to programs that are not funded within the ordinary School District budget.

In addition, we provide wiring for video services to 220 public schools in the City of Philadelphia, and are in discussions regarding high-speed internet services with the School District as well.

And the third area is that we are involved in a number of special initiatives in the after-school area in the mentoring area, and I believe we are one of the most active members of the corporate community in partnering with this particular

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administration on public/private partnerships in the School District.

What our discussions... I appreciate the Councilwoman's flexibility because I really think it would be inappropriate to be specific because, frankly, the discussions are ongoing. And there is much about what the School District wants and needs...

COUNCILWOMAN BROWN: Sure.

MR. COHEN: ...as to Comcast's ability to deliver.

But I will represent to the Councilwoman and to this body -- And by the way, these discussions are occurring at the suggestion of the Mayor and members of this body, including Councilwoman Reynolds Brown.

And I will tell you that at the end of the day the partnership that is announced and that is a part of this process with the School District will be a partnership that involves additional cash to the School District, as well as

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additional in-kind support in a variety of ways that are designed to meet the School District's needs over the next decade plus.

COUNCILWOMAN BROWN: That speaks well to Comcast's commitment, but we know that in the legislation as presented, that covers, I believe 960... X number percent. 800,000 square feet, is that correct, for Comcast?

MR. HANKOWSKY: Councilwoman, not to be anticipatory of your question. Whatever arrangement is finally negotiated between the School District would be, I think it's fair to say, tripartite.

COUNCILWOMAN BROWN: Right.

MR. HANKOWSKY: It would be Liberty and Comcast in the District, and it would cover the entire building.

COUNCILWOMAN BROWN: You did anticipate my question. And I thank you for your response.

MR. COHEN: And If I could say that Councilwoman Reynolds Brown and Councilman Clarke, because we have also talked with

him about this, and really to all members of Council, Liberty Property Trust and Comcast are not going to do anything to hurt the School District of Philadelphia, period.

So this issue is going to be addressed. And I think the comfort level of the School District speaks for itself, that these discussions have -- I mean, we came to them. Nobody came to us. Nobody said, you should do this because you have to do this.

We are committed to this community, and we are not going to be a party to anything to damage the School District of Philadelphia, period.

COUNCILWOMAN BROWN: Thank you for your testimony.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman DiCicco.

COUNCILMAN DiCICCO: Thank you, Madam President, and good evening.

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Earlier in your testimony, Mr. Hankowsky... And I think Mr. Cohen may have touched on it, and the Council President raised the question about the site, the pad.

There has been a number -- There have been a number of people have approached me during this whole process about the concern for the possible expansion or to build another building on that site, the second site of that -- pad on that site.

Am I clear in your testimony, Mr. Hankowsky, that should Comcast decide to build another building, whether it be a smaller building or a similar building, on that site, that it would be exclusive to the Comcast facility and not for the purpose of constructing a building that would be used to... if you use the argument from the other side, to further create more office space that would create a greater drain on... in their opinion, on the office market in Philadelphia? Is that...

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MR. HANKOWSKY: That's accurate. And just also to say, it actually is required that it be expansion space. In other words, so it's also not like empty -- Just so you -- No one can play sort of a...

COUNCILMAN DiCICCO: I heard you say that, but I wanted to --

(Mr. Hankowsky and Councilman DiCicco began speaking simultaneously, not reportable.)

MR. HANKOWSKY: -- the space.

COUNCILMAN DiCICCO: -- I wanted to --

MR. HANKOWSKY: We have to stay in the tower?

And then they could say, by the way, we know we have a right to a hundred thousand square feet next year, but we just bought a company; and could we order up 260,000 square feet and get it delivered to us so we can make a massive expansion. That's the way it works.

COUNCILMAN DiCICCO: I thought it was. I just wanted to make certain that it

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was a little bit more clear for me, and that it was basically more or less like an exclusive...

MR. HANKOWSKY: Right; that's right.

COUNCILMAN DiCICCO: ...right for Comcast to use it --

MR. HANKOWSKY: Exactly right.

COUNCILMAN DiCICCO: -- for that purpose. Off the market.

I don't think I have anything else.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair, Mr. Cohen, Mr. Hankowsky.

There was some earlier testimony that seemed to indicate that the building had 1.5... I think testified by the Commerce Director Naidoff, 1.5 million square feet of space.

Your testimony indicates that it's 1.2. Which is correct?

MR. HANKOWSKY: Well, Councilman, let me tell you the two correct numbers.

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The building... There's two numbers used in real estate: The gross square footage of a building.

COUNCILMAN NUTTER: I always thought you were a non-political guy.

MR. HANKOWSKY: The gross square footage of the building which is every square foot: the lobby, the elevators, everything, 1.7 million.

The leasable square feet that I will charge you rent for: 1.266 million is the leasable office space.

There's also about 28,000 square feet of retail space that's on the first floor, and there's... I mentioned earlier the extension of Suburban Station as a food court area.

MR. COHEN: And Councilman, if I can... Actually, I think to be fair here, the 1.5 million square feet that the administration uses is the sum of the 1.26 million in the first tower --

MR. HANKOWSKY: Right.

MR. COHEN: -- and the 250,000

square feet that is available on the second building site, were it to be built. That's where I believe the 1.5 million --

MR. HANKOWSKY: You add the --

MR. COHEN: -- comes from.

MR. HANKOWSKY: -- two leasable areas to get one five.

COUNCILMAN NUTTER: At the moment you plan to build the 1.7, resulting in one two six six.

MR. HANKOWSKY: Correct.

COUNCILMAN NUTTER: Okay. And at what point in time would you anticipate possibly building the second building?

MR. HANKOWSKY: There is no contemplated anticipation.

