

COUNCIL OF THE CITY OF PHILADELPHIA
COMMITTEES ON HOUSING, NEIGHBORHOOD
DEVELOPMENT AND THE HOMELESS AND
COMMERCE AND ECONOMIC DEVELOPMENT

Room 400, City Hall
Philadelphia, Pennsylvania
Friday, April 27, 2018
10:10 a.m.

PRESENT:

COUNCILMAN ALLAN DOMB, CHAIR
COUNCILWOMAN JANNIE L. BLACKWELL
COUNCILWOMAN HELEN GYM
COUNCILMAN CURTIS JONES, JR.
COUNCILMAN DAVID OH
COUNCILMAN AL TAUBENBERGER

RESOLUTION 180360 - Resolution authorizing the
City Council Committee on Housing,
Neighborhood Development and the Homeless and
the Committee on Commerce and Economic
Development to hold joint hearings regarding
growing the City's tax base...

- - -

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2 COUNCILMAN DOMB: Good morning.

3 This hearing is now called to order.

4 This is the public hearing of the City

5 Council Joint Committee on Housing,

6 Neighborhood Development and the Homeless

7 and Commerce and Economic Development.

8 The purpose of this public hearing is to

9 hear testimony on Resolution No. 180360.

10 I recognize the presence of the

11 Chair of the Commerce and Economic

12 Development Committee, Councilman Jones,

13 to my right, and all the other

14 Councilmembers will be joining us

15 shortly.

16 A few comments I wanted to make

17 before we got started. I want to thank

18 everybody for being here today and

19 participating, and many of you know that

20 we have goals for the City to improve our

21 taxpaying base and possibly could be

22 through taking people out of poverty,

23 could be through creating new jobs, and

24 bringing new residents to the City.

25 Those are just three possible options,

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2 but they're all probably very important.

3 So we're really, really excited
4 to hear what you have to say today, and
5 I'm looking forward to it. And I'd like
6 to open it up to my colleague Councilman
7 Jones for some comments.

8 COUNCILMAN JONES: Very
9 briefly. I was honored to take a look at
10 this. Councilman Domb has been
11 consistent in his frugal nature of
12 approaching budgeting. As we make
13 decisions about taxation in the City of
14 Philadelphia, I think it's very important
15 to look at what receivables we have and
16 how we can maximize those receivables
17 before we ever burden the taxpayer with
18 an additional tax.

19 So, therefore, I was honored to
20 be a part of this, and we look forward to
21 reviewing our options thoroughly and
22 meticulously before we ever start to
23 raise taxes among citizens that do not
24 have the luxury of moving out of the City
25 and particularly in real estate.

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2 So thank you, Mr. Chairman.

3 COUNCILMAN DOMB: Thank you,
4 Councilman.

5 To my immediate left is
6 Councilman David Oh.

7 Do you have any comments you'd
8 like to mention?

9 COUNCILMAN OH: No.

10 COUNCILMAN DOMB: By the way, I
11 should tell everyone that Councilman
12 Jones and Councilman Oh, on a separate
13 note, are co-sponsors of the bill we put
14 forward for tax collection for non-owner
15 occupants. So thank you both.

16 Let's get started. I'd like
17 the Clerk to call on the first panel.

18 Yes. And to my immediate left
19 is Councilman Taubenberger.

20 Do you have any comments before
21 we get started?

22 COUNCILMAN TAUBENBERGER: No.
23 I'm glad you're here.

24 COUNCILMAN DOMB: Thank you.

25 THE CLERK: Resolution 180360,

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2 authorizing the City Council Committee on
3 Housing, Neighborhood Development and the
4 Homeless and the Committee on Commerce
5 and Economic Development to hold joint
6 hearings regarding growing the City's tax
7 base by analyzing current housing trends,
8 population growth and the City's labor
9 pool as well as the real estate market in
10 order to explore policy solutions to
11 continue to grow the City's tax base.

12 The first panel is Eleanor
13 Sharpe, Harold Epps, and Lauren
14 Gilchrist.

15 (Witnesses approached witness
16 table.)

17 MS. SHARPE: Good morning.

18 COUNCILMAN DOMB: Good morning.

19 Please state your name for the record.

20 MS. SHARPE: Good morning,
21 Chairman Domb and members of the
22 Committee on Housing, Neighborhood
23 Development and the Homeless, and good
24 morning, Chairman Jones and members of
25 the Committee on Commerce and Economic

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2 Development. My name is Eleanor Sharpe
3 and I am the Executive Director of the
4 Philadelphia City Planning Commission.

5 I am pleased to provide
6 testimony regarding Resolution No. 180360
7 authorizing joint hearings regarding
8 growing the City's tax base by analyzing
9 current housing trends, population
10 growth, and the City's labor pool as well
11 as the real estate market in order to
12 explore policy solutions to continue to
13 grow the City's tax base.

14 As you know, the mission of the
15 Planning Commission is to guide the
16 development and growth of the City of
17 Philadelphia. Toward that end, in 2011
18 we completed the first phase of the
19 City's Comprehensive Plan, the Citywide
20 Vision. Since then, we have completed 17
21 of our 18 district plans, with the final
22 district plan, and thus the Comprehensive
23 Plan, to be completed this year.

24 We call this effort
25 Philadelphia 2035 because it points us

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2 toward the City we wish to have by 2035.

3 Developing these plans is a
4 collaborative process. We work with
5 residents, stakeholders, and City Council
6 to create and implement these plans.

7 They are a shared vision for
8 our city. They outline where we wish to
9 see housing, where we wish to see
10 businesses, where we wish to see open
11 space, and where we wish to see
12 investment.

13 Our Citywide Vision and
14 district plans are built around three
15 main goals - Thrive, Connect, and Renew.
16 Achieving these three goals will produce
17 a Philadelphia with strong neighborhoods
18 and a growing economy.

19 To implement that vision, we
20 have identified more than 12,000 acres to
21 be remapped in our city. Working with
22 City Council, we are well on our way
23 towards reaching that goal, with more
24 than 45 percent of those acres either
25 remapped or in the process of being

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2 remapped.

3 Much of this remapping is what
4 we call "Zoning to Advance the Plan," and
5 these are zoning changes designed to
6 support new residents, new jobs, and
7 amenities that make our neighborhoods
8 desirable.

9 Many factors contribute to the
10 vibrancy and growth in the City, and the
11 Citywide Vision and the district plans
12 and the zoning changes that accompany
13 them are only a few. However, I will
14 note that since 2011, Philadelphia has
15 gained residents every year and has
16 gained jobs every year. In fact, our
17 city has outpaced the nation in job
18 growth in the past two years.

19 Thank you for the opportunity
20 to appear before you today, and I'm happy
21 to answer any questions that you may
22 have.

23 COUNCILMAN DOMB: Thank you for
24 your testimony.

25 Commerce Director.

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2 MR. EPPS: Good morning. Good
3 morning, Chairman Domb and members of the
4 Committee on Housing, Neighborhood
5 Development and the Homeless, and good
6 morning, Chairman Jones and members of
7 the Committee on Commerce and Economic
8 Development. Again, my name is Harold T.
9 Epps and I am the Director of the
10 Department of Commerce. I am here today
11 to provide testimony regarding Resolution
12 No. 180360 in order to discuss policy
13 solutions to continue to grow the City's
14 tax base.

15 One of the key strategies to
16 growing our tax base is to cultivate a
17 stronger, more inclusive economy.
18 Indeed, that is exactly what my
19 department works towards every day by
20 fostering equitable economic
21 opportunities throughout the City.
22 Whether it's supporting small businesses
23 in our neighborhoods, attracting and
24 retaining major corporations and
25 institutions or facilitating

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2 international business relationships, our
3 goal is to bring good-paying jobs to
4 Philadelphia for today, tomorrow, and for
5 years to come.

6 By nearly every measure of
7 economic performance, Philadelphia is
8 thriving. Job growth is outpacing many
9 of our peer cities. Unemployment is at
10 an 11-year low, and our population
11 continues to grow while educational
12 attainment improves. However, we also
13 face our fair share of challenges. The
14 poverty rate is stuck at about 25
15 percent, and there is much work to do to
16 prepare our city for the 21st century
17 economy.

18 That is why the City's
19 workforce development strategy, which I
20 co-chair with the Managing Director, Mike
21 DiBerardinis, is so key to ensuring that
22 the economic prosperity that we see in
23 Philadelphia right now continues into the
24 future. The workforce development our
25 city needs will not happen by accident.

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2 It will take prolonged engagement,
3 collaborative partnerships, considerable
4 resources, and the careful marshaling of
5 those resources to support career pathway
6 systems across many departments over an
7 extended period of time.

8 And while we work to develop
9 the high-skilled, knowledge-based
10 workforce that employers seek, we must
11 simultaneously commit to fostering a
12 business-friendly environment that can
13 compete with any city in the world. This
14 is a critical component to growing our
15 tax base. New businesses create new jobs
16 and add to the economic activity in
17 Philadelphia, increasing the City's
18 revenue from the wage tax, sales tax, and
19 the business income receipts tax. As
20 more jobs become available and the
21 competition for labor increases, so too
22 do wages. We can't make a meaningful
23 difference in our fight against poverty
24 without engaging the business community
25 as our partners.

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2 In closing, I want to
3 underscore we must not take the current
4 economic environment in Philadelphia for
5 granted. Instead, we must capitalize on
6 it. Times like these present us with our
7 best opportunity to take action. We must
8 continue to simplify our business-related
9 regulations and streamline our policies
10 and procedures in order to stay
11 competitive regionally, nationally, and
12 globally. Workforce development and
13 business attraction go hand in hand and
14 are key components to broadening our tax
15 base to support the needs of our dynamic
16 city well into the future.

17 I would like to make one
18 modification to my testimony and just
19 add, Councilman Domb, you and I have had
20 many conversations about the three
21 challenges that you talk often. I want
22 to make a fourth. The three are we want
23 to increase the number of jobs in
24 Philadelphia by 100,000, we'd like to see
25 an additional 100,000 new residents, and

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2 the most challenging one of those three
3 that we've talked about before is 100,000
4 out of poverty. But the fourth one I
5 want to add is in addition to the jobs,
6 we need to make sure that we are finding
7 100,000 new employment opportunities for
8 Philadelphians, because the 100,000 new
9 jobs do not guarantee that they would go
10 to Philadelphians. And so we got to work
11 on both of those, both the jobs and
12 making sure that there are employment
13 opportunities for Philadelphians.

14 So with that being said, I will
15 close my testimony and look forward to
16 answering any questions. Thank you.

17 COUNCILMAN DOMB: Thank you
18 very much.

19 And joining us to my immediate
20 far right is Councilwoman Jannie
21 Blackwell. Thank you.

22 COUNCILWOMAN BLACKWELL: Thank
23 you.

24 COUNCILMAN DOMB: We'll hold
25 the questions until we finish the panel

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2 maybe. I'd like to ask Lauren to go
3 next. Thank you.

4 MS. GILCHRIST: Good morning,
5 members of the Committee, Councilman
6 Domb. My name is Lauren Gilchrist and I
7 am the Vice President and Director of
8 Research for JLL in Philadelphia. JLL is
9 a full-service Fortune 500 commercial
10 real estate services firm doing business
11 in over 80 countries with more than
12 78,000 employees. In my current role, I
13 oversee the firm's Philadelphia research
14 group. My work has appeared in the New
15 York Times, Globe Street, the
16 Philadelphia Inquirer, and the
17 Philadelphia Business Journal. I'm
18 originally from Pittsburgh, and I hold a
19 Master's of Science in Public Policy and
20 Management from Carnegie Mellon
21 University as well as a Bachelor's of
22 Science in Business Administration from
23 Bucknell University.

24 When I talk to my friends,
25 family, and clients about my adopted

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2 hometown of Philadelphia, I like to tell
3 them that I have the best job in the
4 City. I get to spend my work time
5 tracking office leases, multi-family
6 rental rates, studying buildings so I can
7 understand what makes them tick. And
8 most days I also have the privilege of
9 sharing our city's economic demographic
10 and real estate growth story as I work
11 with new investors and new capital
12 sources to explore real estate
13 possibilities. In other words, I help
14 people with money to invest, get
15 comfortable enough with Philadelphia's
16 real estate dynamics to buy our
17 buildings, build new ones and, by
18 extension, shape the environment that we
19 experience in our workplaces, homes, and
20 when we go outside to play.

21 It is no secret that
22 Philadelphia has been fundamentally
23 transformed over the course of this
24 market cycle. We have constructed 7,500
25 new units of rental housing in Center

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2 City since 2012, with nearly 2,700 due
3 this year; 2.6 million square feet of new
4 or rehabilitated office space is
5 currently underway, virtually all of
6 which will deliver this year; 3,000 new
7 hotel rooms have been added in the
8 downtown over the last three years; and
9 we've got more than one and a half
10 million square feet of retail on its way.

11 All of this construction has been
12 facilitated by the ten-year tax
13 abatement, which has served to correct
14 for a market failure to supply adequate
15 housing, office space, and retail where
16 demand already existed for it. You see
17 its impact in the sky and you feel it on
18 the street. Our real estate market has
19 begun to attract new investment dollars
20 from New York, DC, Chile, and the Middle
21 East, all of which has made significant
22 investments in improving the existing
23 assets of the City.

24 We are not living in the
25 Philadelphia of post-industrial decline

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2 anymore. However, when you look around
3 the country at our peer cities, all
4 indicators suggest that we should in fact
5 be doing even better. If we can turn to
6 a few select charts, which I've included
7 with my testimony for you this morning,
8 you will see that our booming population
9 growth lags 10 of the 20 most important
10 investment markets in the country,
11 growing only 8.3 percent since the last
12 recession. Our city's economy, as
13 measured by jobs, grew at the third
14 lowest rate among these markets, just 6
15 percent over nine years. While
16 construction has been impressive
17 regionally, we have added only 18,800 new
18 units of housing between 2015 and 2019,
19 just 39 percent of the average added in
20 the ten largest metros. And if you're
21 flipping through here, this would be
22 Slide No. 3.

23 Our office rents are the lowest
24 in the Northeast -- I would caveat that
25 by suggesting that New York is the only

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2 less expensive office market in the
3 Northeast -- with our rents being 25
4 percent lower than average in central
5 business districts and growing just 1.7
6 percent annually. To put that in context
7 for you, that is not even keeping pace
8 with inflation.

9 Our construction pipeline is
10 non-existent after 2018, and no new
11 office or retail is set to deliver after
12 this year, with just 500 units of new
13 housing set to deliver in Center City
14 following this year's construction boom.

15 In 2018, in the fifth largest
16 city in America, we live, work, and
17 invest in a national and international
18 capital markets environment. Businesses
19 and investors have tons of choice when it
20 comes to investment strategy. What types
21 of investments? What industries? What
22 markets? Philadelphia has long suffered
23 because we have not had enough innovative
24 companies made the short list of
25 locations or been able to demonstrate to

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2 these investors that a stable,
3 predictable, liquid investment
4 environment exists here, conditions that
5 are prerequisites for most investors.

6 Non-local investors are
7 critical in bringing new dollars to the
8 City in order to grow the pie for our
9 existing residents. We are not living in
10 the age of post-industrial decline
11 anymore, but we are dealing with its
12 legacy daily. It has taken a long time
13 to demonstrate the value of investing in
14 Philadelphia real estate, and I work to
15 do it every single day. We are fighting
16 long-term historical headwinds, growth
17 that feels big to us but is small
18 compared to other markets, and now a
19 possible rewriting of the rules of the
20 game, mid-inning in our expansion, in the
21 form of disruptive tax changes that are
22 going to have serious consequences to the
23 bottom line of existing investors, signal
24 to the broader capital markets that
25 Philadelphia is unpredictable and,

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2 therefore, risky to invest in, and
3 generally make investors think twice
4 about choosing Philadelphia. When
5 capital can go anywhere in the world, it
6 goes to the places and paths of least
7 resistance for the highest possible runs,
8 and a predictable tax climate is critical
9 to shaping that environment.

10 Corresponding to the changes in
11 our skyline, there are a lot of proposed
12 changes to the business and real estate
13 tax structure of this city this budget
14 season. As a public policy specialist
15 and real estate economist, I am here to
16 tell you that it is my professional
17 opinion that it is too much change in the
18 underlying market fundamentals at one
19 time to expect these changes to not
20 negatively impact market dynamics.
21 Rather than raise much-needed revenues
22 for the School District and vital public
23 services, I am deeply concerned that
24 pushing all of these policy levers at one
25 time may have the exact opposite effect.

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2 Instead of raising revenues, we risk that
3 new capital sources that have grown the
4 tax base by bringing hundreds of millions
5 of dollars of new investment to the City
6 will decamp for friendlier, more stable
7 climes, along with businesses, and that
8 underlying values will decline as well.

9 I cannot possibly understand
10 how difficult of a job you have in front
11 of you, budgeting for a city as large as
12 Philadelphia with a population that has
13 needs as diverse as the ones that we
14 have. However, as a program evaluation,
15 public policy, and commercial real estate
16 professional, I can say that drastically
17 altering the real estate tax structure
18 overnight risks cutting off the flow of
19 new money to our city and all the
20 ancillary economic benefits that come
21 with it, risking the future of
22 Philadelphia itself.

23 I come from the public sector,
24 having spent my first years out of
25 graduate school working around the

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2 country in economic development

3 consulting, then for the Center City

4 District. I joined JLL in 2014 because I

5 was curious about the private side of

6 what real estate looked like. It's been

7 amazing, occasionally terrifying,

8 educational, and quite a journey to

9 understand how two groups so aligned in

10 their overall missions of creating

11 livable, workable, walkable, beautiful

12 places for everyone can so misunderstand

13 the economic and social motivations of

14 each side of the table. It became more

15 apparent to me than ever that this kind

16 of dialogue is sorely needed to align our

17 shared mission to grow Philadelphia, and

18 I hope today serves as a valuable

19 starting point to that conversation.

20 COUNCILMAN DOMB: Thank you.

21 Thank you for your testimonies.

22 Councilman Oh.

23 COUNCILMAN OH: Thank you very

24 much.

25 Thank you, everybody on the

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2 panel, for sharing your expertise with
3 everyone here. I do have questions in
4 particular for Lauren Gilchrist.

5 What concerns do you have about
6 the underlying tax process or policy in
7 Philadelphia that is perhaps subject to
8 dramatic change? Is it one thing, like
9 the ten-year tax abatement, or is it
10 multiple things, such as the one percent
11 construction tax? What are you concerned
12 about?