The way it is set up is, basically put -- put under agreement to Comcast, and they have a right to call it up. They could elect not to call it up at all, and it just sit there.

COUNCILMAN NUTTER: Call what up?

MR. HANKOWSKY: Order a second building be constructed.

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COUNCILMAN NUTTER: Okay. So a second building would only be for Comcast?

MR. HANKOWSKY: Yes.

COUNCILMAN NUTTER: The first building, the main building under discussion, you're saying that from the start Comcast would lease 500,000 square feet, with an option to go up to a million?

MR. HANKOWSKY: No. Just to be precise, they would lease 508,000 square feet, day one.

COUNCILMAN NUTTER: 508?

MR. HANKOWSKY: 508.

They would have an option over the course of the lease for another 200,000 square feet in that building.

COUNCILMAN NUTTER: The lease is how long?

MR. HANKOWSKY: The lease is 15 years.

And then, to get to the million, that would be if they asked for the second building? So if you took all their rights to all the space on the site, they could

get to a million. They also have --

COUNCILMAN NUTTER: 508 --

MR. HANKOWSKY: If I can --

COUNCILMAN NUTTER: 508, 200, 250.

MR. HANKOWSKY: Correct.

They also have a right, actually, to every square foot in the building, but it doesn't come up on a... Most options are, you know, in the fifth year we have to say to them, here's a hundred thousand square feet for you; would you like it?

But they also have a right, every time a square foot -- a lease expires, to look at it and say, actually, we're ready for space now; we'll take it now.

So in that sense they could, in fact, take the whole building over time. They not obligated -- Obviously, they're not obligated.

COUNCILMAN NUTTER: I understand.

Let's walk back through this. Day one they have 508,000 square feet, with an option for the length of the lease, 15 years, for the next 200 in the same

building.

MR. HANKOWSKY: Correct.

COUNCILMAN NUTTER: So that's 708 of the one two six six.

MR. HANKOWSKY: Correct.

COUNCILMAN NUTTER: What happens to the rest of the space in the first building?

MR. HANKOWSKY: The rest of the space in the first building is then leased to other tenants.

COUNCILMAN NUTTER: Who would also get the same benefits that Comcast would get from being in the KOIZ?

MR. HANKOWSKY: They would, of course, only get those benefits if they're eligible, which is to say that a firm that moves from Building "A" in Philadelphia or, in fact, Building A anywhere in the Commonwealth, because really the test is a Commonwealth test, to this building, if they don't pass... for example, grow their employment by 20 percent... If they just moved a hundred people in from Site A to

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Site B, they would get no benefits. So they must pass the eligibility test.

And then secondly, the benefits they would get would be dependent on what -- obviously whatever, quote unquote, taxes they pay.

And one of those -- So, for example, if they are a partnership that pays net profits tax, they would not enjoy that benefit.

COUNCILMAN NUTTER: What would -- Other than -- Because you... At least from your perspective, you'll have the most spectacular building possibly on the East Coast.

For what reason would a company that is not eligible for KOIZ benefits... What reason would that company come to this particular building?

MR. HANKOWSKY: I think there could be a variety of reasons.

Reason number one might be the reason you listed which is to say that a company might find, from a profile

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perspective, that they'd like to be in the newest building in town, the most interesting building, the most environmentally advanced because they're an environmental firm or they might want to be in the safest building, whatever would drive them from a market perspective.

For example, a financial management company that deals with high net worth people might say, I'd like to bring my clients in this very interesting new space. That's one possible tenant prospect.

A second possible tenant prospect would be a vendor to Comcast which is to say if you're a service firm that provides some type of service to them: you provide insurance, you provide auditing service, legal service, whatever those might be, you might say to yourself, you know what? I want to be near the mother ship.

So even though I have to be in this somewhat newer, quote unquote, and therefore more expensive building, I want to do that because I can just get an

elevator and go up to the people I deal with with this company. So those are the possibilities.

By the way, I should note, though, this is not specific to the category you asked about.

The third group that could come to the building who would enjoy tax benefits are people not in the City today who can say to themselves, wait a minute. I thought there was a barrier to entry in Philadelphia, but I could come into this building and enjoy a cost of doing business that makes me want to come to Philadelphia.

So we think there's the possibility also offer bringing firms and jobs into the City.

COUNCILMAN NUTTER: You're saying if they're eligible for the benefits.

MR. HANKOWSKY: Yes.

COUNCILMAN NUTTER: Okay. And what actually do you anticipate the per square foot costs to be at this building?

MR. HANKOWSKY: The per square foot

costs, and the -- Well, quoting, Councilman -- There are two numbers generally quoted by people.

I'll give you what's generally called the net rent; so, sort of what ends up in the landlord's hands versus the operating costs that we -- you know, we pass through to people which is called the gross rent. The net rents would be in the low $30 per square foot.

COUNCILMAN NUTTER: How does that compare to --

MR. HANKOWSKY: Market today?

COUNCILMAN NUTTER: -- other rents in major buildings in the City today?

MR. HANKOWSKY: I would say at... You've had rental transactions in the City today in the low teens, but there's also space that's rented for the twenties. So I would say it's 30 to 50 percent higher, easily.

COUNCILMAN NUTTER: So the issue in the legislation on Page 3, with regard to this equity ownership interest and an

improvement to real property, how would an entity meet that test at this building?

MR. HANKOWSKY: I believe I heard that question -- I believe you asked that question earlier today.

I think there's a couple ways I guess somebody could do it. We... These are not necessarily ways we would do it in this building, but just how that provision could work.

You could have a condominimized building, you know, literately the way we do condos for residential. I guess somebody could try to condominimize an office building.