13 MS. GILCHRIST: I think it's a
14 combination of all of the different
15 policies and levers being pulled at once
16 that is most concerning to me. The
17 ten-year tax abatement, I think you'll
18 hear some testimony in a few moments by
19 some of my colleagues in the industry
20 that demonstrates but for the abatement,
21 there are thousands of new units of
22 housing as well as millions of square
23 feet of office that would not have been
24 developed.

25 However, one of the things that

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2 is most problematic is all of the change
3 that's happening at one time, the
4 increase in assessments two years in a
5 row to bring values in line with actual
6 value, the proposed increase to the tax
7 rate, the proposed increase to the
8 transfer tax, proposed amendments to the
9 ten-year tax abatement, proposed
10 construction tax, as well as potentially
11 rewriting the tax code for use and
12 occupancy taxes. That's seven separate
13 taxes, all that have dramatic impacts not
14 just on real estate but also the business
15 community. And I can share with you
16 anecdotally that in transactions that we
17 have worked on with investors that are
18 new to this market, we have seen deals
19 die on the vine as a function of
20 underwriting assumptions changing in the
21 middle of the process of due diligence,
22 causing those properties to not trade.
23 So that kind of uncertainty and the full
24 magnitude of the tax changes is what's
25 most problematic.

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2 COUNCILMAN OH: So that is to
3 me and I think to the public, because
4 you're actually on camera in case anybody
5 didn't tell you. You're being televised
6 right now. And so a lot of viewers would
7 say of course that affects big business
8 and investors. How does it affect things
9 in communities and neighborhoods like
10 affordable housing, affordable rentals
11 and things like that?

12 MS. GILCHRIST: To begin with
13 the question of affordable housing, from
14 an economic perspective the only way to
15 ensure that housing remains affordable is
16 to continue to build new units. I don't
17 believe that you can legislate your way
18 into affordable housing, and I don't
19 believe that you can tax your way into
20 affordable housing.

21 I think what happens is, you
22 create a virtuous cycle that takes
23 pressure off of the existing housing
24 stock when you build new construction,
25 even if it is high-end rental units or

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2 high-end condo projects or high-end
3 single-family units, because the
4 population that desires to be here, some
5 of those people that are taking up space
6 in that existing housing stock will trade
7 up into new properties. So for the
8 people at home and for the general
9 public, the new construction that you see
10 has the benefit of taking pressure off of
11 the rental stock in particular that
12 currently exists here.

13 On the economic side of the
14 equation, when you make it more expensive
15 for businesses to do business in a
16 particular geographic location, those
17 businesses create fewer jobs, invest less
18 in the local community, and provide fewer
19 opportunities for the existing residents.
20 So by stopping the existing and planned
21 reductions in the wage tax, you make it
22 more expensive for residents to work in
23 the City of Philadelphia and that you
24 also make it more expensive, by example,
25 for increasing U&O for businesses to do

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2 business here, and the functional effect
3 is that there's less opportunity for
4 Philadelphians within our city's borders.

5 COUNCILMAN OH: Finally, a very
6 kind of specific question. One of the
7 things that we're very interested in as a
8 city is to attract employers who would
9 provide large-scale employment to people
10 in our city who don't have high skills or
11 a high degree of education. Low skill
12 does not necessarily mean low wages at
13 these locations.

14 What kind of policy do you
15 think would be good for the City in
16 trying to attract larger employers so
17 people in the communities can support
18 those small businesses and have money and
19 other things?

20 MS. GILCHRIST: I think to
21 Mr. Epps' testimony, it is important that
22 we have productive job training programs
23 in place in terms of where we spend our
24 money and how we train our existing
25 residents. Education is obviously a

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2 vital component of that. Furthermore, I
3 would say simply that even if we are
4 creating professional jobs within the
5 City's borders or jobs that require a
6 Bachelor's degree or more, each of those
7 jobs has the economic benefit of driving
8 demand for other services and other lower
9 skilled opportunities or jobs or
10 businesses that require less skills.

11 So if we create one technology
12 job within the City of Philadelphia, the
13 economic multiplier of that job as a
14 function of the wages that that
15 individual makes and what they spend in
16 the community and the services that they
17 consume is approximately five additional
18 jobs for that one technology job created.
19 So even though we see the booming growth
20 in Center City of professional jobs,
21 those jobs have the impact of creating
22 jobs in dry cleaning businesses, in
23 restaurants, in janitorial services and
24 all across the economic spectrum of
25 skills. So we might not see them as

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2 visibly, but they create opportunities in
3 other parts of the economy.

4 MR. EPPS: Excuse me. If I may
5 add to that, because I agree with all of
6 that. Increasingly in today's work
7 environment, the conflict is in the
8 statement of low skill and high wage.
9 Starting with the federal level of
10 minimum wage of 7 whatever it is and,
11 therefore -- we talked about this
12 earlier -- this state not progressing
13 with other states in the region, we have
14 the lowest minimum wage in this Northeast
15 region. Those low-skilled jobs have low
16 wages, and we need to -- that's a policy
17 issue that needs to be addressed over
18 time. That's part of the challenge that
19 we faced.

20 We also have -- and you've
21 heard me say it a thousand times and I
22 will continue to say it -- is that from a
23 two-year -- forget four-year. From even
24 an Associate degree level, we have one of
25 the lowest levels in the country, and

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2 until we change the conversation and the
3 culture of our legacy population, we will
4 be unable to attract the jobs to
5 Philadelphia. They will go where the
6 talent is. And right now we have
7 difficulty explaining to people that we
8 can guarantee them the pipeline of
9 talent.

10 So we've got a long-term
11 systemic issue to address around the
12 importance we put on education and
13 two-year degree attainment. I'm not even
14 going to talk about four-year.

15 Today's manufacturing type job,
16 high-volume job, is a warehouse and
17 logistics job. The national average for
18 that job is 13 bucks an hour, but because
19 they take 500,000 to a million square
20 feet, those jobs are going to be in
21 Lehigh Valley, Bucks County, and other
22 places. We've got about two or three
23 sites in Philadelphia that we can put
24 them. And we're going to get one or two
25 of those within the next 12 months, but

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2 those jobs are going to pay 12, 13 bucks
3 an hour, and they'll employ 1,000, 2,000
4 people. They'll be great starting jobs,
5 but, again, another thing we've got to
6 teach folk, all of us, is the spirit of
7 continuous improvement. Many other
8 countries advance beyond us because they
9 may start at their job, but they don't
10 end up spending their careers there.

11 So, again, this is a cultural
12 dynamic that we've got to change because
13 our legacy is based on manufacturing 100
14 years. Philadelphia led the nation in
15 manufacturing. You could come out of
16 high school and go down to the factory
17 and get a job and sustain your family for
18 a lifetime. That does not exist anymore,
19 and we're one of the last cities to
20 understand that and respond to it. So we
21 got a lot of work to do.

22 COUNCILMAN OH: Thank you very
23 much.

24 COUNCILMAN DOMB: Thank you.
25 Thank you, Councilman.

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2 I'd like to recognize
3 Councilwoman Blackwell.

4 COUNCILWOMAN BLACKWELL: Thank
5 you.

6 Good morning, everyone.
7 (Good morning.)

8 COUNCILWOMAN BLACKWELL: We had
9 a meeting just last night on the old
10 Apple Storage building. Many of you know
11 it. It's huge, 52nd and Baltimore. It
12 goes like about a block. And they
13 changed zoning some years ago, and we
14 need to make sure in Council -- I'll
15 introduce something for this
16 administrative review -- I may be saying
17 the wrong title -- that Council knows,
18 because with Planning Commission just
19 doing it, we don't necessarily know. And
20 they upped the apartments they want to
21 put in there from 112 to 153, but yet
22 this issue -- and we wrote a bill a
23 couple years ago, but I think we'll ask
24 the head of Rules to put it in, on
25 parking. People were complaining. They

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2 want something like 153 units, but like
3 63 parking spaces. There's already no
4 parking in the City. And we had
5 one-for-one years ago, and we changed it
6 from three for ten units. Even if we put
7 in this bill -- and we'll ask Councilman
8 Greenlee to put it on the list -- and
9 make it six for ten, it's still not
10 enough. And I think that sometimes those
11 who have -- and our colleagues who do
12 these projects don't realize what the
13 communities have to go through.

14 We had people complaining last
15 night who said even as they are doing
16 construction, they're parking in front of
17 their homes. She said, I live on this
18 block, I can't park in front of my own
19 home because of these developers who are
20 parking there while they build. And it's
21 just -- to go to a meeting where people
22 are complaining and they're fussing
23 because they feel they're not getting
24 respect, and of course, the owners sent
25 somebody who basically said, I don't

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2 know, I'll take it back, I'll explain.

3 And then to have another community member
4 say, What about jobs? You got to do some
5 jobs, you got to do security in a big
6 building like that, you got to do some
7 jobs.

8 So we have to fight. We'll ask
9 for a job program so that he'll come to
10 try to hire people. But those who want
11 to do business in our city, the
12 developers, the business owners, the
13 contractors, some of them are fine, but
14 some of them have to be more fair and
15 understanding what happens in these
16 residential neighborhoods or a block
17 that's a block off and adjacent to
18 residences so that people don't feel
19 they're already being beset upon and they
20 already don't have any opportunity for
21 inclusion.

22 So I'm asking you all, because
23 you deal with this population, that maybe
24 you can tell them when they come. They
25 come to you, say make sure for those jobs

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2 you can, offer them to the people in the
3 community. When it comes to parking, you
4 got to say something. I'll put in my
5 bill. I'm sorry I didn't do more, but
6 there was a big -- at the time we wrote
7 it, there wasn't so much support. And so
8 we'll go with the one that is since we're
9 getting ready to recess soon, but even
10 six for ten units isn't enough.

11 So we hope you all will put
12 this in the back of your mind and help us
13 as we try to support development moving
14 forward, but also support the people who
15 live in those neighborhoods.

16 Thank you, Mr. Chairman.

17 COUNCILMAN DOMB: Thank you,
18 Councilwoman Blackwell. Thank you.

19 I have a few questions actually
20 for Commerce Director Harold Epps.

21 Do we have an idea of how many
22 jobs there are currently in the City of
23 Philadelphia?

24 MR. EPPS: 710,000.

25 COUNCILMAN DOMB: 710,000.

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2 MR. EPPS: Plus or minus a few,
3 yes. The highest number that I think
4 we've had since 1991.

5 COUNCILMAN DOMB: That's great.
6 And do you have an idea of the breakdown
7 of how many of those jobs are residents
8 versus non-residents?

9 MR. EPPS: I do not, but I
10 believe Nick from the Economy League --
11 53 percent.

12 COUNCILMAN DOMB: 53 percent
13 are residents?

14 MR. EPPS: Yes.

15 COUNCILMAN DOMB: 47 percent
16 are non-residents?

17 MR. EPPS: Yes. And, oh, by
18 the way, if you were to pick up a copy of
19 the most recent Center City District
20 report, it would also convey that many
21 Philadelphians are reverse commuting to
22 jobs outside of Philadelphia. Again,
23 many of them to warehouse logistics and
24 retail jobs, King of Prussia being one of
25 the primary places, because that's where

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2 the skill matches the job or the job
3 matches the skill.

4 COUNCILMAN DOMB: Do we have
5 any idea of the total wage taxes paid,
6 how much of that wage tax is paid by
7 residents versus non-residents?

8 MR. EPPS: Of course that I do
9 not have, but we can get it.

10 COUNCILMAN DOMB: Okay. And so
11 you're saying that 47 percent of the jobs
12 in Philadelphia are held by people who
13 don't live in the City?

14 MR. EPPS: That is correct.

15 COUNCILMAN DOMB: And in
16 2017 --

17 MR. EPPS: And, by the way, if
18 you were to go look at our board of our
19 pipeline of targets, many of those jobs,
20 when we are successful, it would probably
21 not change that demographic, and if it
22 did, it would be in a negative way, not a
23 positive way.

24 COUNCILMAN DOMB: In 2017 --

25 MR. EPPS: Can I say one other

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2 thing? But in addition to that, there
3 are probably thousands of jobs that the
4 Workforce Development Department can
5 identify that are open that can't be
6 filled because the skill set is not
7 there, including the simple thing of a
8 driver's license.

9 COUNCILMAN DOMB: How many jobs
10 would you say we have that we have not
11 been able to fill?

12 MR. EPPS: I don't know offhand
13 how many thousands, but it's thousands.

14 COUNCILMAN DOMB: 5,000, 2,000?

15 MR. EPPS: Probably 3,000 to
16 5,000. And, oh, by the way, as I said,
17 it's everything from driver's license to
18 can't pass a drug test and other
19 fundamental things that prevent people
20 from being able to take the jobs that the
21 employer requires.

22 COUNCILMAN DOMB: Okay. And in
23 2017 --

24 MR. EPPS: One other comment.
25 And, oh, by the way, we also know of a

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2 number of jobs that are in the suburbs
3 where we -- and I'm on a committee trying
4 to figure out how we solve some of the
5 transportation challenges to get people
6 to the job because the mass transit won't
7 get them there.

8 COUNCILMAN DOMB: A separate
9 question. Of those jobs that are the
10 lower level where you just need a
11 driver's license, what are we doing to
12 try to encourage people to get the
13 driver's license to get these jobs?

14 MR. EPPS: Well, one thing we
15 do is, we work with Philadelphia Works,
16 and we're now beginning to pay for the
17 cost to take the test. That was not true
18 a couple years ago.

19 COUNCILMAN DOMB: How many
20 people would you say --

21 MR. EPPS: I just found out,
22 advised of this yesterday, but in some
23 cases, there are some financial
24 obligations that people have that they
25 need to clear up before they can be

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2 issued a driver's license. So there's a
3 whole bunch of bureaucracy that sits
4 between the job and the present
5 circumstance of the individual.

6 COUNCILMAN DOMB: Is it
7 feasible to think we can clear up that
8 bureaucracy and get them jobs?

9 MR. EPPS: Absolutely, yes,
10 because some of it we're working on.
11 Absolutely.

12 COUNCILMAN DOMB: And in
13 2017 --

14 MR. EPPS: And, again, based
15 upon what we all have said, the headline
16 is we're going in the right direction.
17 We're just not going fast enough.

18 COUNCILMAN DOMB: Right. In
19 2017, from the Commerce Department's
20 perspective, what has been the biggest
21 job growth in the City? What area of the
22 City has grown the most?

23 MR. EPPS: The data would say
24 it would be meds and eds and hospitality
25 and retail.

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2 COUNCILMAN DOMB: Okay. And --

3 MR. EPPS: And those same two,
4 along with tech, are the predicted
5 fastest growing into the future.

6 COUNCILMAN DOMB: Tech is the
7 future.

8 MR. EPPS: It's not the first.
9 Meds and eds is first, hospitality and
10 retail are second, and I think tech is
11 third.

12 COUNCILMAN DOMB: So isn't one
13 of the issues that we have is, two years
14 ago when I looked at the numbers, we have
15 a population that's 26 percent in
16 poverty. At that point we had about 32
17 percent of our real estate taxes that
18 weren't paid because they were
19 non-profits, eds and meds, whatever, and
20 it left basically 42 percent of the
21 population that paid all the taxes. Now,
22 eds and meds pay wage taxes and sales
23 taxes, but I'm talking about the BIRT
24 taxes and the real estate taxes. So in
25 some ways while the eds and meds are

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2 growing, and we all love our educational
3 institutions and our religious
4 institutions, we need to grow, which is
5 what this is about, the taxpaying base to
6 increase that 42 number up. Otherwise
7 that burden keeps falling to the 42
8 percent. And so does the Commerce
9 Department have any specific programs on
10 how they're going to grow that 42
11 percent?

12 MR. EPPS: More jobs. More
13 jobs and more Philadelphians working. So
14 we are partnering on some programs, not
15 all, but one of my initiatives over the
16 next six to nine months is to build
17 stronger relationships with some of our
18 county peers and transportation. I was
19 working with SEPTA the other day.
20 Because we got to get Philadelphians who
21 are unemployed -- some of them the best
22 job opportunity is not in Philadelphia.
23 It's in the surrounding suburbs, and we
24 got to help them get there. So that's
25 one initiative, but at the same time, we

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2 will continue -- the number of jobs in
3 Philadelphia has increased 35,000 to
4 40,000 jobs in the last two years. Some
5 have gone to Philadelphia and some have
6 not, but that does improve the tax base
7 regardless of whether the job has been
8 filled by a Philadelphian or not. And
9 I'm encouraged that we will continue to
10 see job growth. Over the last two years,
11 as stated by Ms. Gilchrist and myself,
12 the good news is our job growth rate is
13 now at the national average, but for the
14 last ten years, we lagged the national
15 average.

16 Let me just say one other thing
17 about legacy. I believe if you go look
18 at the cities that are outgrowing us,
19 most of them are non-legacy Rust Belt
20 cities. Most of them are warm weather,
21 right-to-work states. So we got a lot of
22 legacy issues that kind of we got to shed
23 ourselves. Legislation, regulation,
24 taxation are all part of it, but we got
25 to pick up the pace.

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2 MS. GILCHRIST: If I could make
3 one quick comment on that. That is
4 definitely true of this market cycle.
5 When you look at the long-term trajectory
6 in 1970 to present, Philadelphia is 19
7 percent below the total number of jobs
8 that we had in 1970, and New York and
9 Boston and Washington, DC are all 20 to
10 25 percent above the number of jobs held
11 in 1970. Each of these cities has lost
12 90 to 95 percent of its manufacturing
13 base. So there is something special
14 about us.

15 MR. EPPS: I would agree, and
16 having lived in Boston and know a lot
17 about New York and DC, each of them has a
18 unique element that we do not have and,
19 again, they have out-educated themselves.
20 We lag them in education, two- to
21 four-year degree attainment rate by -- by
22 the way, good news, bad news. We were 25
23 percent ten years ago. We're 35 percent
24 now. Boston, New York, and DC are all
25 over 50. I was in Denver not too long

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2 ago. They're 65 percent, headed towards
3 75 percent. They're mad because they're
4 only at 65 percent. And, again, because
5 we're now in a global, knowledge-based
6 competitive economy, he or she, city,
7 state, region, who has the best talent
8 wins the game, and right now that's not
9 Philadelphia. And, again, it's based
10 upon our legacy. We've not valued it.
11 We have not -- the City and the State has
12 not valued education the way other
13 cities, states, nations, and regions
14 have. We just have not valued education.

15 COUNCILMAN DOMB: Let me ask
16 you a radical question. This is my week
17 for radical questions, by the way,
18 because I've had a few this week, so I'm
19 just going to top it off.

20 It seems to me that where we
21 are with -- the last two years the job
22 growth has been average, let's say, of
23 the top 20 cities, but prior to that, it
24 was close to the bottom. So the last two
25 years, what you're saying, we've done

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2 better, but we're still in the middle.