We're not prepared to do that, but that's one way you could create an equity interest.

And there's also... You could --

COUNCILMAN NUTTER: Well, as a real estate person, I mean from your perspective at least, since this is new language, what would be the purpose of such a provision?

MR. HANKOWSKY: I think what -- I

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think what was being -- Though I wasn't the author, nor do I understand -- You know, so I'm reading it and interpreting it. I don't -- I don't know the specific intent.

But my under -- My sense would be that if you're a tenant, another way which I was -- which I wanted to also get a response -- respond to is, conceivably you could rent space what I would call raw. That's just to say just the concrete; you know, no rugs, no ceiling, no anything.

And you, the tenant, take out a loan so it's your -- it's your exposure. And you put in all those improvements, is that -- you know, would that meet a, quote unquote, equity test.

Most buildings are not done that way; and, of course, most buildings the landlord provides what's called a tenant allowance and puts in the basic improvements: you know, the ceiling, and the lights, and the walls, et cetera. Tenants then tend to put in their furniture, fixtures.

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But I guess you could structure a transaction where the tenant put in his improvements.

COUNCILMAN NUTTER: This will not come as a surprise to you. There has naturally been a concern that not only because of the cachet of the particular building, the access to... You know, I never thought I'd hear you, Bill Hankowsky, talking about... using the same language as George Clinton of Parliament Funkedelic, talking about the mother ship.

(Laughter.)

COUNCILMAN NUTTER: But virtually anything is possible in this body. So this is... A new day has dawned.

But the concern that having so much new, incredible, fantastic space on the market at a not so bad place to be, at 17th and J.F.K., could have a tremendously negative impact on the rest of the office space in town which may not be as new and does not have the benefits of the KOIZ designation, the issue arises as to whether

or not these particular benefits, since we want to... the purpose here seems to be to enhance the opportunity for Comcast to grow and expand, that these benefits would be for Comcast and the part of the building that Comcast either will come to immediately or obviously has access to another 700,000 or so square feet.

What is your reaction to the prospect of these benefits? Because we're primarily talking about Comcast, and the focus is on Comcast, that these benefits would be restricted to Comcast?

MR. HANKOWSKY: I don't think it can work, for the following reasons:

Number one, as I indicated in my -- in response to your questions earlier, in effect Comcast has a right to every square foot in the building.

So, in order to ensure that their potential benefit is available no matter how they elect to lease up and grow into the building, you'd really have to make the entire building available.

Secondly -- and this is an easier one for me to respond to, since I'm not a lawyer, so it's a legal argument -- is I believe there are serious issues with what I would call sort of the uniformity constitutionality issues of taking this concept of a KOZ -- and to some extent the concept is almost condominimizing it on a site. So that I guess what you're saying is, it's sort of the space in the air and the rest of the site isn't.

I'm not even sure that it would work or stand up from a kind of a legal structural perspective, in the way these programs are structured.

So, I just don't think it works and don't think it makes sense. And I don't think it necessarily is practical from a Comcast perspective, given that they may end up in space anywhere in the building.

COUNCILMAN NUTTER: Well, I mean, we have some fairly creative people around here, recognizing that Comcast obviously has a right to the space.

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And the benefit would go under this, you know, concept. Obviously the benefit would go with whatever space they were to lease.

But in the event they don't, I mean, are you anticipating that Comcast will in fact occupy virtually every square foot --

MR. HANKOWSKY: No, but they have a right to --

COUNCILMAN NUTTER: of the space?

MR. HANKOWSKY: -- number one.

COUNCILMAN NUTTER: I understand that.

MR. HANKOWSKY: But I basically don't think, Councilman, that you can create a KOIZ concept that is portable.

I think it is geographic specific and only can work that way. I just don't think it works.

COUNCILMAN NUTTER: Well, a couple weeks ago we probably didn't think that you could take back benefits that had been granted at a previous point in time, but that seems to be a present item of

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discussion. So, you know, all things are possible.

Let's talk about what's the value or maybe the cost of the building? What will it cost to build this building, and what would its value be on the open market?

MR. HANKOWSKY: Well, it will cost about $425 to $450 million to build the building, you know, what would sort of be the -- you know, the... the basic building, including what we've spent today: the land costs, you know, all of that kind of -- There's carry in that number, financing costs, et cetera.

COUNCILMAN NUTTER: Mm-hmm.

MR. HANKOWSKY: And I am hopeful that it's worth that much at the end; otherwise, we have made a bad business decision.

I don't think it necessarily is worth that much more at the end. Only if we could create value over time and see, you know, if leases -- if the rental rates go up over time, to achieve the rental

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rates we're projecting which will be difficult in the market where we're 50 percent over, then, you know, it's worth -- that's the value it's worth.

COUNCILMAN NUTTER: Well, I think between the two people at the table, and the few others who are involved, Mr. Hankowsky, and based on your previous experience, I could not imagine that you'd be going into this venture anticipating that the value wouldn't be there, if not higher, given the due diligence with which you engage. You're a victim, to some extent, of your own reputation.

If there were no KOIZ, what would be the market value of this building? What would the Board of Revision of Taxes value it at; and, therefore, if there, again, were no KOIZ, what would be the real estate tax on this building?

MR. HANKOWSKY: Oh, I'm sorry. What would the real estate tax on the building be?

COUNCILMAN NUTTER: Well, you've got

a market value, you've got an assessed value, you've got a tax rate.

MR. HANKOWSKY: You know what? Can't we... I'd almost like to get back to you with that, because I think the way the Board is currently doing assessments through office buildings, if I'm correct -- and I'm not an expert on how the Board does it -- I actually think they're looking at the income approach, because I think people have been coming back.

Actually, there was a recent story about the fact, whether we build our building or not --

COUNCILMAN NUTTER: Lot of people coming back.

MR. HANKOWSKY: -- there's been a tremendous amount of... A number of people have come back and asked for -- asked for reassessments.

COUNCILMAN NUTTER: Yeah.

MR. HANKOWSKY: So I think it's done on an income approach.

COUNCILMAN NUTTER: Right.

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MR. HANKOWSKY: I'm not exactly sure how they would -- what number they would come up with in this instance.

COUNCILMAN NUTTER: It's one of the most recent versions of tax reform that people are seeking in Philadelphia. It's called, go get your assessment lowered at the BRT.

MR. COHEN: Councilman, I would also note, though, that for the first ten years of the building's existence, there would be no real estate tax at all --

COUNCILMAN NUTTER: I understand that.

MR. COHEN: -- regardless of the what the --

COUNCILMAN NUTTER: I understand that, right.

MR. COHEN: -- value was.

COUNCILMAN NUTTER: Right. You'd get a... Right. But the BRT would still have to assess the value --

MR. COHEN: Yeah.

COUNCILMAN NUTTER: -- because if

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there were no KOIZ --

MR. HANKOWSKY: They'll assess it --

COUNCILMAN NUTTER: Do you understand -- Assessing the value --

MR. HANKOWSKY: They'll assess it even with the KOIZ.

COUNCILMAN NUTTER: Right.

MR. HANKOWSKY: Because it's part of how -- It's part of the City's debt limit.

COUNCILMAN NUTTER: Right.

MR. HANKOWSKY: Assessed valuation base.

COUNCILMAN NUTTER: Let's talk a little bit about the building, the building of the building, the people who will help build the building and supply goods and services, contracts, workers, and any plans you have, given the location of the building, whether in Center City or in the City of Philadelphia.

Can you tell us a little bit about the economic benefit or the economic opportunity that would be provided to individuals or companies here in

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Philadelphia, and any diversity plan that you may have for workers and contractors.

MR. HANKOWSKY: Right. We have... We have, in fact, been developing such an economic opportunity plan for this project.

COUNCILMAN NUTTER: I'm sorry. You've done what?

MR. HANKOWSKY: I said we have, in fact, been developing an economic opportunity plan for this project.

We've also been doing that in consultation actually with Comcast also because there's a portion of their activity that... sort of what we finish they pick up from, in terms of their space. Those are currently under way.

We've been in consultation with... There's been some dialogue with certain members of Council. We would like to continue to do that; to finalize those plans, actually, within the next several days, clearly no later than final passage.

COUNCILMAN NUTTER: And you'll forward that to the --

MR. HANKOWSKY: Yes, sir.

COUNCILMAN NUTTER: Okay.

Mr. Cohen, let me ask you: what is the benefit of the KOIZ designation to Comcast?

MR. COHEN: Councilman, that's an extremely complicated question, and I will try and give a short answer, even for me a short answer.

COUNCILMAN NUTTER: I was going to say, don't paint yourself into a box.

MR. COHEN: Right.

The reason why it is a complicated question is because Comcast Corporation as the current parent entity, parent entity of Comcast, which will be the corporate entity that moves into the zone, and that is the ultimate beneficiary of the benefits of the zone, is not a material business taxpayer today in the Commonwealth of Pennsylvania or in the City of Philadelphia.

COUNCILMAN NUTTER: Why is that?

MR. COHEN: It is not a material business taxpayer because under the tax

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laws: federal, state, local, Pennsylvania and elsewhere, most of Comcast's taxable -- most of Comcast's activity occurs at the operating subsidiary level, not at the parent corporation level.

It is the operating subsidiaries, therefore, that bear the vast majority of the taxability of Comcast revenue stream.

So, if you take that $33, $34 million of... If you take that $33, $34 million of taxes that -- taxes and franchise fee that Comcast, its operating subsidiaries, its employees paid in the City of Philadelphia in 2003, the vast, vast majority of that, in excess of 90 percent of that, was borne by our operating subsidiaries and will continue to be paid.

Of the portion that was borne by the parent company --

COUNCILMAN NUTTER: I hate to cut across you. These operating subsidiaries, I then take it, are not located here.

MR. COHEN: They are -- Some of them are located here.

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COUNCILMAN NUTTER: Okay.

MR. COHEN: Comcast Spectacor.

COUNCILMAN NUTTER: Right.

MR. COHEN: Comcast Cablevision of Philadelphia.

COUNCILMAN NUTTER: Right.

MR. COHEN: The Philadelphia cable franchise, located in Philadelphia, paying taxes in Philadelphia.

At the end of the day, the benefits to Comcast are going to be tied to our job growth and to the increased economic -- and to the -- and to the increased... and to the movement of corporate functions that we are able to do into the Keystone Opportunity Zone.

And I think that's what creates the win-win here for the City and for Comcast which is to the extent we can -- to the extent we grow, and we bring more jobs here, and we reorganize some of the corporate functions into the Keystone Opportunity Zone, we will generate a tax savings, in the sense of there will be

taxes that we are -- there will be tax that we will not be paying in Philadelphia and in Pennsylvania.

But there will be significant increases in wage taxes that the City is going to enjoy as a result of that happening. If our... If the job growth... We if we do not deliver on all the job growth, the City's not going to get -- is not going to get the same bump in the wage tax revenues, nor will Comcast get the same savings from taxes that would otherwise be due.

COUNCILMAN NUTTER: Can you provide to us your general analysis of the taxes foregone by, at least from your own calculation, taxes foregone by the City, as well as... And you've mentioned it a couple times in different places in the testimony, the taxes you think will be generated. But there's been no laying out of any kind of calculation, with regard to the larger tax benefit.