3 MR. EPPS: Yeah.

4 COUNCILMAN DOMB: What can we
5 do radically to change that equation?
6 I'll throw out an example. Prior to
7 1999, we never saw new construction in
8 the City, zero new construction,
9 relatively rare. Then we put the tax
10 abatement in place and the City
11 flourished. Do we need something like
12 that for business development?

13 MR. EPPS: So you said radical.
14 If you had no issue on a balanced budget,
15 you would get rid of the wage tax. It's
16 not going to happen, but that would be
17 radical.

18 COUNCILMAN DOMB: Well, to take
19 the theory of the abatement, the
20 abatement theory is simply this: When
21 we're not lowering anyone's taxes, but if
22 you decide to invest in the City, we're
23 not going to tax you on the improvements.
24 So let's take that to the business sector
25 for a minute. What if we said if you

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2 open a new business in Philadelphia or
3 you open a branch and you don't have any
4 business right now in the City, we're
5 going to abate for five years X amount of
6 taxes or certain taxes, would that be a
7 tool that Commerce could use to attract
8 new businesses?

9 MR. EPPS: Yes, it would. It
10 would need to be thought through, and
11 then the issue becomes with the politics
12 is those that have already been here say,
13 What about me?

14 COUNCILMAN DOMB: Here's the
15 benefit: We're expanding the taxpaying
16 base. So what about me is that instead
17 of the tax falling on that 42, maybe we
18 bring it to 45 or 50, so that we expand
19 that base.

20 MR. EPPS: The only thing I'll
21 tell you about anything of radicalness,
22 you have to slow it down and think about
23 it, because every consequence has an
24 unintended consequence.

25 COUNCILMAN DOMB: I understand.

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2 MR. EPPS: You can't do it on
3 the fly.

4 COUNCILMAN DOMB: Right. What
5 I'd like you to do --

6 MR. EPPS: I'm open to consider
7 anything that's going to move us faster.
8 It just has to be in a thoughtful way, a
9 balanced way that does not have
10 unintended consequences.

11 COUNCILMAN DOMB: Thank you.
12 Thank you.

13 Councilman Jones.

14 COUNCILMAN JONES: Still good
15 morning.

16 MR. EPPS: Councilman, may I?
17 So I sat here ten years ago as Chair of
18 the Tax Task Force in the private sector,
19 and if you went back and looked at the
20 recommendations made in that Task Force
21 and the one prior to that and you were to
22 graph progress, we would not like the
23 pace. We'd say like everything else
24 we've been saying, we're going in the
25 right direction, but it is a slow,

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2 methodical slog, and we're being outpaced
3 by our competitors and they're reaping
4 the benefits in a faster level.

5 COUNCILMAN DOMB: Okay. Thank
6 you.

7 Councilman Jones.

8 COUNCILMAN JONES: Good
9 morning. And I was in here ten years ago
10 when --

11 MR. EPPS: Yes, you were.

12 COUNCILMAN JONES: -- you
13 prophetically talked about taxation in
14 the City of Philadelphia.

15 MR. EPPS: I don't know how
16 prophetic it was, but I was here.

17 COUNCILMAN JONES: It was
18 prophetic. And many members kind of
19 debated it, and I remember some of your
20 frustrations. Instead of taking your bat
21 and ball and running away, you actually
22 joined the discussion in your new
23 capacity. So we thank you.

24 MR. EPPS: Thank you.

25 COUNCILMAN JONES: But I do

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2 remember those debates and conversations,
3 and I'm kind of a hybrid mix of a number
4 of things. I'm a democrat, but I
5 understand conservatism. I had an
6 opportunity to work in the Commerce
7 Department for many years before I came
8 to government, and there was a
9 radicalization of making sure that I
10 understand that businesses who pay taxes
11 have to make payrolls. They have return
12 on investment. So I get all of that.

13 So I've been around long enough
14 to see some of the changes and impacts of
15 what a tax abatement can do for a Center
16 City and what a tax abatement does to
17 certain neighborhoods in gentrification.
18 So sometimes the unintended consequences
19 happen in that, and so in our planning,
20 we need to be thoughtful in how things
21 actually impact other populations.

22 So a couple of things that I
23 would have. I mentioned and took notes
24 on the fact that we have right now a
25 situation where reverse commute is an

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2 important strategy for many workers in
3 the City of Philadelphia because the jobs
4 are actually outside of the City of
5 Philadelphia and we have to adjust modes
6 and means of transportation to address
7 some of that. Did I understand you
8 correctly?

9 MR. EPPS: That is correct.

10 COUNCILMAN JONES: I also
11 understood that we are in a job growth
12 mode, and we've done really well, but a
13 lot of that is eds, meds, and beds,
14 right? Eds, meds, and beds. And in eds
15 I think we are constantly adjusting
16 salaries to meet demand, and those are
17 living wages. In meds, beds, it's the
18 beds part that I have some struggle with,
19 that if you do not adjust those wages to
20 some degree, you're creating
21 institutional poverty.

22 I've been to other parts of the
23 country where we have a thriving Seattle
24 where Amazon was, but you did not have a
25 workforce that could afford to live

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2 within the confines of the City, had to
3 travel an hour to get to -- and they are
4 doing better than us, Councilman, with
5 \$15-hour jobs. Somehow we have to, as we
6 create this upper tier strategy, we have
7 to have a workforce housing strategy as
8 well. So as I team with my conservative
9 colleagues to do this, I want you to know
10 that those unintended consequences, we
11 have to take a look at. There is a wage
12 gap that we shouldn't artificially
13 inflate, because that tilts things, but
14 how do we create real paying jobs.

15 If we have a problem, right
16 under our foot there's 3,000 miles of
17 infrastructure that is over 100 years
18 old. There are literally wooden pipes
19 that take our waste out that have to be
20 replaced at some point or all of the new
21 construction will collapse under its
22 wake. So we have to figure out how we
23 take a kid from Randolph Skills Center
24 who learns how to do welding and the
25 pipes and stuff like that and makes

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2 \$20-plus an hour to do so and get him to
3 not want to run to Delaware but to live
4 in Philadelphia.

5 So as we and my deep thinkers
6 over there -- and I appreciate the
7 intellectual property that you possess --
8 you have to balance that part.

9 We also, some of this, as
10 Councilwoman talked about, there are
11 unintended consequences with being
12 discovered. She's getting ready to do
13 the Brandywine project, which is, in my
14 opinion, going to change or add a zip
15 code in the City of Philadelphia. We're
16 building horizontally, densely, and
17 that's going to happen, and I think it's
18 a great vision of the future until you
19 figure out where you have to park, right?

20 COUNCILWOMAN BLACKWELL: Yes.

21 COUNCILMAN JONES: Until you
22 have to figure out where you get your
23 workforce from that can easily get to the
24 place of employment.

25 So when everybody was signing

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2 onto the Amazon thing, which you made me,
3 I was the last elected official -- Steve,
4 you'll appreciate this. They bullied me
5 into signing a support letter, saying
6 please come here, which projected 50,000
7 new employees, most of them making over
8 \$100,000 a year. That's good news for
9 some and it's relocation to others,
10 because that pressure you talked about by
11 way of the housing stock, everything is
12 going to go up, I mean, I would think.
13 And so we have to plan this thing out,
14 all of us, so that the maximum benefits
15 for most people happen. And so when I go
16 into a district and we start talking
17 about tax increases and this and that and
18 then we start talking about ten-year
19 moratoriums on taxes because of the
20 programs we produce, people don't
21 understand, well, this is really good for
22 the City, but it's painful to me.

23 So in our messaging, long story
24 short, we have to show the prosperity for
25 every segment, for every segment, that

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2 all boats float, tides rise, something
3 like that. Insert that there. So we
4 have to figure that out in our narrative.

5 I listened intensely to you. I
6 felt like I was back in economics class.
7 It was refreshing, it was smart, but I
8 have to be able to translate that back to
9 other group of taxpayers that don't
10 understand their prosperity growth, their
11 shared prosperity. So we have to work on
12 that narrative.

13 MS. GILCHRIST: Thank you,
14 Councilman. Just quickly, I think today
15 is a really interesting step in that
16 direction, and I would love to see more
17 dialogue between these sectors to make
18 sure that we can come to the community
19 with a cohesive message and demonstrate
20 how and why and plan for our projects to
21 support them, to support the community,
22 and to grow the economy and jobs and
23 residential opportunities for everyone.
24 So I hope to engage in that kind of
25 dialogue with you.

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2 MR. EPPS: If I may make a
3 comment. So it would be editorial-based
4 and, that is, last week literally to the
5 day, part of the Administration hosted 40
6 representatives from parts of our
7 Commonwealth, reinforcing the value that
8 Philadelphia brings to the state economy,
9 and there were three things we
10 reenforced, and I would ask you as our
11 representatives of Council to share in
12 these reenforcements, that if we wanted
13 the best Pennsylvania, which means the
14 best Philadelphia we can have, that
15 education, transportation, and
16 infrastructure needed to be forefront in
17 our investment, and that would go also to
18 our deal of the United States of America,
19 and we have underinvested, disinvested in
20 those three categories, part of getting
21 what we got. And so we've got to
22 understand that bridges and highways are
23 falling apart and we got hundred-year-old
24 infrastructure and, yes, we can employ
25 thousands, tens of thousands of our

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2 citizens at various skills levels if we
3 were to make those priorities, and we
4 have not chosen to do that.

5 COUNCILMAN JONES: In
6 addition -- and that's why I say the
7 narrative and how creating those
8 solutions have to include all people. I
9 mean, we have over 100 commercial
10 corridors in the City of Philadelphia.
11 Retail has been taking a dip, and we have
12 to either -- and I've heard you say this,
13 and that's why I call you my deep
14 thinker, that sometimes commercial
15 corridors have to shrink with different
16 kinds of opportunities emerging from
17 them. Like we're doing -- for example,
18 we're doing a hearing coming up on a
19 thing called porch pirates. We like to
20 use catchy words, but what it means is
21 people are stealing packages because more
22 deliveries are coming. They're finding
23 creative ways to steal things coming in.
24 Well, that's a cottage opportunity for
25 someone who says, no, don't put it on

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2 your porch, drop it here, you can pick it
3 up at night.

4 MR. EPPS: Yeah.

5 COUNCILMAN JONES: We have to
6 adjust, though.

7 MR. EPPS: And UPS and United
8 States Post Office are doing that, but
9 let me just say my comment about the
10 Amazon. Back to what the Councilman
11 talked about, 1970, thereabouts, the City
12 had over 2 million people. It's at 1.6
13 million now. So I would argue that one
14 of the best things that could happen to
15 Philadelphia is Amazon chose us, because
16 we have better -- the downside to our
17 50-year decline is, we've got room for
18 them, and the Boston, New York, DC, and
19 others do not. They're at capacity.
20 We're not. So we could put 200,000
21 people in this city. And we won't get
22 200,000, by the way. They'll span the
23 entire region if we were so fortunate,
24 but we got the capacity and the
25 infrastructure better positioned than

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2 most others. And, yes, some parts you
3 would see inflation, but because we are
4 20 percent underutilized -- and we've
5 done the analysis -- the housing values
6 of Philadelphia would rise less than they
7 would any place else that they would go.

8 COUNCILMAN JONES: I'm okay
9 with all of that.

10 MR. EPPS: But, again, it still
11 goes back to we must improve our skill
12 set.

13 COUNCILMAN DOMB: Okay. Thank
14 you. Thank you, Councilman.

15 Councilman Oh.

16 COUNCILMAN OH: Yes. I just
17 wanted to kind of share perspective from
18 this side of the table. I recall, with
19 Councilwoman Blackwell, doing a best
20 practices in public education from
21 countries that are really at the top of
22 the list and not only in academics but in
23 career, technical training, vocational,
24 including testimony from experts from
25 Switzerland and Austria and Germany on

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2 their VET program, public schools around
3 our country, and also experts as much so
4 as Dr. Linda Darling-Hammond, who had
5 chaired President Obama's Education Task
6 Force, and coming up with a set of
7 recommendations based on that, but we
8 haven't employed them.

9 Our school system does not have
10 much input from our business community
11 and, sadly, I don't know that they're
12 welcome to have input. And so we have
13 the school system that really needs to
14 provide skills and training to young
15 people, because we know that certainly 70
16 percent of them are not headed to college
17 at least, and that's not really unusual
18 in many countries where 70 percent don't
19 go to college but earn good living and
20 are not stigmatized by the fact that they
21 do not have a college degree.

22 We have not had that system
23 here in Philadelphia, and I'm really just
24 saying that we have a lot of experts in
25 Philadelphia. We did a hearing on global

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2 opportunities and we had major
3 corporations, employers, technology,
4 manufacturing, we did all that. We have
5 recommendations, and we haven't put that
6 into practice, and I'm saying on this
7 side of the table here in Council, in our
8 Administration, city as a whole. And at
9 least from what experts we heard,
10 stability is very critical, as you have
11 said, solid improvement, permanent
12 improvements, long-term improvements in
13 our education system, stable tax
14 policies. Even bad policies that are
15 stable people can work around, but the
16 constant ping pong ball effect of
17 improving, not improving. And I say it
18 because now that I've been here in my
19 second term, I know what Councilwoman
20 Jannie Blackwell knows, that she's seen
21 it before, it's been done before, and
22 it's being done again. Now that I'm in
23 my second term, I see a new group of
24 Councilpeople doing what we did last
25 term, and I suppose I did what was done

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2 before the term before, right?

3 I think part of that is that we
4 have to kind of relook at how our system
5 of government functions and how the
6 private sector and our universities and
7 all our experts, they come to us on a
8 term basis, share their knowledge, and
9 then in the next term, we have a new set
10 of players. But I would imagine, as I
11 have seen some other countries that have
12 institutionalized that expertise beyond
13 the Mayor and beyond the Council, that
14 they have a continuing role of sharing
15 their expertise in setting how the City
16 functions.

17 I kind of think of Philadelphia
18 and I wonder -- maybe I'll have to do
19 some more research -- if we don't have a
20 characteristic of being a city that likes
21 to kind of put our hands in the cookie
22 jar and mess around with it. We like to
23 hear things, but we don't
24 institutionalize it and give the power in
25 some part to the experts so they can be

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2 part of this process. And I would like
3 to say that as much as we need your help,
4 I think we have to find a way to make
5 your voice important to this process.

6 MR. EPPS: So, Councilman, let
7 me just make one comment about the
8 business community having come from it in
9 this city and for other cities. It's my
10 personal experience and as Commerce
11 Director and Co-Chair of this Education
12 Workforce Development, we are attempting
13 to intervene to get a different outcome,
14 but like everything else, we're trying to
15 move a battleship. This is not an
16 overnight scenario. But we do have a set
17 of employers and a set of educators being
18 assembled to get the conversation at a
19 higher level of what we need to do
20 differently to get a different outcome
21 and how we transform with -- and I will
22 tell you, with a lot of difficulty, a
23 higher level engagement and involvement
24 of the employers to have their needs
25 understood by the educational

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2 community -- that's both K through 12 and
3 CCP -- to see if we can begin to close
4 that gap. But this is hard work, and one
5 of the things is -- I would say one of
6 our characteristics is -- and this is not
7 since the race is going on -- what's it
8 called? The Penn Relays going on. I'll
9 use this metaphor. We can run a sprint,
10 but the real test is can we run a
11 marathon, and this is long-term work to
12 transform the educational workforce
13 pipeline that the marketplace mandates.
14 If they don't get it, guess what, they'll
15 go elsewhere.

16 Talent and taxes will be the
17 determination of where work goes. Talent
18 and taxes. And right now we have too
19 little of one and too many of another.

20 COUNCILMAN OH: Thank you very
21 much.

22 COUNCILMAN DOMB: Thank you,
23 Councilman Oh.

24 I want to thank this panel.
25 Great testimony. It's great

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2 conversation. Thank you very much for
3 being here today. Thank you.

4 (Thank you.)

5 COUNCILMAN DOMB: Will the
6 Clerk call the next panel, please.

7 THE CLERK: Nick Frontino,
8 Steve Mullin, and Yvette Nunez.

9 (Witnesses approached witness
10 table.)

11 COUNCILMAN DOMB: Good morning,
12 and thank you for being here today.

13 Ms. Nunez, you want to start.
14 Maybe just state your name for the record
15 and we can hear your testimony. Thank
16 you.

17 MS. NUNEZ: Good morning,
18 Chairman Domb, Councilman Jones, and
19 members of the Committee. My name is
20 Yvette Nunez. I'm Vice President of
21 Civic Affairs for the Chamber of Commerce
22 for Greater Philadelphia. I thank you,
23 of course, for the opportunity to testify
24 on Resolution 180360. We are happy to
25 provide comment on strategies the City

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2 can use to grow the tax base and expand
3 opportunities for all Philadelphians.

4 We believe as the Chamber that
5 the City must become more competitive
6 with its tax policy, improve our
7 education system, support workforce
8 development strategies, retain top
9 talent, and attract new companies to the
10 City in an effort to grow the City's tax
11 base.

12 I have submitted my testimony
13 in full. I will not be reading it in
14 completion, but I will be highlighting
15 two of those points for this morning's
16 hearing, specifically around improving
17 our educational system and supporting
18 workforce development strategies and the
19 work that the Chamber of Commerce is
20 doing towards accomplishing the earlier
21 stated goal of getting 100,000 people out
22 of poverty as well as improving our
23 educational system and growing our talent
24 pipeline.

25 In order for Philadelphia to

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2 continue thriving, we must focus on
3 ensuring that there is economic growth at
4 the neighborhood level. Through our
5 Roadmap for Growth Action Team, the
6 Chamber seeks to work with City Council
7 to build opportunities for business
8 creation and growth, revitalize
9 neighborhood economies, develop a trained
10 and educated workforce, and leverage our
11 infrastructure. We have built a
12 coalition of businesses, non-profits,
13 civic, and neighborhood organizations
14 that care about Philadelphia's economy as
15 well as residents' quality of life. This
16 year, the Chamber's Roadmap for Growth
17 initiative is working with Chamber
18 members and the Kenney Administration as
19 well as City Council on critical issues
20 facing our most vulnerable populations.
21 We are building a pipeline of employers
22 willing to hire from the homeless
23 population, convening partners to
24 identify employment solutions for the
25 panhandling population, and taking our

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2 members' entrepreneurship expertise into
3 neighborhoods across the City.