MR. COHEN: I'm happy to talk

through with the Councilman those issues. I will tell you that at a general level we are fairly comfortable with the E-Consult report, and the detailed assumptions that were made there.

Their assumptions with respect to Comcast, job growth and current business taxes were discussed with us, and are therefore reasonably accurate.

And we'd be happy to sit down and talk with you or any other member of Council and walk you through those assumptions in whatever detail would be appropriate.

COUNCILMAN NUTTER: Thank you.

Last question. How does the KOIZ work, in such a way for Comcast that it results in this encouragement to go from... Is it presently 1100 or so --

MR. COHEN: Right.

COUNCILMAN NUTTER: -- employees, possibly up to three or four thousand? What is it about this kind of designation that makes that work for the company?

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MR. COHEN: I think it enables us to -- It enables to us grow our employment base and to -- and to -- and to move corporate functions into Philadelphia and not be subject to the business privilege tax; and at least equally, if not more importantly, the relatively high corporate net income tax, and corporate stock and franchise tax that is imposed at the state level.

It is the combination of those benefits that enable -- that enable us to be able to move functions into the Keystone Opportunity Zone, including people that we would not otherwise bring into Pennsylvania.

COUNCILMAN NUTTER: I was mistaken. This actually will be my last question. And it's a particularly sensitive one, given where we are and what we've been doing over the past couple weeks, including probably tomorrow morning and tomorrow afternoon.

But in a general fashion -- And this

has nothing to do with the company's reputation, its size in the marketplace, its significance in Philadelphia, the Roberts family and certainly yourself.

But I'd at least like you to try to respond on the record to this. You are well aware that we're engaged in a pretty serious budget discussion -- you know a little bit about the budget situation here in Philadelphia -- as well as a tax debate.

And you have this incredible company known as Comcast, both here and across the country, with enormous financial resources.

And so in a City that is... I don't want to say in fiscal crisis, but certainly experiencing fiscal distress, has no comprehensive tax-reduction strategy, is proposing to close rec centers, libraries, swimming pools, and a whole host of other kind of people-friendly functions.

We now find ourselves in a discussion about a significant tax break opportunity for the company. Can you give us a little bit of insight as to how we

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reconcile, I guess, all of those issues?

MR. COHEN: I don't think there is any inconsistency between working toward tax reform and enacting a budget for the City, and also focusing on a reasonable and well-fashioned economic development incentive package, that would incent the Commonwealth's largest company, and I believe I -- certainly one of Philadelphia's foremost corporate citizens to grow in this City so that over the long run the net tax benefit is positive to the City of Philadelphia, and you are helping to stabilize and ultimately grow the tax base so that City Councils ten years from now may be in less of a dire position in needing to deal with the fiscal crisis and the financial difficulties that you are looking at today.

This is, I believe, as in all economic development initiatives, an investment by the City of Philadelphia; but unlike other investments by the City of Philadelphia that Bill Hankowsky and I have

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both appeared in front of you and discussed in various ways, it does not require the City to write a check and have to wait to earn back its money over time.

The investment is made in the way of future tax breaks that I believe are, in effect, costless to the City, because in the absence of the designation, you would not get the taxable income anyway.

And as a result, I think this is a sound... This is a sound economic development initiative that will have a significantly positive impact on the future tax base of the City; and is, therefore, completely consistent with the actions that this Council is trying to take, both to reform the City's tax system and to pass a fiscally responsible budget for next year and a responsible five-year financial plan.

COUNCILMAN NUTTER: Thank you. That wasn't too painful.

MR. COHEN: No, not at all.

COUNCILMAN NUTTER: Thank you, Madam Chair.

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COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: That's David Cohen. Hi, David.

MR. COHEN: Councilwoman.

COUNCILWOMAN TASCO: Can I just ask you a question? Your corporate headquarters is now in Liberty One?

MR. COHEN: It's in Centre Square, 1500 Market Street.

COUNCILWOMAN TASCO: Oh, 1500 Market Street.

What impact do you think it would have, your moving, on that building?

MR. COHEN: Well, certainly on a temporary basis, it is going to be a blow to the building. We have about 400,000 square feet today in that building. And our moving out of that space is going to create a 400,000 foot vacancy in the building.

But, you know, we believe that the

space will be re-marketed, it will be re-leased. Whether it's re-leased in a month, a year or two years or three years, we believe the space will ultimately be re-leased and... re hyphen leased, not released to the market, and that the building will continue to be successful.

COUNCILWOMAN TASCO: Will any of your employees from the Northeast facility come downtown?

MR. COHEN: No, they will not.

COUNCILWOMAN TASCO: They will not?

MR. COHEN: No, they will not.

COUNCILWOMAN TASCO: They will stay there?

MR. COHEN: Yes.

COUNCILWOMAN TASCO: Okay. In one of the pieces of literature I received from some opponents to the move stated that you would lose people from Liberty One in your shops.

How do you plan to market all the wonderful things downtown that could help maintain Liberty One, the Shops on Liberty

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One? They were concerned about Liberty One. Aren't you all Liberty One?

MR. HANKOWSKY: We built it and we owned it but we sold it years ago. So we don't own it.

But I actually think, Councilwoman, we... I think if I brought which I... You know, in the spirit of trying to get through this, I mean, if you ask the people, for example, at the Four Seasons or at the Shops or other people, there are a group of people who would love to see this building get done because there's sort of this hole in the doughnut which is this site...

COUNCILWOMAN TASCO: Mm-hmm. Mm-hmm.

MR. HANKOWSKY: ...that would bring, you know, further activity and sort of further intensify Market West.

COUNCILWOMAN TASCO: Mm-hmm.