4 The Chamber engages in and
5 supports a number of programs and
6 initiatives designed to improve
7 educational outcomes for all kids in
8 Philadelphia. We work closely with the
9 School District of Philadelphia on many
10 fronts, from advocating for reoccurring
11 revenue in Harrisburg to being involved
12 in a statewide coalition to modernize
13 education funding in the Commonwealth.
14 Through our membership, the Chamber has
15 led engagement strategies across the
16 pre-K to 12 continuum through the
17 following initiatives: Read to Me, which
18 is a year-long program that supports
19 early childhood literacy; our support of
20 Read by 4th, the citywide effort to
21 double the number of children reading at
22 grade level; our own Future Ready Career
23 Pathways, which is a program that engages
24 middle schoolers in future career
25 opportunities; our partnership with the

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2 Philadelphia Youth Network and Youth
3 Workforce Development; the Hub at
4 Pennsylvania CareerLink West where, along
5 with the City, Philadelphia Youth
6 Network, Drexel, and the School District
7 of Philadelphia, the Chamber partners to
8 connect youth and young adults in West
9 Philadelphia Promise Zone with employment
10 and education opportunities.

11 Additionally, the Chamber is working to
12 leverage the region's assets to further
13 enhance greater Philadelphia as a premier
14 talent hub. We are doing this through
15 our Education and Talent Action Team and
16 other initiatives that focus on creating
17 clear pathways for the alignment between
18 individuals and employers.

19 Talent in greater Philadelphia
20 is abundant, diverse, and imaginative.
21 Yet we often hear that employers struggle
22 to find and retain their younger
23 workforce. Our Chamber is working to
24 change that narrative.

25 Earlier this year, the Chamber

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2 released "10 Ways to Retain Young
3 Talent," which highlights ten employment
4 attributes that mid-career professionals
5 consider when leaving or remaining with
6 an employer, and often when they leave
7 that employer, they are leaving the
8 Philadelphia region. Those top ten
9 attributes are: access to leaders,
10 career pathways, corporate social
11 responsibility, creative benefits,
12 flexibility, leadership development,
13 lifelong learning, location, mentorship,
14 and peer-to-peer relationships.

15 We thank you for the
16 opportunity to appear before you today
17 and offer testimony on this topic. We
18 welcome the opportunity, as always, to
19 partner with City Council on ways in
20 which we can retain, grow, and attract
21 businesses and jobs and expand the City's
22 tax base, thereby providing additional
23 resources for our schools and
24 neighborhoods.

25 Thank you.

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2 COUNCILMAN DOMB: Thank you
3 very much. Thank you. We'll hold our
4 questions until the full panel.

5 Whoever wants to go next. It's
6 up to you.

7 MR. FRONTINO: Good morning.
8 My name is Nick Frontino. I serve as
9 Managing Director of Projects and
10 Operations for the Economy League of
11 Greater Philadelphia. Thank you for
12 inviting me to testify this morning.

13 I'd like to take this
14 opportunity to shine a light on the role
15 that a talented workforce plays in
16 driving business growth and expanding
17 Philadelphia's tax base.

18 Access to talent is a chief
19 concern for businesses across industries,
20 and a shortage of key skills in the
21 workforce can be a limiting factor on a
22 firm's growth. Globally as jobs evolve
23 and in-demand skills change, employers
24 across industries face challenges finding
25 the right talent. In fact, the 2018 PwC

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2 CEO survey found that a third of U.S.
3 CEOs are extremely concerned that today's
4 workforce doesn't have the right set of
5 skills.

6 So what does this mean for
7 cities and, more specifically, municipal
8 tax bases? Well, cities with a broad and
9 deep talent pool have a decided edge in
10 attracting and retaining businesses.
11 We're seeing this play out now, as much
12 of the conversation around where Amazon
13 will locate its HQ2 is revolving around
14 which cities have the deepest pool of
15 talent.

16 Now, the good news for
17 Philadelphia is that recent years have
18 shown that dense, diverse, amenity-rich
19 places like Center City are increasingly
20 where top talent wants to be. The recent
21 growth in population in and around Center
22 City is testament to this, and as Campus
23 Philly points out, the number of young
24 adults with college degrees in
25 Philadelphia has doubled over the past

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ten years, and the number of jobs in the City has grown too, as mentioned earlier, with 712,000 jobs in Philadelphia today. It's the highest level in several decades, though it's on par with the size of the City's job base in the early 1990s.

The City would do well to make strategic investments to ensure that Philadelphia remains attractive to the kind of top talent that firms are looking for. This means investing in enhancements to the public realm, in transportation access, in public safety, cultural amenities, and more.

These are important investments, but not what I'd like to focus most of my remarks on today. Because at the Economy League, we believe that for Philadelphia to thrive and for its tax base to expand in a transformative way, we cannot be content with just imported talent. Our existing labor force includes more than 700,000

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2 people working or looking for work today.

3 But Philadelphia residents, as mentioned

4 earlier, hold only about 53 percent of

5 jobs in the City, and only 60 percent of

6 employed Philadelphians work within City

7 borders. The hard but familiar reality

8 is that too many Philadelphians lack the

9 skills to meet the needs of employers in

10 growing industries and thrive in the

11 workforce. This is, of course, a major

12 reason that we remain the poorest largest

13 city in the country.

14 But I'd like to submit that it

15 is also a bottleneck to growth for firms

16 in the City as the mismatch between

17 skills in our labor force and employer

18 needs can make hiring a challenge. To

19 remove this limit on firm growth, the

20 City would do well to double down on

21 programs that up-skill residents,

22 particularly in our many disinvested

23 neighborhoods, so they can better compete

24 for jobs in growing occupations. Better

25 aligning workforce development resources

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2 with industry needs is critical to making
3 this happen, and the City's new workforce
4 development strategy and Office of
5 Workforce Development is a strong step in
6 the right direction.

7 But where are industry needs?

8 Today I want to speak just briefly to the
9 need within technology-related
10 occupations, which we at the Economy
11 League see as a major opportunity. It's
12 no secret that globally tech skills are
13 becoming increasingly critical across
14 industries. In fact, in the U.S.,
15 employment growth in tech to occupations
16 has been five times higher than the
17 national average since the early 2000s.
18 And here in the Philadelphia metro area,
19 growth in technology-related occupations
20 accounted for 25 percent of all net new
21 job growth during that period. That's
22 more than 25,000 new jobs in tech
23 occupations in our region since 2002, and
24 projections indicate continued growth.
25 Over the next ten years, our region could

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2 see upwards of 44,000 job openings in IT.

3 And these are good-paying jobs, with a
4 mean annual wage of \$89,000. The average
5 tech job in greater Philadelphia pays
6 \$37,000 more than the average salary in
7 the region.

8 And I'd like to also emphasize
9 that contrary to popular belief, more
10 than a third of tech workers hold less
11 than a Bachelor's degree. The tech
12 workforce includes a broad range of what
13 we call middle skill jobs. These include
14 computer user and network support
15 specialists, web developers, health
16 information technicians, and others.
17 These jobs are often filled by workers
18 with an Associate degree and industry
19 certification, experience in some
20 training programs or some combination of
21 credentials and experience. And not only
22 do middle skill tech jobs provide entry
23 points into a growing field that pays
24 family-sustaining wages, they are onramps
25 to long-term career pathways.

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2 The bottom line is, tech job
3 growth represents a major opportunity for
4 our city. But how to capitalize? A few
5 places where the City can take the lead
6 as outlined in the Economy League's
7 Driving Tech Talent Growth in PHL -
8 Action Framework that we released last
9 year, number one, supporting efforts to
10 launch a tech industry partnership that
11 will allow firms to collaborate more
12 closely around shared needs and
13 solutions, and there's some early work
14 happening in the Administration right now
15 around this; supporting the expansion of
16 employer-led internship and
17 apprenticeship programs to help more City
18 residents acquire critical tech skills
19 and compete for jobs; and, three,
20 prioritizing and funding inclusion of
21 tech learning in K to 12 curricula to
22 build a sustainable pipelines of tech
23 talent over the long term.

24 While just the tip of the
25 iceberg, advancing these efforts will

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2 help put Philadelphia on the path to
3 deepening and broadening its tech talent
4 pool, making the City more attractive to
5 businesses and providing a platform to
6 raise people out of poverty.

7 At the Economy League, we
8 believe that both of these outcomes will
9 result in an expansion of the City's tax
10 base. We look forward to continuing to
11 work with Council and the Administration
12 to advance this important work.

13 Thank you.

14 COUNCILMAN DOMB: Thank you
15 very much.

16 Mr. Mullin.

17 MR. MULLIN: Good morning. I'm
18 Steve Mullin, President of Econsult
19 Solutions, a proudly Philadelphia firm,
20 even though I wish I had spelled it
21 correctly here. I want to thank you for
22 inviting me to share some thoughts
23 concerning the growth of the City's tax
24 bases, and I'll use it as plural. It is
25 something that I have been personally and

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2 professionally interested in for a
3 quarter of a century or more, and I think
4 as I look around the room, in one way,
5 shape or form, I've worked with almost
6 everyone here. It is something that is
7 personally, passionately important to me.

8 You have heard and will hear
9 many details and information from
10 excellent experts during these hearings
11 and more to come, I know. Rather than
12 repeat many of their great points, I
13 would like to share my big picture, sort
14 of a macro view of the past, current, and
15 future growth of the City's economic
16 bases and primarily via growth in
17 population, the causes and effect, and my
18 views as to what, generically at least,
19 that City government should and should
20 not do to positively impact future growth
21 and, therefore, not only see the City's
22 general revenues grow but also -- and I
23 believe much more importantly -- to
24 increase the economic opportunities and
25 standard of living for Philadelphia

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2 citizens.

3 And I have to note here, I do
4 not believe that those two are always
5 mutually consistent objectives.

6 First, we live in a city that
7 until -- excuse me; that until recently
8 had not seen population or economic
9 growth for more than a half a century.
10 The basic reason for this was people.
11 Residents here and anywhere had clear
12 economic reasons to live, work, and
13 invest outside of the City of
14 Philadelphia. Our reaction in general
15 was to tax and regulate people and
16 businesses even more, leading to the City
17 becoming increasingly less attractive for
18 economic activity. We were less
19 competitive and we were losing to other
20 jurisdictions.

21 When I was in City government
22 in the 1990s, one of the in-vogue
23 concepts was "managing decline." If
24 there's ever something that doesn't have
25 a rainbow or happy ending there, managing

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2 decline was the in-vogue story. Scholars
3 studied it and we had delivered detailed
4 analyses of how to do this.

5 But that world can only
6 function with two economic
7 characteristics. One, we need to have
8 financial resources imported in from
9 someone else; in other words, we would be
10 dependent. And, second, perhaps more
11 important, our remaining citizens get
12 poorer and accumulate little or no
13 wealth. In fact, in that world, both
14 economic opportunities and the wealth of
15 our citizens were getting destroyed every
16 hour, every day.

17 Fortunately, the underlying
18 trends of decline have changed
19 structurally and not cyclicly. I am not
20 a big believer -- Lauren Gilchrist was
21 talking earlier and she mentioned
22 something about market cycles here. I am
23 a big believer that the future in
24 Philadelphia is a structural -- what the
25 government can do deals with structural

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2 change, not cyclical change here, and
3 that the business cycle essentially is
4 nowhere in our control at all. But
5 encouraging the continued structural
6 change is within the City government's
7 and the City's control.

8 In the past, a story we're all
9 familiar with, cycles that combine with
10 structural economic decline. We would go
11 into a downturn, a national downturn
12 first, we would go deeper, we would come
13 out later, and we would rise lower, and
14 that's the -- that was the symptoms going
15 down. At the end of the Great Recession,
16 we had sort of a slight turn in that, in
17 that we didn't drop as deep as many other
18 cities and we didn't -- so it came back
19 out a little bit faster and for a while
20 there sort of in advance relative to many
21 other cities. But one of the things --
22 some of those other cities are still
23 very, very strong cities, because the
24 difference today compared to the last 50
25 years is our demand, our population, is

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2 actually growing. So it's not a smaller,
3 weaker, less economically vibrant version
4 of ourselves each time out.

5 But these trends, this
6 structural trend, is largely, if not
7 completely, due to national economic and
8 demographic factors. And I said simply
9 put, I believe that we do not know how to
10 grow, meaning we do not know how to deal
11 very well with the consequences of more
12 people and businesses and investors
13 wanting to be in Philadelphia.

14 No one under the age of 75 can
15 remember a time when Philadelphia's
16 population grew and when its economy grew
17 in proportion to the nation's economy.
18 Growth became a foreign concept to many,
19 with stagnation and decline being seared
20 into our vision, our hopes, our
21 forecasts, and our behavior. Worse, we
22 have managed in many quarters now to see
23 population and economic growth as a bad
24 thing.

25 Clearly the biggest changes we

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2 are witnessing now is that more people
3 want to locate in Philadelphia than want
4 to move out, leading to a population
5 increase that is, frankly, shared across
6 most urban centers in the United States.
7 A city's population change is comprised
8 of three components - the natural
9 increase, birth minus deaths; net
10 domestic migration, that is, domestic
11 migration in minus domestic migration
12 out; and net foreign migration, which is
13 immigration minus emigration. Nobody
14 emigrates here, so we basically consider
15 it immigration.

16 In the past decade, the City's
17 foreign net migration, immigration, has
18 been significantly higher than it's been
19 for 100 years. By the way, it used to be
20 very, very big obviously a century or
21 more ago. And, importantly, in effect,
22 the City's overall population increase
23 has come primarily from this source,
24 additional foreign immigration. Also,
25 net outmigration, domestic outmigration,

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2 has decreased. It is still negative, but
3 it has decreased mainly due to younger
4 generations choosing urban lifestyle over
5 suburban lifestyle and staying longer
6 and, to a smaller degree, empty-nesters
7 choosing urban lifestyles.

8 But don't be fooled. Most of
9 those groups still live in suburban areas
10 and will continue to do so. The point,
11 however, is statistically a relatively
12 small portion of a very large population
13 changing their behavior can reap huge
14 population changes for the City. I
15 expect this behavioral change to continue
16 far into the future. This, along with
17 increased foreign immigration to
18 Philadelphia, will lead to continued
19 population increases and, hence, demand
20 for locations, increasing productivity in
21 the City, and higher gross City product.

22 I do want to note one thing,
23 that with regard to net domestic
24 outmigration, what a lot of people don't
25 realize is when we look at cities like

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2 New York, Boston, Chicago, other big
3 north central cities, some which have
4 grown and some which have not -- and I am
5 specifically not counting the southern
6 cities where a huge portion of --
7 southern and western cities where a huge
8 portion of their growth is the equivalent
9 of growth in West Chester or Haddonfield
10 or Ocean City in some cases inside the
11 city limits there, the percentage net
12 outmigration, domestic outmigration, for
13 all of these cities, including New York
14 City, was all the same proportion. We
15 had the same proportion. What we did not
16 have was huge foreign immigration during
17 the last 20 years, and that is changing,
18 I think, for Philadelphia for the better.

19 As an economist, I look at
20 markets and incentives. If we want our
21 citizens to have better economic
22 opportunities, to achieve higher
23 standards of living, we should encourage,
24 not discourage, business activity, which
25 generates the labor demand required to

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2 increase employment, and that we should
3 do things that lower, not increase, the
4 costs of consumption.

5 I have to note here too, one of
6 the albatrosses that I have around my
7 neck is when we talk about taxes here, I
8 have to go on the record and say what I
9 consider to be the killer tax in this
10 city is no longer the wage tax and no
11 longer any other the taxes, except for
12 the net income portion of the business
13 and receipts tax, old BPT, the net
14 income. That is our corporate income
15 tax, and that is what I consider to be
16 the major killer tax for Philadelphia.

17 If we want people to have
18 better housing opportunities, we should
19 encourage, not discourage, greater
20 housing supply and greater rehabilitation
21 of a very large stock that we have
22 existing now. If we want our citizens to
23 have opportunities to accumulate wealth,
24 we should encourage, not discourage, the
25 increased attractiveness of locating in

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2 the City; therefore, increasing demand
3 that generates the economic opportunities
4 and wealth, something the City, meaning
5 our citizens, have missed for decades.

6 A legitimate and important
7 topic today is the notion of fair or
8 equitable growth, and I believe it is the
9 single biggest issue we face in the City
10 today, and I think rightfully so. And I
11 don't think it's unique to Philadelphia.
12 Each of you in your questions have
13 commented on it and all of the
14 respondents and I suspect, continuing in
15 these hearings, will all comment on that.
16 Not dealing with it appropriately could
17 lead us back to the decline we
18 experienced for so long, with all of the
19 harm to our many citizens that we have
20 witnessed over those decades. Until we
21 are all clones, however, we will not all
22 agree on what constitutes equitable
23 growth and we will not all share the same
24 value judgments underlying these
25 trade-offs. But that's exactly why we

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2 have governments, to make collective
3 decisions in a world where we have
4 different views and values.

5 So regardless of any individual
6 view of fairness, I believe we can
7 accomplish more equitable growth and
8 development in one of two ways. First,
9 by figuring out ways to better understand
10 what's going on and help more widely
11 distribute the vast economic benefits of
12 population and economic growth. Or, two,
13 we can try to make it more equitable by
14 considering that growth itself is bad and
15 we can't handle it and discourage that.
16 But to me that is not really equitable,
17 because the poor will always be harmed by
18 slow and no economic growth. I would
19 vote for the first approach.

20 Indeed, I think that all of the
21 ingredients necessary to achieve a truly
22 remarkable economic transformation, never
23 really accomplished anywhere on the
24 planet earth to date, are sitting right
25 next to the pot on the stove. I believe

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2 strongly that our intentions are good and
3 our leaders are talented and committed.

4 Thus, we have capacity to make an amazing
5 pot of soup, and by doing so, we will
6 make Philadelphia the world's premier
7 showcase of fair, equitable, and
8 inclusionary economic growth in a truly
9 diverse city and economy. And then we
10 will get on the cover of the Rolling
11 Stone.

12 Thank you.

13 COUNCILMAN DOMB: Thank you
14 very much for your testimony.

15 I'd like to recognize
16 Councilwoman Helen Gym to my far left.
17 Thank you.

18 And, Councilman Oh, I think you
19 had a comment.

20 COUNCILMAN OH: I have to
21 apologize. I have another commitment,
22 but I did want to just comment in
23 reaction to what you said. You are
24 providing valuable information. Some
25 people may know less of it, some people

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2 may know more of it, but at the end of
3 the day, how does it translate from good
4 suggestions into action items?