MR. HANKOWSKY: So I think it's actually, you know, very supportive of the Shops.

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COUNCILWOMAN TASCO: Well, we talked earlier today and about the -- and this effort to and the spirit to help promote economic development and growth in the City, Mr. Cohen.

Comcast could be very helpful in working not only to promote downtown Philadelphia which I think is a wonderful place, and we have a lot of wonderful shopping opportunities and wonderful restaurants; also working to help some of us in the community work on stimulating economic development and growth in our community as a large corporate sponsor, along with some of the other large ones which we don't have like we had before.

MR. COHEN: And as I said to Councilwoman Tasco and a general statement to all the members of Council, that is a discussion that I would eagerly await.

And it would be something that I think both Liberty and Comcast would be delighted to participate in with you and other interested members of Council in

their Districts.

COUNCILWOMAN TASCO: Councilman Nutter asked you about the economic opportunity plan, and you said you're in the process of working on that. Would that plan include from design to construction?

MR. COHEN: I think maybe I'll answer that. A little bit like the stadiums, the building itself is already designed. The basic design work is done.

So from the Liberty perspective, the plan would not include design. From a Comcast perspective, although we are a little behind, so in terms of the design work -- And ours admittedly is a much smaller piece of the puzzle. But our design work for our interior design and for our interior work is included in our plan.

COUNCILWOMAN TASCO: Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman Ramos.

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COUNCILMAN RAMOS: Thank you, Madam President.

Thank you, Mr. Cohen and Mr. Hankowsky, for coming out and explaining this to us.

I was struck a number of months ago when a Comcast spokesperson said that Comcast would do for Philadelphia what Microsoft did for Seattle.

And I found that to be a very, very powerful statement because what I know of Microsoft and Seattle is that Microsoft anchored a new economy for the City of Seattle. And the growth of that City has been attributed to this company called Microsoft that every corners of this earth knows about today.

Are you in your statement maybe exaggerating a little bit about the impact you're going to have here in Philadelphia?

And if not, I am very eager to hear some more how Comcast has equated itself to Microsoft, and the impact that it would have in Philadelphia.

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I think it's such a powerful statement, I want to hear some more --

MR. COHEN: Obviously --

COUNCILMAN RAMOS: -- unless you're exaggerating a little built.

MR. COHEN: No; I hope we're not exaggerating, although I think I worded it pretty carefully.

I mean, it is our goal and it is our aspiration to be to Philadelphia what Microsoft has been to Seattle, what Coca-Cola has been to Atlanta.

And to be fair... I have to say this. I think the Mayor actually used those lines first, and we've been borrowing them since then.

But it is our -- We obviously -- And for those who would doubt our ability to deliver on that, roll the clock back 40 years when we were operating this 1200 subscriber community antenna television system in Tupelo, Mississippi, with three television channels on it, and say to yourself: Could you have ever imagined

that that company, headquartered right across City Line Avenue, at the time in Bala Cynwyd, was going to buy AT&T? Could you ever imagine that that would happen?

And anyone who says, yeah, we had it figured out all along; in the early 1960s we knew Ralph Roberts and this concept of Comcast was going to end up buying AT&T, they're a better predictor than I am.

I think we demonstrated in our unsuccessful bid for the Walt Disney Company earlier this year that we have ambitions, that we have ambitions to be absolutely the leading media, entertainment and technology company in the world. And we think we have the capacity to do that.

Although we were not successful, for three months the number one business story in America was Philadelphia company seeks to acquire the Walt Disney Company.

And I don't know the last time that the business story of the country was a Philadelphia company out there trying to acquire and to grow, as opposed to being

acquired, disappearing, downsizing or leaving the City.

And I think that's -- Although we were not successful, I think it is a demonstration of the clout and the credibility that Comcast and the currency of our stock has on the marketplace, that we could have been out there and treated very credibly and very seriously for that type of an acquisition.

So do I know for sure what this company is going to look like five years from now or ten years from now?

I absolutely don't. And I couldn't tell you today where all those jobs that I'm talking about are coming from.

But I can tell you about our ambition, I can tell you about our dreams, I can tell you about our aspirations, and I can tell you that we want all of that to be in Philadelphia, and we want to continue to be a leading corporate citizen in this community.

COUNCILMAN RAMOS: And if this does

happen, Philadelphia would be a very, very proud City. The people of Philadelphia would be so proud that we have made, through this body -- And, of course, I guess, Harrisburg as well -- that we have decided to take this bold step forward, and doing what we have to do which is what things that we have done in the past, and that is provide tax incentives to our corporate friends so they can grow the local economy.

And I think that it's a... I think that we should get ourselves ready to do this. I have not heard anyone here tonight say, I am not in favor of this.

Even the good business... building owners in Center City did not say that they had some concerns, but they never said that.

I heard this evening Senator Fumo sent a representative stating that he was in favor of the KOZ designation.

The head of the Black Clergy was here, stating that he was, in behalf of all

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the people that he represents, in favor of this.

The building trades -- And as you well know, I've been -- before I came to this great body, I was a construction worker. So, jobs mean a lot to the people of this City.

And to those people that I worked with for so many years with a hard hat on, that there is a... there's going to be jobs, that there's going to be a way to pay for that mortgage or buy a new home in Philadelphia.

I find it quite exciting. And I just want to go on the record that I do intend to vote for this designation. I think we need to take this bold step forward.

Thank you, Madam President.

MR. COHEN: Thank you very much, Councilman.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilwoman

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Miller.

COUNCILWOMAN MILLER: Thank you, Madam President.

I, too, was interested in the economic opportunity plan, and will be glad to get that information when it's forwarded to the Chair.