5 I'd like to just recall that
6 sometime in 2013 or '14 I met with about
7 60 major employers in our region over the
8 idea of implementing into our School
9 District a VET program. And as
10 Councilman Taubenberger knows, because
11 he's been to Germany, that program is
12 fairly well paid for by the businesses of
13 Germany or Austria and basically consists
14 of the opportunity for high school
15 students who are going into industry to
16 spend the last two years or so of their
17 high school education getting paid as an
18 employee of a major corporation, like
19 Boeing or Mercedes or GlaxoSmithKline,
20 three days a week working and learning
21 and getting paid, two days a week in
22 school and having additional help.

23 It was written into the bill,
24 the Charter change, as a part of what the
25 City School District would do. It didn't

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2 go anywhere. And I think the issue of
3 what we're doing about our public
4 education is an ongoing situation.

5 We certainly -- it's wonderful
6 we have it back and it's certainly very
7 challenging. I understand the Mayor is
8 doing everything he can, but ideas have
9 to become a practical path. And someone
10 described Philadelphia as a city of a
11 bunch of cats all going in a different
12 direction and not pulling together. And
13 I guess the real point of my story is,
14 and so it didn't work out, but what about
15 the 60 employers who wanted to have the
16 program? If it didn't work on our side
17 because we're a democracy, we argue with
18 each other sometimes, work with each
19 other, disagree, agree, but the 60
20 employers and the other employers, why
21 don't they form their own group? Why
22 don't they push this in education? Why
23 don't they go ahead and start creating
24 opportunities to see a VET program?

25 For example, we have a Music

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2 Task Force. It's a Music Task Force of
3 music experts, Grammy Award winners. I
4 dare say, no unqualified person on there
5 because a politician put them there. And
6 by the way, no politician sits in their
7 meetings. They just meet themselves
8 around the idea of how to make
9 Philadelphia a more vibrant music
10 economy, part of the creative economy. I
11 think those are important things.

12 And so I know there's things we
13 have to do and I think most of it falls
14 into -- the ability to do it falls into
15 the -- really the power in this city is
16 with the Mayor and the School District
17 and others, and we have our
18 responsibility, but I do -- without
19 trying to shirk from our responsibility
20 on Council, I do wonder about the fact
21 why is it so difficult in Philadelphia to
22 get everybody on one sheet of music.

23 Anyway, I'll wonder about that.
24 I'm sure everybody here has thought about
25 it. Have you got some ideas that I

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2 didn't come across?

3 MR. FRONTINO: If I can just
4 make two comments in response to your
5 comments. Number one, I would submit
6 that as nationally the labor market gets
7 tighter and it's harder for employers to
8 hire and retain talent, that it becomes
9 easier to bring employers to the table
10 around additional solutions for workforce
11 training and investing in their own
12 workforce. So I would say that as now,
13 as the labor market is as tight as it has
14 been in a while, that there is probably
15 better opportunity to engage employers
16 than there has been in some time.

17 The other thing that I'd just
18 like to point out is that part of what
19 the Economy League does is always looks
20 outside the City to other cities to
21 understand where there are best practices
22 that offer lessons for Philadelphia.
23 Later this year we'll be taking a group
24 of leaders to Seattle to examine some
25 lessons from Seattle. And I've been out

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2 there to take a look at some really kind
3 of compelling issues around workforce and
4 compelling initiatives around workforce.

5 There's an organization called
6 the Washington Technology Industry
7 Association, which is a consortium of
8 major tech employers. Of course, their
9 tech economy looks very different out in
10 Seattle and in Washington state, but they
11 have come together around workforce
12 solutions through a workforce institute
13 that we will be shining a light on, with
14 an eye towards drawing some lessons back
15 for Philadelphia employers, and we'll
16 have some Philadelphia employers with us
17 on that trip that we hope to help make
18 them understand exactly what it is that
19 has brought the employers in the Seattle
20 area together around some of these
21 issues.

22 COUNCILMAN OH: Well, thank you
23 very much. I'll just add anecdotally
24 that I've been around the world on my
25 computer. I've been to all kinds of

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2 cities. I've looked in great detail to
3 kind of best practices. There's nothing
4 like going out there and meeting the
5 people and hearing what's not written on
6 the computer, but I just think in today's
7 world with the Internet, I mean, I've
8 seen amazing things done in Latin America
9 around public transportation, things done
10 in small cities that we've never heard of
11 that are so innovative. I just think
12 there's so much best practices that are
13 not theoretical, they're done, that we
14 can emulate and tailor.

15 Anyway, the workforce thing, I
16 know it requires something on our part.
17 Employers can't create a VET program, and
18 we can't either. We have to go to
19 Harrisburg, get legislation, exceptions,
20 city of the first class, in order to
21 implement such a system, but we do have
22 to move it forward and we do need the
23 support of the business community, the
24 employers and others, the education
25 advocates and all that, the unions to

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2 make that happen.

3 Thank you.

4 COUNCILMAN DOMB: Thank you,

5 Councilman.

6 I have a few comments. I

7 guess, Mr. Frontino, I'm a big believer

8 in tech, first of all. I'll just put it

9 out there, that I love --

10 MR. FRONTINO: I know you are,

11 Councilman.

12 COUNCILMAN DOMB: --

13 technology, because I think it's the

14 future. Because I read recently that 46

15 percent of our jobs in the country in the

16 next 20 years are going to be replaced by

17 technology. I mean, the numbers are

18 staggering.

19 So here's my frustration.

20 Right now we're in a budget process.

21 We're being asked to fund the schools,

22 which I'm in favor of funding. Okay?

23 What I would like to see, though, are

24 certain metrics required in the funding.

25 So we know that technology is

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2 the future. We know we have a
3 relatively -- a lack of training in many
4 of our workforce jobs that we can't fill.
5 We heard from the Commerce Director that
6 we need to educate better. And so I'm
7 looking out and saying, why are we not,
8 number one, requiring from pre-K to 12th
9 grade teaching -- and I've said this
10 before -- teaching financial literacy,
11 teaching technology, and teaching
12 entrepreneurship, number one?

13 Number two, yesterday in
14 Council I mentioned the Cristo Rey
15 School. We know Cristo Rey works. We
16 know it works. They had, I think, 86
17 students in their senior class. All 86
18 graduated. This is Cristo Rey up on
19 North Broad, moving to 17th and
20 Allegheny, I believe it is. It's a
21 school where families of four with
22 \$35,000 of income or less can send their
23 kids, and many of those children are very
24 low income and have had terrific family
25 issues. Yet the concept is, every

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2 student works one day a week, kind of
3 what Councilman Oh was talking about to a
4 degree, one day a week in a job from 9th,
5 10th, 11th, and 12th grade. And I'm a
6 believer, because I have Cristo Rey in
7 both of my places of work, and I see
8 these kids who come there and they're
9 doing unbelievable. Yesterday I had a
10 graduate who is going to Swarthmore next
11 year. Why are we not doing that, my
12 question -- not for this panel. I just
13 want to get it out there. Why is the
14 public school system not adopting 10 or
15 20 high schools and matching them up to
16 the Cristo Rey model? Even if the pay is
17 minimal or there's no pay, the experience
18 of working in a job and being exposed to
19 four different job experiences is huge,
20 especially if we could map some of these
21 kids with tech companies where they can
22 get jobs, because one out of three jobs
23 in tech don't require a college degree.
24 They can go right into coding or a job in
25 tech.

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2 So I'm a little frustrated that
3 we don't do this, because we know what
4 works, and I'd like to see if we could
5 somehow require this if we're going to
6 fund the school system to metrics that we
7 at least -- when we invest the money, we
8 want to see the results.

9 I don't know if you have any
10 comments. I just wanted to put it out
11 there because it's something that I'm
12 very passionate about.

13 MR. FRONTINO: I'll just say
14 that as I said in my testimony, we
15 believe supporting and funding the
16 inclusion of tech curricula in the K to
17 12 system is a top priority.

18 COUNCILMAN DOMB: Okay.

19 MR. FRONTINO: Not only for
20 now, but for the long term.

21 COUNCILMAN DOMB: Okay. Well,
22 thank you all for your testimony today.
23 Thank you. Thank you very much.

24 Will the Clerk call the next
25 panel, please.

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2 THE CLERK: Brian Cohen, David
3 Grasso, and Leo Addimando.

4 (Witnesses approached witness
5 table.)

6 COUNCILMAN DOMB: Good morning,
7 and thank you for being here today. Just
8 please state your name. And, David, why
9 don't you start first.

10 MR. GRASSO: Sure. Thank you,
11 Mr. Chairman and members of Council. My
12 name is David Grasso. I am the CEO and
13 founder of Grasso Holdings. We develop,
14 own, and operate office buildings,
15 multi-family projects, mixed-use
16 projects, apartment hotels, and
17 restaurants in Philadelphia. We also
18 develop, own, and operate projects of
19 similar nature in other markets such as
20 New York, Washington, Tampa, Charleston,
21 Detroit, and Chicago. I live in
22 Philadelphia. My children, I'm proud to
23 say, are products of the public school
24 system in Philadelphia. We employ about
25 150 people in Philadelphia.

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2 I'm here to urge City Council
3 today to seek out and consider
4 alternative ways to fund critical City
5 programs that don't drastically modify
6 the ten-year tax abatement or decrease
7 the pace of cuts to the business income
8 receipts tax or add additional cost to
9 construction. It simply costs more to do
10 business here in Philadelphia than it
11 does in other cities. It simply costs
12 more to build a building here in
13 Philadelphia than it does in other
14 cities. I see it directly in the other
15 projects that I do in other cities.

16 The ten-year tax abatement has
17 been a blessing to my business and I
18 think to the City -- I know to the
19 City -- and I fear that doing away with
20 that as well as some of the other
21 programs that have helped spur the growth
22 in jobs and new residents in Philadelphia
23 will do much more harm than it will do
24 good to the City.

25 We must look for other ways to

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2 generate revenues than measures that
3 discourage businesses from investing in
4 the City. The cuts that we've been
5 making to the gross receipts tax have
6 shown the business community that we're
7 serious about wanting new businesses to
8 come to our city. To change that now
9 will send the completely wrong message to
10 businesses that want to come here.

11 There's also been a large
12 amount of volatility in the marketplace,
13 the tax marketplace here in Philadelphia.
14 I'm seeing issues in my ability to
15 finance projects. I'm seeing capital
16 sources unsure of what properties or what
17 their investments will be worth in the
18 future. The enemy to new investment in
19 Philadelphia is volatility in the real
20 estate market or in the tax market.

21 For example, I'm trying to
22 finance a project that I've been working
23 on for many years in East Falls on Kelly
24 Drive. One capital source that I've been
25 working with for a long time finally

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2 decided to pass on the project because
3 they're not sure what the taxes are going
4 to be on this project in the future.

5 I have another project in
6 Philadelphia, an office building I own in
7 Center City. In 2017, the assessment was
8 greatly increased, and in 2018, it was
9 increased again. It's impossible to
10 predict what this property is going to be
11 worth in the future. Therefore, it makes
12 it much more difficult to attract
13 capital, particularly institutional
14 capital, to come to this market and buy
15 and invest in these properties. So I'm
16 seeing -- compare this to a market like
17 Detroit where I have multiple investments
18 in Detroit. Detroit suffers from a lot
19 of ills, but one thing that it does not
20 have that Philadelphia does have is
21 institutional capital, making investments
22 in Philadelphia.

23 One of the reasons they don't
24 like Detroit is uncertainty about what
25 the properties will be worth in the

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2 future. They have a tax abatement
3 program in Detroit. Unfortunately it's
4 unpredictable whether you get the tax
5 abatement or not. So, therefore, you
6 can't predict you're going to get it and,
7 therefore, they assume you're not going
8 to get it, so they're reticent to make
9 the investment in that marketplace.

10 As you probably know, it costs
11 as much to build a project here as it
12 does in New York. It costs as much as it
13 does in Chicago. It costs as much as it
14 does in Boston to build a project here in
15 Philadelphia. However, we get a fraction
16 of the revenues from rents that we do in
17 those other marketplaces.

18 The ten-year tax abatement was
19 implemented in part to counter that
20 problem in Philadelphia, and I think it's
21 done a decent job of doing that. To do
22 away with that now, you're going to
23 see -- what will happen is, the values of
24 real estate will go down. Assessments
25 will go down. Tax revenues will go down.

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2 You'll see less trades of real estate.

3 You'll see, therefore, less transfer tax
4 revenue and you'll see less people moving

5 into the City, less new construction,
6 which will mean less gross receipts tax.

7 I think it's a shortsighted fix to the
8 problem.

9 That doesn't mean that it
10 doesn't -- it couldn't use some updating
11 to make it more equitable. There are
12 clearly huge problems in the City with
13 the school system and with the deep
14 poverty in many of our neighborhoods. We
15 need to find ways to increase funding for
16 the school system that don't discourage
17 businesses from coming into Philadelphia.
18 That's my fear. That's really my fear,
19 that we're going to take shortsighted
20 approaches to these problems that will do
21 more harm than they will do good. And I
22 really urge Council to be very thoughtful
23 about these new measures that people have
24 been talking about implementing, like the
25 modifications to the ten-year tax

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2 abatement, reducing the cuts to the gross
3 receipts tax, increasing the construction
4 tax. We're already much more -- we're
5 already way more expensive than we should
6 be construction-wise in Philadelphia.
7 Now we're going to add another cost onto
8 that. It seems ludicrous to me to do
9 that.

10 We have so many advantages in
11 this city. We're a walkable city. We're
12 comparatively cheaper to live here than
13 any others, many others. We need to
14 take -- we should take advantage of
15 those. We need to find ways to bring new
16 businesses here, increase the tax base.
17 And I'm concerned that we're going to
18 kill the goose that's laid the golden
19 egg.

20 COUNCILMAN DOMB: Thank you.
21 Thank you very much.

22 Brian Cohen.

23 MR. COHEN: Good morning. I
24 can say that; it's still before noon. My
25 name is Brian Cohen. I'm Vice President

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2 and Market Officer for Liberty Property
3 Trust where I'm responsible for Liberty's
4 Philadelphia development and real estate
5 portfolio. I am neither an economist nor
6 a public policy expert, so I'm going to
7 be focusing my comments on commercial
8 real estate and some of the challenges
9 that our industry faces and some of the
10 concerns of unintended consequences of a
11 few of the current proposals that are
12 currently out there that I think Lauren
13 listed.

14 Liberty was founded 46 years
15 ago by Bill Rouse. We are a \$10 billion
16 real estate company, publicly traded on
17 the New York Stock Exchange. We have
18 properties in 25 different geographic
19 markets, but our roots are in
20 Philadelphia, and we've been very active
21 in Philadelphia. So since 2004, we've
22 developed 19 office and industrial
23 buildings, total about 4.6 million square
24 feet of space. So that's the equivalent
25 of about four and a half Comcast Centers.

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2 It represents an investment of about \$2
3 billion. So we're very active in the
4 City.

5 But more importantly I think
6 for the City is that these developments
7 have created over 10,000 construction
8 jobs. They're currently occupied by 53
9 different companies, which employ
10 approximately 20,000 people in the City
11 of Philadelphia. Customers include
12 Comcast, GSK, Tasty Baking, Penn Health,
13 Thomas Jefferson University Hospital.

14 In our role as an owner and a
15 developer, we are constantly marketing
16 the City to companies to move into the
17 City, to expand into the City, to stay in
18 the City. And really we represent kind
19 of the front-line salespeople in many
20 instances for business attraction in the
21 City of Philadelphia. And over the last
22 17 years that I've been with Liberty, the
23 narrative has improved dramatically.
24 There's an exceptional value proposition
25 that the City today has to offer that

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2 didn't exist 10, 15 years ago, and this
3 is really a testament to members of
4 Council and past Administrations and the
5 current Administration and I think
6 understanding that we need Philadelphia
7 to be a business-friendly place to do
8 business.

9 However, while the narrative is
10 improved, the Philadelphia sales pitch is
11 not without its challenges. The City is
12 confronted by a very high cost of
13 construction, which ranges between 30 and
14 40 percent higher than that which occurs
15 just outside the City's borders in the
16 suburbs, and it's also higher than many
17 other cities across the country.

18 In addition, the tax
19 environment, again, has improved, but in
20 many ways it's still less favorable than
21 what occurs just outside of the City.
22 And as others have said, Philadelphia
23 trails other cities in those key
24 demographic indicators which affect real
25 estate investors, such as job creation

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2 and population growth.

3 So as a result of all of these
4 challenges -- and I can just speak again
5 to commercial real estate as it relates
6 to office and industrial buildings --
7 every single new construction office
8 building in the City of Philadelphia over
9 the last 15 years has required some sort
10 of public subsidy in addition to the
11 ten-year tax abatement. So you can see
12 that Philadelphia has already kind of its
13 challenges as far as getting new office
14 buildings out of the ground in the City.

15 That being said, we recognize
16 the City faces a lot of challenges and
17 that to change the trajectory, additional
18 funding sources are required. However,
19 we're very concerned about some of the
20 unintended consequences, the cumulative
21 effect of some of these recent proposals
22 and recent changes. I'm not going to
23 list them. I think Lauren did a great
24 job at listing them, but these proposals
25 I want to point are also against the

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2 backdrop of new stormwater regulations,
3 which will increase the cost of
4 construction, and more stringent energy
5 code requirements, again also increasing
6 the cost of construction.

7 Currently, my team and I were
8 in discussions with seven different
9 companies for requirements that will
10 either come from outside of the City or
11 expand within the City. Cumulatively
12 those opportunities represent the
13 addition of over 1,000 jobs to the City
14 of Philadelphia. And any additional
15 costs in construction result in a direct
16 additional cost to those prospective
17 companies should they choose to move into
18 the City.

19 At Liberty it's not just
20 about -- in my role, not just about
21 competing for companies to occupy our
22 buildings, but it's also about competing
23 for the finite capital to invest in new
24 projects. And we need to think about are
25 we going to invest our capital in

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2 Philadelphia or are we going to invest
3 our capital elsewhere, and with the
4 narrative that has been discussed and
5 some of the challenges that we've had,
6 it's becoming a very difficult strategic
7 decision to continue to invest at the
8 level that we have over that last ten
9 years.

10 I fear at the moment where
11 Philadelphia has made great strides and
12 developers are willing to invest and
13 companies are exploring opportunities to
14 locate and expand, we are interjecting
15 additional costs and uncertainty. That
16 not only causes pause for developers, but
17 for companies considering to stay, expand
18 or move into the City. Again, we
19 recognize there are some systemic
20 challenges that the City faces which must
21 be addressed and will require additional
22 funding sources and that the real estate
23 community is going to need to be part of
24 that solution.

25 So I think that what we would

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ask is that before proceeding with a lot of the current proposals and discussions, that there's two requests or suggestions. One, we should be sure to stress test any proposed funding solution in both economic expansion as well as recessionary times to confirm the stability of the funding source. Many of the proposals may have a significant impact in an economic expansion, but will fall short of expectations in a recession. I think, in my opinion, the stability of those funding sources should be just as important as the potential amount of funding.

Second, we collectively ask that the real estate community have the opportunity to further engage a dialogue with Council about some of these current proposals so that we can work together to identify a comprehensive solution and both parties can gain full understanding of the impacts of the various proposals and hopefully identify a solution that

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2 would not have severe unintended
3 consequences of turning away businesses
4 and ultimately reducing the tax base.

5 Thank you.

6 COUNCILMAN DOMB: Thank you
7 very much for your testimony.

8 Leo.

9 MR. ADDIMANDO: Thank you,
10 Councilman Domb. My name is Leo
11 Addimando. I'm the founder and Managing
12 Partner of Alterra Property Group. We're
13 a Philadelphia-based real estate
14 investment development company. We also
15 have investments in five or six other
16 states. So I think, similar to Brian and
17 David, I have a perspective on the local
18 market, but also a relative perspective
19 on how we stack up against other major
20 cities and major places where sources of
21 capital can choose to invest.

22 Rather than read my testimony,
23 which has, I guess, already been
24 submitted for the record, I'm just going
25 to touch on three points and be brief.

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2 I think that there's a
3 misperception on the part of a lot of
4 people, citizens in the City of
5 Philadelphia, members of Council perhaps,
6 members of City government, the
7 Administration, that the real estate
8 development and investment industry and
9 business is an extremely high margin,
10 lucrative line of work. Certainly as
11 with all commodity-type assets, the
12 values of real estate go up and go down
13 over time, but I think typically just so
14 people understand, we work on, I would
15 say, 8 to 12 percent margins on a net
16 basis. We can talk a lot about how that
17 number is derived, and it depends on the
18 type of real estate asset and how long
19 you hold it, but at the end of the day,
20 if you look across all real estate asset
21 types, 8 to 12 percent is a pretty good
22 measure of what the profit margin is.

23 That's pretty average as far as
24 businesses go. It's probably more
25 profitable on a net basis than a grocery

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2 store, but certainly far less profitable
3 than being in the software business or
4 being in the insurance business, for
5 example.

6 I think it's important that
7 that's on the record, because 8 to 12
8 percent when you consider the amount of
9 debt that most real estate projects
10 require now, every investment is
11 different. REITs might use different
12 debt levels than private developers like
13 David and myself, but on average, I'd say
14 60, 70 percent of all the capital that
15 goes into real estate is debt capital,
16 not equity capital. So if you think
17 about it, if you're borrowing two or
18 three times to one on the equity you put
19 in, it doesn't take more than a 20 or 30
20 percent decline in the value of real
21 estate, which, by the way, has happened
22 historically every seven to ten years,
23 for your entire investment to vanish
24 overnight. So I think in the context of
25 how much can you squeeze out of property

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2 owners and out of real estate developers
3 to attempt to plug other funding sources,
4 it's important that people understand how
5 relatively thin the margins are in the
6 business, how volatile the prices are,
7 and how quickly -- never mind the
8 profitability of it, but just the capital
9 invested, the equity capital invested can
10 vanish.

11 We're at a point right now in
12 the real estate cycle where this is
13 probably a little bit more on people's
14 minds. It is on my mind than it would
15 have been four or five years ago, because
16 we are almost ten years now into the
17 recovery of this current real estate
18 cycle. And so the market is in itself
19 outside of Philadelphia at a very
20 critical juncture. Adding additional tax
21 burden into the industry on a local level
22 probably couldn't be any more poorly
23 timed than right now.

24 The second point I want to make
25 is about the ten-year abatement, and I

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2 want to make sure that for the record
3 there's an understanding about how the
4 abatement is working today. Okay? For
5 the last 15 years up until three years
6 ago, there was an opportunity the City
7 had that unfortunately it didn't take
8 advantage of until three years ago to
9 begin to generate additional tax revenues
10 during the ten-year abatement by
11 reassessing the underlying ground and the
12 existing buildings as they were before
13 they were renovated and put under the
14 abatement. Today most of the high-value
15 property, most of greater Center City has
16 been reassessed several times, and if you
17 look at the percentage of the taxable
18 basis, the assessments that is actually
19 being billed during the ten-year
20 abatement, the taxable portion during the
21 abatement, which is the value of the
22 structure before renovation or the value
23 of the land, okay, for commercial
24 properties, you're getting about 20
25 percent of the value of the property as

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2 land these days, which means that the
3 hundred percent abatement is no longer
4 100 percent. For commercial properties
5 it sits at about 80 percent today. So
6 we're not working on a full ten-year
7 abatement anyway going forward. We're
8 working on an 80 percent abatement for
9 commercial properties.

10 For residential properties,
11 which seem to be a little bit more of the
12 discussed inequity and a little bit more,
13 I would say, of an emotional conversation
14 with some citizens, some people in
15 Philadelphia, on the residential side,
16 condos and homes, townhomes,
17 single-family homes, currently,
18 particularly in greater Center City, the
19 land portion of that assessment is
20 between 25 and 35 percent of the total
21 tax assessment; that is, that entire
22 portion is taxable during the ten-year
23 abatement. So for residential
24 properties, whether they be \$10 million
25 condos or \$600,000 homes or \$300,000

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2 homes, the City of Philadelphia,
3 including the School District, are
4 getting tax revenue during the ten years
5 on approximately a third of that property
6 value. It is no longer a full ten-year
7 abatement as it is.

8 I think it's important that as
9 we go forward and talk about the
10 abatement and how to modify it, that we
11 put it in the context of we're not
12 starting from 100 percent. We're
13 starting from somewhere between 80
14 percent and 65 percent of abatement going
15 forward.

16 And the third thing that I want
17 to say is, all of this uncertainty around
18 the total cost of development and
19 ownership of real estate in Philadelphia
20 is starting to have a tremendous drag on
21 the ability of local operators to attract
22 outside capital, the ability for outside
23 developers who want to come into
24 Philadelphia and create construction
25 jobs, create additional tax revenues for

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2 the City and all the things that
3 out-of-town developers can also do,
4 whether they compete with us or not. All
5 of that is starting to slow down. Okay?
6 It's starting to slow down not just
7 because of where we are in the real
8 estate cycle, but specifically because of
9 the uncertainty around the tax regime in
10 the City as it relates to real estate
11 ownership and development. And the enemy
12 of capital attraction is uncertainty, and
13 the single most important thing when you
14 want to continue growing a city is being
15 able to attract capital and attract jobs,
16 and the more friction you put in the
17 system around that, which is what's
18 happening right now, the more difficult
19 that becomes.

20 So I'll just leave it at that
21 and turn it back over to the Chair.

22 COUNCILMAN DOMB: Thank you.
23 Thank you all for your testimony.

24 I'd like to recognize
25 Councilwoman Gym.

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2 COUNCILWOMAN GYM: Thank you
3 very much.

4 First of all, thank you very
5 much to this panel for being here and
6 bringing forward your testimony. There
7 are a couple of things that I wanted to
8 pull out a little bit, because I think
9 it's important. This is a very important
10 discussion that we're having right now,
11 and the impact both from the City and as
12 well as future development in the City is
13 really important.

14 So a couple of questions I had,
15 because I know, Mr. Grasso, you brought
16 this up, but you talk a lot about the
17 costs of doing business in Philadelphia
18 and the cost of construction. Minus the
19 proposal to add in a one percent, can you
20 go into more detail about what the costs
21 are that you see are different from other
22 cities?

23 MR. GRASSO: Well, I can say
24 from experience having developed
25 properties in New York, for example, and

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2 in Philadelphia, that costs per square

3 foot to construct are very similar.

4 They're slightly more in New York, but

5 comparatively reasonably the same.

6 However, you may get 2,000 a square foot

7 for --

8 COUNCILWOMAN GYM: And to what
9 do you attribute that?

10 MR. GRASSO: Organized labor.
11 It costs more to employ people here. The
12 health and welfare benefit packages of
13 our labor unions are very expensive.

14 COUNCILWOMAN GYM: And compared
15 to New York, are they comparable or are
16 they --

17 MR. GRASSO: They're
18 comparable.

19 COUNCILWOMAN GYM: They're
20 comparable to New York?

21 MR. GRASSO: Yeah.

22 COUNCILWOMAN GYM: Because it
23 would seem that if they're comparable,
24 then wouldn't we still be lower because
25 other costs are more expensive in New

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2 York?

3 MR. GRASSO: Well, they're
4 comparable, yet the value of the thing
5 that's constructed is significantly less
6 in Philadelphia than the value of the
7 item, the building, that's constructed in
8 New York.

9 COUNCILWOMAN GYM: Right. But
10 we're talking about costs of
11 construction, not --

12 MR. GRASSO: Costs of
13 construction are similar. In Washington,
14 DC, for example, the cost to construct
15 that same building would be 40 percent
16 less than it would be in Philadelphia.
17 Even there, the value of the underlying
18 asset that you construct will be worth
19 more than it would be in Philadelphia.

20 COUNCILWOMAN GYM: And the
21 difference between DC and Philadelphia,
22 you attribute to what primary factors?

23 MR. GRASSO: Labor. Labor
24 cost.

25 COUNCILWOMAN GYM: Okay. Thank

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2 you.

3 MR. ADDIMANDO: Can I just add
4 something to this? I think it's
5 important to put the cost of
6 construction, the cost of development in
7 a broader context. We certainly have an
8 issue with the actual per square foot
9 costs of construction in Philadelphia
10 relative to other cities. We're
11 somewhere between fourth and fifth most
12 expensive in terms of our actual hard
13 construction costs. I think it would be
14 overly simplistic to say that the problem
15 is the cost of labor or just the general
16 kind of union framework that most of
17 these large projects fall under in
18 Philadelphia. There's a myriad of things
19 that are very specific to this market
20 that are not just what a union carpenter
21 or electrician makes on an hourly basis.

22 I'll say that one of the most
23 significant situations in Philadelphia is
24 the building code in Philadelphia. That
25 building code is, frankly, stuck back in

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2 the Paleozoic era, and a direct result of
3 those arcane building codes are a
4 materials and methods approach that drive
5 construction costs up significantly.

6 Okay?

7 Now, there's a broad
8 conversation going on right now. The
9 building code is being updated.
10 Unfortunately, the newer building codes,
11 the 2018 IBC code, has a lot of things
12 that make sense kind of globally,
13 nationally, and locally will be
14 implemented, like new energy code
15 guidelines. Those things are only going
16 to serve to further increase the cost of
17 construction, not just here but
18 everywhere.

19 On the flip side of that, there
20 are things in this new building code that
21 unless they get -- pardon my fiction
22 here -- bastardized locally when they get
23 implemented, there are a lot of things in
24 that building code which will actually
25 reduce the cost of construction to offset

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2 the energy code requirements and other
3 things that are going to increase costs.

4 So it's not just a union labor
5 issue. It is a building code issue.

6 There are specific parts of the building
7 code in Philadelphia that create

8 tremendous additional cost burdens. It
9 is also the general framework around how
10 construction occurs in Philadelphia, the
11 fees associated with that construction.

12 And I want to put on record that this is
13 not -- it's not fair to say that it's a
14 hard cost of construction issue that's
15 tied back to just the cost of labor. It
16 is a much more nuanced problem than just
17 that.

18 COUNCILWOMAN GYM: I mean, one
19 of the issues that we're talking about is
20 that we have a tool with the abatement
21 that's pretty blunt in terms of its
22 distribution across the City and not a
23 particularly refined instrument. And so
24 part of it is because we're hearing so
25 much about the cost of construction, and

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2 I just think it's important for you as
3 you come before us as you're detailing
4 out the need to retain things that offset
5 the cost of construction, like an
6 abatement, we're using that to compensate
7 to some extent for some of the costs,
8 that we're also very clear about what
9 some of the costs are so that we can have
10 clarity as you keep talking, we keep
11 talking, that we start to identify those
12 elements that we can start to look at.

13 So there needs to be something
14 that goes beyond a broader public
15 understanding of the specific costs that
16 are associated within the building code
17 so we can start to tackle some of those
18 things that make sense, recognizing that
19 the broader public is compensating for
20 what may be other things that could be
21 addressed in other ways. And that
22 doesn't mean that, of course, there's no
23 conversation on either end about the
24 importance of taking a look at the tools
25 that we've given to help offset some of

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2 these costs, but to me it's very
3 important to outline what the costs are
4 as you come. Because we always hear
5 this, it's expensive to build in Philly,
6 but there's very little detailed
7 understanding about those -- and thus
8 it's expensive to build in Philly, so
9 thus we need these offsets, but there's
10 very little conversation about us looking
11 at those costs.

12 My Council colleague and myself
13 are pretty serious about the City budget,
14 the School District budget. We pore
15 through it. We talk a lot about costs.
16 We talk about expenses. We talk about
17 growth and all of these things. I'd just
18 like to hear some of that from your end
19 as well so that it better educates both
20 ourselves as well as the public.

21 MR. COHEN: Yes. If I can add
22 one other thing. I think those are
23 important points that we probably should
24 be able to convey to you. I think I want
25 to identify one little nuance here, which

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2 is we talk about cost of construction,
3 right, which is one aspect of the total
4 cost of development. So oftentimes when
5 we talk about cost of construction, we're
6 talking about the hard costs of the
7 project, actual construction contract
8 amount. I think what we see -- and we've
9 been in a situation actually relatively
10 recently where we're looking at what's
11 the total cost of development to build a
12 building within the City versus pretty
13 much an identical building up in the
14 Allentown area. And I'm just giving you
15 a kind of comparison.

16 COUNCILWOMAN GYM: Do you think
17 we're a comparable city to Allentown?

18 MR. COHEN: I think for this
19 particular company, yes.

20 COUNCILWOMAN GYM: For your
21 industry, but as --

22 MR. COHEN: No, no, no.

23 COUNCILWOMAN GYM: -- the City,
24 do you associate us to be equal to like
25 the dynamics of Allentown?

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2 MR. COHEN: I do not. I do
3 not, but as we talk about jobs coming to
4 the City of Philadelphia, this particular
5 company would see Allentown and
6 Philadelphia as both competitive. Okay?
7 And this happens to be a warehouse
8 building, which came up earlier in some
9 of the earlier testimonies, that would
10 likely employ about 300 to 400
11 individuals in kind of more of a
12 low-skilled but decent wage environment.

13 The costs to build that
14 building within the City are about 30 --
15 when I say costs, total development
16 costs -- about 30 percent higher than
17 building that same building up in the
18 Allentown area. Those relate to
19 absolutely the cost of construction,
20 union labor. It absolutely deals with
21 the permitting. It deals with the time.
22 In real estate development the time of
23 actual development as well gets extended.

24 And so for a company that's
25 looking at Philadelphia and Allentown or

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2 a company that's looking at Philadelphia
3 or Montgomery County, for that matter,
4 they see -- and I think we've seen this.
5 They see a value proposition to being in
6 the City of Philadelphia. The question
7 is will they pay 30, 40 percent more for
8 that value proposition. And to the
9 extent that that premium continues to
10 increase relatively compared to our
11 competitors for those companies, I think
12 that it becomes a more difficult
13 challenge to attract those companies into
14 the City.

15 COUNCILWOMAN GYM: Yeah. I
16 mean, I'll be honest. I don't see us
17 competing -- I mean, I see us competing
18 with a number of different cities,
19 especially for certain amount of
20 businesses, but I am always cautious
21 about comparing us to like -- we're not
22 going to be able to compete with the cost
23 of Havertown or smaller cities or other
24 kinds of areas that don't have it.

25 On the other hand, I think it

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2 is important for you and for us to be
3 constantly like reminded about the costs
4 that you feel are excessive beyond,
5 because we are compensating a lot on the
6 back end for it to try and offset some of
7 those costs. So it's helpful for you to
8 remind us about some of those things.

9 Some of the things that are not
10 necessarily we're able to budge on, but
11 others we should be paying attention to.
12 Like even if the political mood or
13 environment is not exactly right at this
14 moment, we still need to be driving the
15 conversation towards these are the things
16 within the specific building code that we
17 need to take a look at. These are the
18 other things.

19 I mean, as you mentioned,
20 Mr. Addimando, I think like some of these
21 things are modernizing electrical
22 systems, making systems more safe, making
23 them greener, more environmentally
24 friendly, yes. At this point in time,
25 especially with materials being new and

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2 not necessarily like adapted to a broad
3 spectrum of business and buildings, like
4 I would see that as being an expensive
5 cost that would hopefully over time begin
6 to be reduced, but other parts of it that
7 are not quite -- that don't quite sound
8 like that, we need the developer
9 community to help us identify that in
10 order for us to be able to help move on
11 some of these things even when it's
12 difficult.

13 I wanted to take just a moment
14 and ask you a little bit more about the
15 abatement. It's my understanding -- I
16 have not heard that much conversation
17 about eliminating it, and part of it is
18 that I think people recognize and
19 acknowledge the kind of benefits the
20 abatement has clearly brought. There's
21 no question the City is a different city
22 than the one I went to college to in the
23 '90s, right? So that benefit can
24 certainly be attributed to broadening
25 development, growing tax base, all of

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2 these things. So I am very cognizant
3 what benefits the abatement has brought.
4 I think it's understanding, though, that
5 it is an old tool. It's a fairly blunt
6 tool, as I mentioned. The KOZ, for
7 example, has started to become more
8 refined, a few changes that were made to
9 adapt to newer situations. Land value,
10 for example, taxed at 110 percent to
11 compensate for school districts so that
12 they don't have to -- they're even paid
13 more than what the land value is worth to
14 offset the ten years of forfeited growth
15 in property value, for example.

16 But I'm curious about like the
17 abatement and lots of concerns about \$42
18 and a half million, for example, last
19 year for the abatement program and
20 whether you see like any opening for
21 reasonable modifications within it that
22 could respond to the fact that we do have
23 a school district that is in serious
24 need. These things aren't going to come
25 free. The City made it very clear.

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2 We've waited decades for the state to
3 deliver, for the federal government to
4 deliver. Yes, more people should be
5 paying money into the school system.
6 Until that happens, we can't leave our
7 kids behind.

8 So we're trying to understand
9 like what could be reasonable for the
10 broad swath of the public that sees the
11 abatement as being both distributed
12 somewhat unequally across the City as we
13 raise money for schools. And this is an
14 open-ended conversation. It doesn't have
15 like an end point to it.