Just one thing. Is 2008 your target opening date of the new building?

MR. HANKOWSKY: No, Councilwoman. We actually would anticipate that we would be able to make some of the floors available to Comcast even, potentially, as late as... at the end of 2006 into 2007. So really I would say it would really be done in 2007.

With a high rise you can begin to use lower floors as you're still finishing the top.

COUNCILWOMAN MILLER: Okay.

And the other thing I'd like to know, too, we need to get more information about the types of jobs that will be open; the knowledge, skills and ability that

people need to have; education requirements, just for career planning and job planning activities for young people that will be grading from college and those graduating from high school.

We do -- In my office we get information about your openings on an ongoing basis. But we know that it's very difficult now for people to find employment.

And if you particularly have entry level employment, we'd be interested in getting further details on that.

But that's my only question right now, Council President.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Cohen.

MR. COHEN: Thank you, Madam President.

David, I wasn't around in Mississippi when Comcast was born, but I was here in Philadelphia when Comcast was seeking to be one of the four companies,

four franchisees to get a permit from City Council.

At that time Comcast was very small. We didn't know whether that could be achieved. But I worked very hard with them in the neighborhood, in the Northeast where they were born, helping to win support.

And the kind of question I have on your economics is this: Cable companies now are not very popular anywhere in these states, from what I can tell because of the rate questions that have been raised up, their efforts would be free from all kinds of regulations on rates.

And I'm not discussing that right or wrong. But I just wonder: is the money, you know, to Comcast... If you ask me did I, when Comcast was getting started in Philadelphia, ever conceive that it could be or any company could offer Disneyland $66 billion, that's far beyond my capacity to understand anything, in terms of money. And I would have said, no, there could never be such an offer.

But it does seem strange... And that's what I hear in the communities, that I wonder, in Comcast's own interest, is the savings that you're going to get from this measure so important to Comcast that it can't afford to be kind of a model good citizen?

It came from Philadelphia. It got some help from Philadelphia. It contributed a lot to Philadelphia. It's always regarded Philadelphia as its home.

I remember when originally we had to bargain hard to get Comcast to agree to make Philadelphia its national home. That was one of the conditions of getting the franchise.

But that succeeded. And relations have been fine, even though relations between Council members and the constituents when we discuss Comcast or any other cable company wasn't always fine.

Is it worth that much to Comcast to incur the feeling of people who just can't understand how a company that could offer

so much to Disneyland, can come to a City that seems so troubled financially, to ask for a form of tax relief?

Wouldn't it really be a great thing if Comcast said, we understand the City of Philadelphia has problems; now we can do something to help them?

MR. COHEN: Well, Councilman, first of all --

COUNCILMAN COHEN: What would your reaction be to that? Helping me in giving us answers.

MR. COHEN: Okay. I think part of this is the answer I gave to Councilman Nutter.

But let me start with the Disney deal, and understand that the $66 billion we offered was in our stock. And I think that goes to the quality of the company.

We were not offering to write a check for $66 billion to the Walt Disney Company --

COUNCILMAN COHEN: Sounds pretty good to me, though.

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MR. COHEN: Pardon?

COUNCILMAN COHEN: I think Comcast might well be able to get $66 billion, if it put that much stock --

MR. COHEN: I'm not sure we could get $66 billion.

But in any event, the real answer to your question is that I think we have conducted ourselves in precisely the way that your question is asked.

We have stood up from day one and said, we are staying in Philadelphia. We will not entertain offers. We will not permit this body -- And I remember saying to -- I remember saying, I think, to Council President Verna six or seven months ago that she would never wake up in the morning and read in the paper that the State of New Jersey was offering Comcast $150 million to go to New Jersey, because we refuse to participate in that type of game plan.

What we said is, we are staying here. We have a commitment here.

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And I believe we have come to this Council... And as I said, with some reluctance in my testimony, because we have never asked for or received any economic development assistance from Pennsylvania or Philadelphia for any of our prior expansion.

And I believe we've come here with an incredibly reasonable ask, an ask that puts us in a win-win partnership, where we will get a tax benefit if, in fact, we grow substantially.

And I think that's great for the City. I think it's great for the citizens. And it allows us to invest whatever savings we have into growth of this company right here in Philadelphia. I think that's great for the citizens of Philadelphia.

MR. COHEN: Let me ask if there's a way of correcting another of what I regard as a substantial injustice that exists.

Philadelphia is probably one of the very few, maybe the only, world-class city in the United States that does not have

public access.

I know originally the agreement provided for a certain fee payment, and a certain promise to pay a certain amount of money for capital improvements whenever public access machinery was set up.

I know that the public capital funding has never been provided because no circumstances developed yet.

On the fee, I understand that the fee has gone into the General Fund. And by this time every Mayor holds onto that General Fund and doesn't let anybody get close to it.

It just added to the ability of any Mayor to have additional funding. And so, they don't want to make any of that available for public access.

Is there any hope that Comcast would agree to a substantial increase? Because the original amounts were negotiated back 15, 20 years ago, and have never been increased.

Would Comcast consider proposals to

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increase the amount of capital funding, and to increase that five percent payment or whatever the payment was that comes in annually, but which today would be totally inadequate for operating expenses?

Would Comcast consider renewing that and reconsidering and coming up to new agreements, to make it possible for Philadelphia to become a world-class city with public access for its citizens?

MR. COHEN: Councilman, we have just finished a franchise renewal with the City of Philadelphia, in which the franchise agreement was just renegotiated.

The amounts for public access television were just renegotiated. We have made those payments in every year of our existence, and we continue to make those payments at the newly negotiated levels that -- I believe this was done two years ago? I mean, I think in the last two... I think actually two years ago is when this was done with the City Council.