16 MR. GRASSO: Well, it's
17 definitely a blunt instrument. So I
18 would definitely agree with there. It
19 definitely could use some -- there's no
20 question that it could be modified to be
21 better, and there's no question also that
22 the schools need more funding. I don't
23 think that the tax abatement program is
24 the cause of the schools' lack of funding
25 nor will it solve the problem of the

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2 schools' funding. I'm just concerned
3 that, again, whatever modifications are
4 made to it -- and there clearly can and
5 should be some modifications to it --
6 they're very, very thoughtfully
7 implemented so that they don't cause a
8 chilling effect on real estate -- on
9 construction, new construction, it
10 doesn't decrease property values, which
11 will have the opposite effect of what
12 people are intending to do, what they
13 want. So it just needs to be very
14 thoughtfully implemented. And also I
15 think that the tax abatement program
16 needs to be looked at differently for
17 different types of real estate, different
18 areas in the City. In impoverished
19 areas, the tax abatement should be 20
20 years, it should be more than ten years,
21 but maybe for houses that are over a
22 million dollars, the tax abatement should
23 be less. So clearly it can be refined.
24 So I would support that.

25 COUNCILWOMAN GYM: Okay.

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2 That's helpful. Thank you very much.

3 MR. ADDIMANDO: I've spent a
4 little bit of time looking at the
5 underlying laws that enable the
6 abatement, and I think you're absolutely
7 right, that after almost 20 years, that
8 it is much more of a blunt tool now than
9 it ever was and needs to be refined. I
10 think I want three things to be
11 considered. One is that the
12 state-enabling legislation, the framework
13 under which the abatement exists, is in
14 fact a pretty blunt instrument. You
15 really can only do two things. You can
16 go up to ten years. You can't go more
17 than ten years without changing state
18 law. And you can either have the
19 abatement apply, partially apply or not
20 apply by designating -- right now the
21 entire City of Philadelphia is designated
22 as blighted. That's how they got the
23 abatement to cover the whole City.

24 So under the state law
25 framework, a lot of the things that I

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2 think we'd like to do -- and Councilman
3 Domb has been on record since before he
4 was in office that it should be 20 years
5 in certain parts of the City where the
6 ten years doesn't get it done, where
7 there hasn't been a lot of development.
8 Unfortunately we don't have that option,
9 not without going through a very painful
10 process at the state level.

11 So in the context of what we
12 can do and in the context of things that
13 I've heard kicked about -- and I agree
14 with you, Councilwoman Gym, that I
15 haven't heard any rational person say we
16 should get rid of the abatement entirely.
17 It's been a conversation more about we
18 should talk about how the abatement might
19 need to change given the current school
20 funding situation and the current real
21 estate and economic environment in the
22 City. I don't think anyone disagrees
23 that the conversation is relevant. Okay?
24 But you unfortunately can't do certain
25 things, like go to ten years.

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There are certainly parts of the City that need the abatement more than others. So thinking about the length of the abatement in Center City or in extended Center City versus other parts of the City is a valid conversation to be had and a valid analysis that should happen. The phasing in of the abatement, that's one of the things that Councilman Domb has recently raised of having the second five years of the ten years, have the abatement kick in five full years and then the next five years it graduates down to zero.

The first thing the City needed to do, which is now almost done, is getting tax revenue for the entire abatement period out of the land values. That is tens of millions of dollars of foregone tax revenue for the last 15 years. That is now pretty much done. The land values, particularly in the 90 percent of the -- not geographic parts of the City, but 90 percent of the City's

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2 real estate values cluster between Center
3 City and greater Center City, University
4 City, those land values have now been
5 looked at three times in a row. And
6 whether I agree or disagree with some of
7 the valuations, there's plenty of tax
8 revenue that's now coming out during the
9 abatement. So I think we need to
10 start -- I'll say it again --
11 understanding that it's not 100 percent
12 abatement anymore. It's somewhere
13 between 65 and 80 percent day one.

14 One of the, I think, more
15 troubling proposals from the real estate
16 community standpoint, particularly those
17 of us who build residential, is this
18 notion of capping the abatement on a
19 property basis at a certain number. I've
20 heard 500,000, I've heard 700,000, I've
21 heard a million. Practically speaking,
22 it's a very difficult thing to do for a
23 few reasons. One, there's no way to
24 differentiate legally speaking between a
25 150 or 250 square foot residential unit

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2 and a 5,000 to 10,000 square foot
3 residential unit. In a given building
4 that I might as an apartment developer
5 put 100 units, somebody who builds very
6 high-end condos might put 30 units. And
7 so the total square footage built is the
8 same, but the number of units is more or
9 less dense, and then you're attaching the
10 abatement cap to a unit, a unit of
11 measure being one residential unit. Not
12 all residential units from a valuation
13 standpoint are alike, but legally
14 speaking, they are identical, right?
15 Whether it's a rental apartment or a
16 condo, it is a single residential unit.
17 So I think we're going to have
18 a real hard time trying to stay within
19 the law and do something that's equitable
20 to those who develop residential units,
21 whether they be homes, condos,
22 apartments, small, large. I think that
23 that's a black hole, trying to figure out
24 attaching a number and saying anything
25 over that number is no longer abated.

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2 What's much more productive is finish the
3 last bit of the reassessing the land and
4 then talk about how to phase the
5 abatement out in certain parts of the
6 City in a quicker schedule.

7 COUNCILWOMAN GYM: It makes a
8 big difference for the School District to
9 phase in as well, because the income is
10 then brought in at a steadier rate.

11 Again, as you mentioned similarly in any
12 other industry, the School District lives
13 and dies by predictability of its
14 revenue, which it can't do because it
15 lives year to year with state budgets and
16 city budgets and all these kinds of
17 things. Predictability on land, our
18 property values, are the bread and butter
19 funding. It's the only money we don't
20 have to beg, scrape, and plead for, and
21 it's why some of the questions that we're
22 raising and drawing out here are
23 extremely helpful. So I appreciate that.

24 MR. ADDIMANDO: I just want to
25 put one more thing out there. There is

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2 this, I think -- there's this notion out
3 there that somebody who moves into the
4 City of Philadelphia and buys -- I'll
5 throw a number out there -- a \$3 or \$4
6 million condo -- I don't build these for
7 a living, and there are very few built,
8 but they are being built -- doesn't need
9 the abatement to be able to afford to buy
10 the house and move into the City. We
11 don't know the real answer to whether or
12 not that's true. Certainly they don't
13 need it, but the psychology of I'm
14 leaving the suburbs and I'm moving to the
15 City, I'm probably selling a house that
16 has a \$50,000 or \$60,000 tax bill and I'm
17 coming into the City for a much lower tax
18 bill, even if I can afford 50 grand or 5
19 grand taxes, the psychology of the
20 attractiveness of coming into the City
21 and getting a property tax break -- I
22 know that the politics of it and the
23 perception of it don't look good, but
24 there are so many other material economic
25 benefits to the City, the School

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2 District, and everybody else in
3 continuing to facilitate that incentive,
4 that taking a blunt instrument and making
5 it even more blunt by saying if you pay
6 more than \$500,000 for your house, then
7 you don't get an abatement above
8 \$500,000, I think it's a very dangerous
9 way to modify the abatement.

10 COUNCILWOMAN GYM: And I think
11 we should just continue this
12 conversation. I appreciate it very much.
13 I mostly appreciate the fact that we both
14 understand, especially those of you who
15 live in the City proper and have young
16 children, both understand that as the
17 City's attraction grows, we start to
18 tease out and maybe understand how taxes
19 and taxation incentives are diverse.
20 Like it's a tool. It's not an end or a
21 starting point. It's a means for
22 something, and we should apply it
23 carefully and we should be responsive
24 over time as our city evolves, as our
25 populus involves. But I appreciate this

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2 conversation and look forward to

3 continuing it with you more.

4 Thank you.

5 COUNCILMAN DOMB: Thank you.

6 Thank you, Councilwoman.

7 MR. COHEN: Can I just -- and I
8 know we're running short on time, so I
9 will be very brief. I won't repeat what
10 was said, which I think are all great
11 points. I think to that question,
12 though, there's three comments. One is,
13 right now there seems to be a little bit
14 of uncertainty. There's a lot of
15 different ideas and proposals that are
16 kind of out there, and I think to Leo's
17 point earlier, uncertainty is really bad
18 for investment. So having uncertainty of
19 what will happen I think is one concern.

20 Second is the property type
21 issue. I think we can talk about
22 geographies, but I will stress that every
23 office building that has been developed
24 within the last 15 years required
25 something beyond the ten-year tax

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2 abatement to get out of the ground. And
3 so just thinking about that from a
4 property type as well as a geography
5 standpoint.

6 And then I think lastly is just
7 the reduction or changes to that ten-year
8 tax abatement needing to get taken into
9 account the compounding effect with some
10 of these other proposals that are out
11 there. I think thinking about real
12 estate comprehensively and having a
13 comprehensive plan on how real estate
14 will get taxed I think is a very
15 important part of the conversation.

16 COUNCILMAN DOMB: Thank you.

17 I just have a few comments,
18 then we'll go to the next panel. But
19 when I started here about two years and
20 three months and I think 27 days ago, not
21 that I'm counting, but the value of real
22 estate in Philadelphia was 134 billion.
23 That was the value of OPA's assessment of
24 the City. The buildings were 1.275
25 billion. Under the new assessment, the

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2 value is 1.65 billion. I'm sorry; 162
3 billion. It went from 134 billion to 162
4 billion, and the billings went from 1.275
5 to 1.650. It's over a 30 percent
6 increase. Now, there will be some
7 appeals and so forth, but in two years
8 and a few months, it's a 30 percent
9 increase in the billings on real estate
10 taxes. I just want everyone to be aware
11 of what's going on here, because now
12 we're talking about more taxes and more
13 taxes, and that's why you're seeing these
14 uncertainties and issues with lenders.
15 So I just want to make sure we put that
16 out there.

17 I want to thank this panel and
18 appreciate everything. Thank you for
19 coming today. Thank you.

20 The next panel we're going to
21 combine together because we have a time
22 constraint. So I'd like to ask the Clerk
23 to call Panel 4 and 5 together.

24 THE CLERK: Devin Tuohey,
25 Leslie Smallwood-Lewis, Chris Cera,

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2 Tayyib Smith.

3 (Witnesses approached witness
4 table.)

5 COUNCILMAN DOMB: Good
6 afternoon.

7 (Good afternoon.)

8 COUNCILMAN DOMB: Can we start
9 with Leslie Smallwood-Lewis.

10 MS. SMALLWOOD-LEWIS: Good
11 afternoon. My name is Leslie
12 Smallwood-Lewis and I am one of the
13 principals of Mosaic Development
14 Partners. We're a minority certified
15 real estate development company located
16 in Strawberry Mansion. To date, along
17 with our partners, we've developed over
18 54 million in projects in the City. We
19 focus on impactful developments in
20 disenfranchised neighborhoods. We
21 currently have operating properties in
22 the Fairhill, Strawberry Mansion, and
23 Temple University sections of the City
24 and projects in various stages of
25 development in Wayne Junction, Strawberry

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2 Mansion, and other North Philadelphia
3 communities. Although we have one
4 student housing property and one
5 low-income housing tax credit project for
6 veterans, our primary focus is providing
7 quality housing, goods, and services to
8 the middle market consumer. We develop
9 projects where we are confident that our
10 23, 26, and 32-year-old children would
11 love to reside and could afford to live.
12 They, like many millennials, are laden
13 with student loan debt and moderate
14 incomes and can't afford to pay the high
15 rent offerings of Center City. We see
16 opportunities in our neighborhoods to
17 meet this middle market demand while
18 eliminating blight and forging strong
19 relationships with existing residents and
20 businesses. We have coined the phrase
21 "gentrification," which means to us
22 bringing new ideas and economy into
23 challenged communities while integrating
24 with those who currently reside and work
25 there. We employ local residents. We

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2 source products from local businesses,
3 host community events, and assist
4 entrepreneurs with opening new small
5 businesses.

6 A prime example is our
7 mixed-use project at Eastern Lofts
8 located at 30th and Cecil B. Moore
9 Avenue. Strawberry Mansion was labeled
10 many years ago as a crime-ridden and
11 unsafe area to live, but we saw
12 otherwise. We saw potential. We saw a
13 superior location near Fairmount Park,
14 the Zoo, and downtown. We saw a
15 community deserving of our respect and in
16 need of vision. Mosaic's vision provided
17 a local electrician with contract work
18 and a new office in our building only two
19 blocks from his home. Our vision
20 provided the opportunity for a
21 minority-owned Keystone 3 daycare
22 operator to open her second location.
23 Our vision is providing one of our
24 residents to become the owner/operator of
25 a new coffee shop in our building. Our

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2 residential occupancy rate is 100

3 percent, our retention rate is 70

4 percent, and our waiting list is long.

5 Why? Because of the affordability of our

6 rents, the uniqueness of the design, and

7 the creation of a strong community.

8 I recently had a conversation

9 with one of our first residents who moved

10 in in August of 2016. He and his

11 girlfriend wish to renew their lease for

12 another two years. They initially

13 contemplated moving back home out of

14 Philadelphia after completing their

15 degrees at the University of

16 Pennsylvania, but they found our

17 community, a community with other young

18 entry-level professionals who are

19 cost-driven and hyper-focused on building

20 their careers. We retained this young

21 couple and their contribution to the

22 City's tax base.

23 We have similar projects slated

24 for Wayne Junction, but none of these

25 projects would be possible without early

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2 engagement with the local community,
3 developing to a rental rate that the
4 middle market can truly afford, creative
5 design that excites and encourages people
6 to move to these historically more
7 challenged communities, the use of the
8 ten-year tax abatement and other special
9 finance structures such as federal tax
10 credits and the use of non-traditional
11 construction methods to reduce the City's
12 high construction costs.

13 If it's truly the City's goal
14 to grow its tax base, obviously we must
15 increase the number of available jobs and
16 improve our city's schools, but we must
17 also have a working equation to provide
18 quality and affordable market-rate
19 housing to retain our talent. Doing so
20 has become more and more challenging. We
21 are confident that there are
22 opportunities to build more projects like
23 Eastern Lofts, but without the ten-year
24 tax abatement or even a revision to it,
25 without the federal tax credits, and more

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2 reasonable construction costs, our
3 projects really will not be possible.

4 The elimination or reduction of
5 any of the above would skew the formula
6 and be a real deterrent to the success of
7 any of these projects. There's always a
8 financial gap caused by the high cost of
9 construction and lower rental rates in
10 these neighborhoods. By eliminating or
11 reducing the ten-year tax abatement or
12 imposing an additional construction tax,
13 it would be nearly impossible to make our
14 already challenging developments a
15 possibility. And what a shame. Projects
16 like Eastern Lofts spur additional
17 investment, they stretch the boundaries
18 of possibilities in our distressed
19 neighborhoods, and they generate
20 significant employment for local
21 residents.

22 In closing, if the City does
23 decide that they must move forward with
24 some or all of its proposed tax
25 revisions, then I urge you to strongly

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2 advocate and demand for lower
3 construction costs. By doing so, it
4 might help reduce the negative impact
5 that tax revisions might have on future
6 development.

7 Thank you.

8 COUNCILMAN DOMB: Thank you
9 very much. By the way, after this
10 hearing, I'd like you to contact my
11 office. I want to take a tour of your
12 development. I'm curious to see them.

13 MS. SMALLWOOD-LEWIS:

14 Absolutely. Would love to do that.

15 COUNCILMAN DOMB: Thank you.

16 MS. SMALLWOOD-LEWIS: Thank
17 you.

18 COUNCILMAN DOMB: Tayyib, or
19 who wants to go next?

20 MR. TUOHEY: Good afternoon,
21 Councilman. My name is Devin Tuohey and
22 I'm principal with The Concordia Group.
23 We are a real estate development company
24 headquartered in DC, which recently
25 opened an office in Philadelphia, which

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2 is our first office outside of the DC
3 area. We focus on large, urban, for-sale
4 housing projects. We've developed
5 approximately 500 single-family homes
6 within the District of Columbia over the
7 past five years and are currently
8 completing our first for-sale housing
9 project in Philadelphia, Southwark on
10 Reed, which is the largest for-sale
11 townhome development project currently
12 under construction in the City of
13 Philadelphia and it has created over 200
14 jobs.

15 The purpose of my testimony is
16 to provide our perspective of the
17 Philadelphia development environment, the
18 opportunities we see, the challenges we
19 face and how it compares to our
20 experience in the DC market.

21 A few years ago we began
22 looking at opportunities to expand our
23 business outside the DC area. After
24 studying several markets in the
25 Mid-Atlantic and Southeast, it became

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2 clear to us that Philadelphia would be
3 the best fit for the expansion of our
4 urban for-sale housing business model.

5 Several factors contributed to the
6 decision, including Philly's proximity
7 and access to the country's political and
8 financial capitals, with a cost of living
9 significantly lower than both DC and New
10 York; a growing eds and meds business
11 sector; exceptional restaurants, parks,
12 and cultural institutions; a lack of new
13 housing inventory; a national trend of
14 urbanization; and, most significantly,
15 the influx of recent college graduates,
16 which is driven by a rapidly growing
17 retention rate of graduates from the
18 strong local university system. We
19 believe these factors would result in a
20 significant increase in demand for new
21 for-sale housing as we saw several of the
22 same factors, especially the influx of
23 recent college graduates, contributing to
24 DC's rapid growth over the past decade.
25 Since 2010, DC's population has increased

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2 an average of 11,000 residents per year,
3 the majority of which are recent college
4 graduates.

5 Despite the similar attributes
6 for growth between DC and Philadelphia,
7 the major challenge to development we
8 anticipated, which has been discussed at
9 length here, is the significant increase
10 in construction costs in Philly compared
11 to DC. However, knowing that we were
12 going to pay a little bit more for
13 construction, we assumed that we could
14 achieve a similar profit margin in Philly
15 that we're achieving in DC because this
16 construction cost increase would be
17 offset by the ten-year real estate tax
18 abatement.

19 We have been fortunate over the
20 past two years to develop two similar
21 single-family housing projects, a
22 118-unit development in DC and a 91-unit
23 development in Philadelphia, which has
24 provided us the necessary data to vet our
25 assumptions of the effect of the ten-year

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2 abatement. The houses in DC and Philly
3 are virtually the same size, four stories
4 and approximately 2,500 square feet, have
5 a similar level of builder-grade finishes
6 and comparable sales prices. The cost of
7 building the homes in Philadelphia is 19
8 percent higher than what we pay in DC.

9 The increase is due to several factors,
10 including different City buildings codes,
11 which Leo touched on, particularly the
12 requirements within the plumbing code;
13 the higher cost of labor; and almost
14 importantly, a significant increase in
15 the time it takes to complete a home.