And I... We had testimony from the

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Community Access Coalition folks who we have talked to. And I will say on the record what they said on the record which is: this is not a discussion between community access advocates and Comcast.

The City of Philadelphia, as the local franchise authority, is in control of the public access decision.

And if the City of Philadelphia wishes to proceed with public access, we obviously are prepared to be a party to that discussion.

But I will tell you financially, we think we are paying a lot of money toward public access, and have for the entire period of time that we have had franchise agreements with the City.

MR. COHEN: Okay. All right. Thank you. Now, one last question. Whatever KOZ offers a company, would that be available to anybody who moves into the building, that's covered by KOZ?

MR. HANKOWSKY: The only people that would be eligible to receive the benefits

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of the KOZ... What we would be proposing, and what I think the legislation will finally say, Councilman because, as you know, there are some amendments moving around here.

But I think the way it would end up is if a company... There's three ways you could pass a test today. And what we're saying is, we would be prepared to live without the third test.

So if you signed a lease that's not good enough, you don't get the benefits. If you grow jobs, you get the benefits. And if you make an economic investment -- And I think there's been a tightening of that language -- also you can enjoy a benefit.

So there's a number of people today who can go into a KOZ and get those benefits. A lot of those people would not be eligible to get those benefits in this building. They would be --

COUNCILMAN. COHEN: Comcast now is in Union Square, right?

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MR. COHEN: At Centre Square.

COUNCILMAN COHEN: Yes. And there are a lot of businesses near there, other businesses, right? Offices of all kinds, including, say, Towers Perrin. Isn't Towers Perrin in the same building?

MR. COHEN: Towers Perrin has space in the same building.

COUNCILMAN COHEN: They're in the building with you now.

MR. COHEN: Correct.

COUNCILMAN COHEN: Well, what's to stop Towers Perrin from seeking to go into this building? Isn't Comcast the only lessee you have now? What will you do with Towers Perrin? Why should they stay in their building, if they can get much cheaper rentals in this new building?

MR. HANKOWSKY: They can't. They're going to pay rent --

COUNCILMAN COHEN: What's that?

MR. HANKOWSKY: They're going to pay rent 50 percent higher if they came to our building, if they're moving out of Centre

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Square. They would pay considerably higher rent, number one.

Number two is, they would have to grow their jobs by over 20 percent in order to meet the test, to be eligible.

By the way, they could pass that test by moving to the Cira Center. They could pass that test by moving to a KOZ at the Navy Base. They could pass that test by moving to a KOZ at the World Trade Center.

So there are places they can go if they're going to grow jobs and enjoy the tax --

COUNCILMAN COHEN: I'm told there's a huge, really huge amount of vacant space currently in what is considered first-class office space.

MR. HANKOWSKY: There is not, Councilman. I mean, there is --

MR. COHEN: I'm told there is as much as maybe a quarter to a third that's vacant. It's carefully camouflaged to hide that picture, and to make it look as if

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everything is occupied.

MR. HANKOWSKY: Councilman, there are --

MR. COHEN: I don't know the exact amounts. I haven't seen them, but they're the reports I've gotten over time from different companies that rent out space in various parts of Center City.

Now... And the Towers Perrin argument is the one that keeps getting floated in front of me by people. And I have to say, I don't know why they shouldn't. Going to be cheaper for Towers Perrin to move in.

Suppose they could see who -- I don't know who the rental agent is for the building that's going to appear at 17th and Arch. But if there is such a rental company, can't they communicate with them, either Towers Perrin or somebody else? Won't they get a benefit in lower rent?

MR. HANKOWSKY: Again, Councilman, I can't do anything but be factual. The rent in our building will be probably 50 percent

higher than a deal they could strike today in Centre Square. It's that simple.

COUNCILMAN COHEN: Well, the rent's got to be much lower with this tax benefit.

MR. HANKOWSKY: No. The rent they -- They have to pay me a rent to cover the cost for me to build the building. And that rent... If I'm spending 300 bucks a square foot, say, is 30 bucks a square foot.

HRPT bought that building for a hundred bucks a square foot, so they pay -- rent it 10 bucks a square foot, 15 bucks per foot. It's not.

COUNCILMAN COHEN: Yeah, but in that savings to Towers Perrin would be -- or a company like that. I'm using them because they happen to be in the same space you're in now.

It just seems to me that we're helping to create a very dangerous situation in Philadelphia. And sooner or later what will become apparent to everybody is this glut of office space.

And I think that that's why there's so much concern with all these different questions, and why it's not advisable. And David knows from his hard work that it's better for us not to be in a position where we're compelled to reach a quick decision because later there's much more opportunity for later regrets.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

Are there any further questions or comments from members of the committee?

(No response.)

COUNCIL PRESIDENT VERNA: Gentlemen, thank you.

MR. COHEN: Thank you very much.

MR. HANKOWSKY: Thank you very much.

COUNCIL PRESIDENT VERNA: I think the people that should be thanked are people from the Streets Department and some other area residents who have been here for hours and hours waiting to be heard. Thank you.

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Do we have anyone else to testify on this bill, whose name was not called?

(No response.)

COUNCIL PRESIDENT VERNA: Seeing none, I would ask all Council members to please go to their desk so that we can take action. Thank you.

This will conclude the public hearing of the Committee of the Whole.

(Public hearing concluded at 11:48 p.m.)

CERTIFICATE

I HEREBY CERTIFY that the proceedings and evidence are contained fully and accurately in the stenographic notes taken by me upon the public hearing of The Philadelphia City Council, taken on June 9, 2004, and that this is a true and correct transcript of same.

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DAVID A. DEIK, RPR and
Commissioner of Deeds

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