16 Whereas it typically takes us five to six
17 months to complete the construction of a
18 home in DC, it is taking us approximately
19 eight months to complete that same house
20 in Philadelphia. It is our belief that
21 the increase in time is due to a shortage
22 of subcontractors who specialize in
23 large-scale housing production.

24 Based on the data provided from
25 these similar projects, the additional

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2 buying power offered to our purchasers of
3 the Philadelphia homes via the ten-year
4 abatement as well as the reduction in
5 taxes we pay during the extended
6 construction timeline offsets a
7 significant amount of the additional
8 construction costs incurred in
9 Philadelphia, but not all. The offset
10 has provided us with an acceptable profit
11 margin, although it is significantly
12 lower than margins we are achieving in
13 DC.

14 It's our understanding that
15 Philadelphia is reevaluating the
16 necessity of the tax abatement among
17 other policy measures affecting the real
18 estate industry, including an increase in
19 transfer taxes, a construction impact
20 tax, and halting reductions in the wage
21 tax.

22 Regarding the abatement, it's
23 our belief that removing the abatement
24 will put the City at a significant
25 competitive disadvantage to the other

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2 markets on the East Coast that we
3 previously looked at which have a lower
4 cost of construction, such as DC,
5 Baltimore, Richmond, even the Philly
6 suburbs; cities with higher population
7 and wage growth, DC, Boston, Pittsburgh;
8 and lower business taxes. While the
9 increased cost of construction must be
10 factored into the feasibility of a
11 for-sale housing development, the
12 incentive of the tax abatement to
13 prospective homebuyers provides for
14 increased sales pace and an
15 ever-expanding pool of new home
16 purchasers. The City's growth of new
17 home construction over the past few years
18 and its significant number of jobs
19 created by this construction clearly
20 reflects the effectiveness of the
21 abatement. Without the ten-year
22 abatement, the compelling case for the
23 continued growth of for-sale housing in
24 the City would be greatly diminished.
25 Removing the tax abatement while

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2 increasing transfer taxes, implementing a
3 construction tax, and freezing the wage
4 tax reductions would bring new housing
5 production to a halt.

6 COUNCILMAN DOMB: Thank you for
7 your testimony. Thank you.

8 Chris.

9 MR. CERA: Thank you very much
10 for your valuable time. It's an honor to
11 be here today. My name is Chris Cera. I
12 live in the Bella Vista neighborhood with
13 my family. I'm the CEO of Arcweb
14 Technologies located in Old City. Last
15 week the Philadelphia Business Journal
16 listed my company as No. 35 on the list
17 of tech employers ranked by size.

18 I was able to bootstrap my
19 company. That means I didn't receive any
20 money from investors, my family or
21 anybody else. I spent a lot of time
22 thinking about homegrown businesses and
23 how kids in Philadelphia can walk a
24 similar path as me to become more
25 independent.

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2 To quickly summarize the points
3 that we make with regards to growing the
4 tax base, I recommend focusing on
5 creating homegrown jobs, promoting a
6 short list of relevant workforce
7 development programs, and addressing some
8 challenges with employment
9 discrimination. To quote many
10 politicians over the years, jobs, jobs,
11 jobs.

12 We spend a lot of time, money,
13 and energy on business attraction and
14 trying to get companies like Amazon and
15 Apple to move here. I argue it's much
16 more scaleable for us to foster an
17 environment for homegrown businesses to
18 thrive than it is to solve a single
19 company's scalability problem.

20 Paul Levy from the Center City
21 District wrote a piece in the Inquirer
22 last week and he cites a statistic that
23 should frustrate anybody who is delighted
24 with Philadelphia's growth over the past
25 ten years. If local growth since 2009

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2 were robust enough to make us just
3 average, attaining the 2.3 percent growth
4 rate of America's largest cities,
5 Philadelphia would have added 45,400 more
6 jobs; i.e., one homegrown Amazon. To add
7 some context to that, if we just focused
8 on homegrown growth since 2009, we would
9 have created the same amount of jobs
10 already that Amazon HQ2 promises to
11 deliver.

12 There are two major taxation
13 issues in the City that are holding back
14 homegrown businesses and subsequently job
15 growth and subsequently prosperity for a
16 lot of citizens. There were also
17 recommendations -- these were also
18 recommendations No. 20 and 21 by the Tax
19 Reform Commission in 2003. And so these
20 recommendations have been on the table
21 for over 15 years.

22 The first major tax issue for
23 homegrown businesses is what I call the
24 "second year slap," which is an extremely
25 counterproductive policy where businesses

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2 must pay their taxes almost a full year
3 in advance or else face significant
4 penalties. I call this the second year
5 slap since most people only discover it
6 when they go to pay their first year of
7 taxes. Imagine when you paid your taxes
8 this month that you wrote a check to the
9 City for the rest of 2018 in advance.
10 How are you supposed to pay your taxes on
11 salary when you haven't been paid yet?
12 It's not possible unless you're already
13 rich or you're lucky enough to borrow the
14 money somehow. This impacts everybody,
15 including the person that rents a kiosk
16 at the new Gallery to sell their handmade
17 bags. This is a Philadelphia-specific
18 taxation issue, and we're out of line
19 with the state and the federal
20 government.

21 The second major tax issue for
22 homegrown businesses is hard to explain,
23 but I assure you that it's very
24 significant. For Philadelphia
25 businesses, if you lose money in a given

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2 year and you're finally able to recover
3 that loss more than three years later,
4 then you essentially get taxed twice.

5 This impacts startup entrepreneurs that
6 are lucky enough to get a loan or
7 convertible debt, but are unable to pay
8 it back within three years. This is also
9 a Philadelphia-specific taxation issue,
10 and we're out of line with the state and
11 federal government, which allow to carry
12 losses for 20 years in many cases.

13 By implementing these two tax
14 code changes, I believe new businesses
15 will flourish and we can also push a
16 narrative that Philly is the best city to
17 start and grow your company.

18 Let me switch to the subject of
19 job training and workforce development.
20 My business is right in the middle of a
21 global outsourcing trend that has been
22 sending labor overseas for decades. I
23 won't name names, but last year one of
24 the top employers in Philadelphia chose
25 another company instead of mine for a

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2 project, and meanwhile most of that
3 company's labor is performed on another
4 continent. This is happening every day
5 in Philadelphia for many jobs that we
6 could be delivering here, and those
7 include software engineering, i.e.,
8 coding, customer support, and others. I
9 hope that as we're considering tax
10 incentives for companies, that we're also
11 considering whether or not they will be
12 utilizing a homegrown workforce. I also
13 hope that the current workforce
14 development initiative focuses on a very
15 small, limited number of jobs; e.g., like
16 ten, that both City and employers can
17 create successful programs around for
18 training and hiring. If I had anything
19 to say about it, then coding would be in
20 that top ten list.

21 My last point is around
22 criminal record checks, drug screening,
23 and ongoing employment discrimination. I
24 personally believe that background checks
25 and drug screening are privacy invasions

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2 that unnecessarily limit the livelihood
3 of many would-be flourishing citizens in
4 Philadelphia. Despite these personally
5 held beliefs, I've been almost forced by
6 some Philadelphia-based clients and
7 insurance companies to impose these
8 constraints on my own employees if we
9 want to survive. There is a complex web
10 of commercial contracts that make the
11 current system what it is, and my
12 experience has been that it's the
13 insurance companies that are imposing
14 this behavior on businesses at the
15 highest level.

16 For example, several years ago,
17 a large Fortune 100 company required us
18 to buy a specific type of theft insurance
19 in order for us to win the business. Our
20 insurance company at the time said the
21 only way to get this insurance was to
22 perform mandatory background checks and
23 drug screening of all employees. I
24 refused, and I scrambled to find an
25 insurance company that would insure us

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2 without imposing this privacy
3 infringement on our workforce. The issue
4 now is that we're paying double what we
5 were paying with the previous insurance
6 carrier. I think most CEOs would argue
7 that they have a fiduciary duty to pay
8 the lesser amount and deal with whatever
9 social consequences for employees, since
10 it's unfortunately the new normal.

11 In summary, my recommendations
12 for inclusive growth of the tax base were
13 to focus on creating homegrown jobs with
14 a homegrown workforce.

15 Thank you.

16 COUNCILMAN DOMB: Thank you
17 very much for your testimony.

18 Tayyib.

19 MR. SMITH: Councilman Domb,
20 I'm going to not read my statement.
21 You're familiar with my company and my
22 work, but I think I'll just speak from
23 the heart today.

24 I'm actually disappointed that
25 Councilman Curtis Jones couldn't stay for

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2 this, because I think some of these
3 issues particularly speak to his district
4 and the other members of Council, but I
5 appreciate being here.

6 Little Giant Creative is a
7 creative agency that is completely POC
8 owned and women led. We've been around
9 for 11 years. Our clients range from
10 Wharton University, Pennsylvania Academy
11 of Fine Art, the Knight Foundation, many
12 others, but you can read that in the
13 statement.

14 Some things that I think have
15 not been spoken about here truthfully is
16 that one of the biggest problems in this
17 city that we've never addressed is race
18 and inequality, dealing with generational
19 inequality, suppressed incomes.

20 I heard a lot of talk about the
21 building trades, and within real estate
22 they say that you can look at a city's
23 success by the number of cranes in the
24 sky, but you and I both know that there's
25 a history of black and brown people not

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2 being able to fully participate in the
3 building trades. Particularly in unions,
4 I believe at last count, were
5 approximately 94, 95 percent white, I
6 think 74 percent male. I think 70
7 percent of those people on those jobs
8 live in New Jersey and the suburbs. So
9 when we're talking about tax base, when
10 there's no pipeline, when you're a black
11 or brown youth in the Philadelphia school
12 system to get into the building trades,
13 that's one issue. But we could also look
14 at figures in the non-profit industrial
15 complex. If you look at the CDCs that
16 service the underinvested corridors
17 around the City, most of the black and
18 brown people that have position in there
19 are the corridor managers. The executive
20 directors and the executives are white
21 people, often who don't even live in the
22 City.

23 I think if we were to speak to
24 some of our older institutions, like the
25 Chamber of Commerce, the Arts and

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2 Business Council, the Economy League, who
3 I have many friends who are involved in,
4 if you look at their boards and if you
5 think about that the Economy League was
6 founded 109 years ago, we have some deep,
7 deep, painful transformative change that
8 we need to make in the City.

9 A large majority of black and
10 brown people never fully participated in
11 the 20th century economy through policies
12 like redlining, which I'm sure you're
13 familiar with those policies, but we even
14 have contemporary redlining policies. I
15 learned at Kenyatta Johnson's Council
16 hearing a couple weeks ago that black
17 applicants are seven times less likely to
18 have access to a home loan in the
19 Philadelphia region, and the worst and
20 most egregious lenders were the same
21 banks that hold some of our City
22 deposits.

23 So I could name a bunch more
24 figures, like, for example, that black
25 boys in the United States born into

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2 households that identify as the top one
3 percent have the same likelihood of being
4 incarcerated as people who are in white
5 households that make \$36,000 a year. So
6 when we talk about getting 100 people
7 onto the tax rolls in the City where we
8 have many communities, like at 60th
9 Street in Councilman Johnson's district,
10 the average house might be around \$50,000
11 to \$70,000, but it's not livable and you
12 need probably about \$50,000 to \$70,000 in
13 capital loans to make it a livable
14 household, but banks won't give you those
15 loans. Even if you have a job, even if
16 you're capitalized and can show that you
17 can pay off that loan in 20, 25 years,
18 the system as it exists doesn't allow
19 people to move themselves from rental and
20 to homeownership. And we know that in
21 the United States the only thing that
22 really makes transformative change in
23 being able to move from poverty to middle
24 class is homeownership.

25 The average black family has a

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2 nickel to a dollar to the average white
3 family in the United States. That
4 equates to about \$4,000 in accessible
5 capital versus \$116,000 in accessible
6 capital. And right now that the
7 zeitgeist has changed, where cities are
8 aspirational, where for most of your
9 lifetime and my lifetime everyone lived
10 in the suburbs, now empty nesters,
11 millennials, generation Z all want to
12 live in the same land, and what we have
13 is a state of emergency. Because if
14 people who have lived in these cities for
15 generations and paid into the tax system
16 and live by the law of the land are now
17 about to be eradicated and displaced
18 because of the capital markets and the
19 way that banks and real estate developers
20 and the language of this ballet of
21 displacing black and brown people has
22 existed for generations.

23 This is not unique to
24 Philadelphia. I should also mention that
25 I'm a Fellow at the University of

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2 Chicago's Equitable Redevelopment Salon.
3 So I've looked at this issue with people
4 from 14 cities around the country. I've
5 also, with my business partner, Meegan,
6 who is here, just led a group of ten
7 people from Detroit, DC, and Chicago
8 looking at best practices in
9 Philadelphia. So I know that in
10 Kensington with Impact Services, we have
11 one of the worst opium epidemics in the
12 United States. And I also know through
13 my friends at CMAC in South Philadelphia,
14 we have an immigrant community that is
15 not able to participate in the 21st
16 century economy. They have tremendous
17 issues. I know from our friends in West
18 Philadelphia at 60th and Market through
19 ACHIEVEability that the average household
20 at 60th Street is led by a woman. In
21 2003, on average they made \$29,000 a
22 year. Today on average they make \$13,000
23 a year. How does a single mother survive
24 in a city on \$13,000 a year?

25 So, I mean, there's a bunch

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2 more that I could elaborate on. A lot of
3 people have given a lot of time today.
4 Unfortunately the other members of
5 Council were busy or didn't think this
6 was worth staying for, but I will say
7 this is a very important issue and we
8 have to figure out a way without taxing
9 the poor, without taxing the industry so
10 much that Philadelphia is not a city that
11 people want to invest in.

12 But I'll close with, right now
13 the trepidation people have about the tax
14 abatement is because they see \$600,000
15 homes being built at Lehigh, which is
16 about a block and a half away from a tent
17 city where people are living underneath
18 the railway with children, addicted
19 people, they have seen \$600,000
20 townhouses being built that are going to
21 have a tax abatement. I don't know how
22 those people can rationally think that
23 they have a place in the new Philadelphia
24 that we're all fortunate enough to be a
25 part of.

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2 COUNCILMAN DOMB: Thank you.

3 Thank you for your testimony.

4 Let me just mention a few
5 things. My colleagues do watch this on
6 their computer screens and many of them
7 watch this tonight on Channel 64. So
8 they'll see your testimonies and they'll
9 hear everything.

10 I pulled something out of my
11 pocket when I started in Council. I got
12 something from the Pew report. This is a
13 little ratty because it's been in my
14 pocket for over two years, but it's very
15 interesting to me, because it concerns
16 me, and that's why I said earlier what we
17 need to teach in schools are personal
18 financial literacy, entrepreneurship, and
19 technology from pre-K to 12. This is the
20 ownership of businesses in the
21 Philadelphia region, 2014.

22 MR. SMITH: Four out of five
23 are white?

24 COUNCILMAN DOMB: No; worse.
25 78.8 percent white, 10 percent Asian, 2.4

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2 percent black. And so that's why we need
3 to teach entrepreneurship in our public
4 school system and everywhere really,
5 because that's very, very important.

6 Let me ask a question of Leslie
7 Smallwood-Lewis. I have a question for
8 you. The one percent construction tax
9 you mentioned in your testimony, give us
10 an idea of how that might impact your
11 business if it was enacted.

12 MS. SMALLWOOD-LEWIS: As I
13 indicated earlier, the projects that I
14 work on in the communities and in the
15 neighborhoods are already so challenged,
16 because the rents that we can charge to
17 the businesses and to the residents are
18 not going to be anywhere near the rents
19 that can be demanded in the core of the
20 City. So to impose additional strain
21 onto the capital stack by this additional
22 tax, it would be very, very difficult to
23 be able to fill that financial gap.

24 The programs that we use are
25 normally new market tax credits and

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2 historic tax credits, and the new market
3 tax credits are highly competitive and
4 you're fortunate to be able to get an
5 allocation to these projects. So to have
6 to compete for additional dollars based
7 upon a tax such as the one that we're
8 discussing would be imposed, it would
9 really make these projects nearly
10 impossible to be able to complete.

11 COUNCILMAN DOMB: Okay. Thank
12 you very much. Thank you.

13 I have a question, Devin
14 Tuohey. You mentioned in your testimony
15 that the time to build in Washington, I
16 think you said, was five months?

17 MR. TUOHEY: Five to six
18 months, yes.

19 COUNCILMAN DOMB: And you said
20 the time to build in Philadelphia, the
21 same house, is eight to nine months, and
22 I think you said it's because it's the
23 lack of qualified contractors?

24 MR. TUOHEY: Yeah. I think
25 that DC over the past ten years has had a

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2 fairly stable amount of construction. If
3 you recall coming out of the recession,
4 DC was one of the only places in the
5 country with jobs because of the presence
6 of the federal government. And so the
7 construction industry has always
8 somewhat -- has been very active in DC.

9 In Philadelphia, the
10 development that's happening right now in
11 the construction is relatively new, and
12 what we're seeing is there's not the
13 number of qualified contractors to handle
14 these larger housing projects, for the
15 most part because there's not that many.
16 I mean, the 91 townhomes we're building,
17 which is the largest for-sale townhome
18 project in the City, wouldn't even be in
19 the top 50 in DC right now. So I think
20 there's a lack of qualified labor in the
21 City right now. And we're building
22 mostly union. It's just there's not
23 enough contractors out there right now.

24 COUNCILMAN DOMB: Okay. Thank
25 you.

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2 And, Chris Cera, I just want to
3 mention that I wrote down your two
4 comments about the business taxes in
5 advance and the carry -- I guess the
6 carry-back losses basically, and I can't
7 guarantee it, but we'll look into it and
8 see what can be done, if anything can be
9 done.

10 MR. CERA: Thanks. I would
11 also just ask if there's a compromise, to
12 just change it for companies that are
13 newly formed in 2018 and forward.

14 COUNCILMAN DOMB: Okay. Thank
15 you very much.

16 And thank you all today for
17 your testimony. Thanks everyone for your
18 patience. We're pretty much on time,
19 just maybe five minutes off, but thank
20 you all for being here. We're going to
21 continue this conversation, because we do
22 want to build the base. So thank you
23 very much. Thank you.

24 (Committees on Housing,
25 Neighborhood Development and the Homeless

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2 and Commerce and Economic Development
3 concluded at 1:05 p.m.)

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CERTIFICATE

I HEREBY CERTIFY that the
proceedings, evidence and objections are
contained fully and accurately in the
stenographic notes taken by me upon the
foregoing matter, and that this is a true and
correct transcript of same.

MICHELE L. MURPHY
RPR-Notary Public

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