COUNCIL OF THE CITY OF PHILADELPHIA

COMMITTEE ON APPROPRIATIONS

Room 400, City Hall
Philadelphia, Pennsylvania
Wednesday, January 23, 2019
10:20 a.m.

PRESENT:
COUNCILWOMAN MARIA D. QUINONES-SANCHEZ, CHAIR
COUNCILWOMAN JANNIE L. BLACKWELL
COUNCILMAN ALLAN DOMB
COUNCILMAN KENYATTA JOHNSON
COUNCILMAN BRIAN J. O'NEILL
COUNCILWOMAN CHERELLE L. PARKER
COUNCILMAN AL TAUBENBERGER

RESOLUTION 180960 - Resolution authorizing the Committee on Appropriations to conduct hearings to consider the impact of federal Qualified Opportunity Zones on the fair and equitable development of Philadelphia...

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COUNCILWOMAN SANCHEZ: Good morning. Good morning. The Committee on Appropriations will be in order in about a minute. We're waiting for Councilman O'Neill to establish quorum.

I want to thank my Council colleagues Councilwoman Parker, Councilman Kenyatta Johnson, and Councilman Domb. So in about one minute, we will get started. Thank you.

(Pause.)

COUNCILWOMAN SANCHEZ: So the Committee on Appropriations will now be called to order, having an established quorum - Councilman Allan Domb to my far right, Councilman Kenyatta Johnson, and Councilwoman Cherelle Parker to my left.

Before we get started and as our first panel, Anne Fadullon, our Director of Planning and Community Development, as she comes forward, let me just start by saying that I wanted to thank the Administration for the conversations we've been having as this

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Opportunity Zone regulations and program gets in order. I particularly want to thank Council President Clarke and our tech staff, who have worked from the very beginning in putting together the information, the briefing that was held yesterday by Ballad Spahr. I happen to sit through the three-hour CLE session they had a couple of months ago, and there are probably more questions than there are answers, and that's why these public discussions become hugely important.

As all of you know, our goal here in Council and Council has been very focused on equitable development, mixed-income housing, and really bridging the gap between the tale of two cities that plagues the City of Philadelphia.

As someone who lives on the American Street Empowerment Zone, the last major federal designation issued by the Clinton administration, I can attest to the unrealized goals and objectives

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that that program promised and under-delivered in the City of Philadelphia. And so on this one, I look at the Opportunity Zone as the Empowerment Zone on steroids and, therefore, I think it's hugely important that the City facilitate, incentivize, and promote equitable development, and that doesn't happen unless we are intentional in our goals and our intent.

So this is the beginning of a conversation. Unfortunately, the federal government shutdown has caused delays on regulations, and as I said, it is okay that we end today with more questions than answers, but that we task ourselves, all of us who look at community development and equitable development as an important value for the City, that we task ourselves to be vigilant and purposeful in the work that we do over the next few months.

With that, if any of my colleagues have anything to say, we will

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begin. Ms. Anne Fadullon.

I'm sorry. Read the title of the bill. Will the Clerk read the title of the bill.

THE CLERK: Resolution No. 180960, a resolution authorizing the Committee on Appropriations to conduct hearings to consider the impact of federal Qualified Opportunity Zones on the fair and equitable development of Philadelphia; and to thereby recommend impactful, responsive changes to the City's policies, procedures, and budget.

COUNCILWOMAN SANCHEZ: Thank you.

Anne.

MS. FADULLON: Hi. Good morning. Good morning, Chair Quinones-Sanchez and members of the Committee on Appropriations. My name is Anne Fadullon and I am the Director of Planning and Development for the City of Philadelphia. I'm pleased to provide testimony on Resolution No. 180960 and on

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the impact of federal Qualified Opportunity Zones on the fair and equitable development of Philadelphia.

As you know, the Opportunity Zone program is still evolving and we are still awaiting key details. However, we know enough about the program to be able to identify key goals for the City, its neighborhoods, and its residents.

We want to protect existing homeowners, renters, and businesses from displacement; promote Philadelphia's Opportunity Zone neighborhoods for investment that is in alignment with community needs identified in the Philadelphia 2035 Comprehensive Plan, its district plans, and in adopted neighborhood plans. We want to attract new permanent jobs with living wages to lift our residents out of poverty, and we want to provide support services to help projects and businesses in Opportunity Zones become investment-ready.

While the federal regulations

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do not mandate benefits for local communities, we do expect some developers will want or need City assistance to advance projects located in Opportunity Zones. In those instances, we will work with those developers and the District Councilperson to ensure that there is a social impact component to their work.

Those social impact components may include creating or retaining permanent jobs for local and lower-income residents; providing access to quality pre-K and after-school care; offering goods, services, and facilities to the community; delivering access to affordable, healthy food; and providing affordable housing.

Since Opportunity Zones were announced, I've been on multiple panels in front of business leaders interested in taking advantage of the program, and in each one, I've been clear. If you want our land, our funding or other types of assistance we have to offer, we're

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going to ask for something from you that will benefit the community and its residents.

This stance is consistent with the programs the Administration and Council have already advanced together.

For example, in addition to improving facilities, Rebuild is a tool to build pathways to family-sustaining careers. Small businesses, including those based in our neighborhoods, will share in the work. Residents will be included in the process of determining what types of improvements will be made.

Other initiatives are similarly benefiting our neighborhoods and their residents.

Community schools are offering expanded medical care, after-school programming, job training, and other services. More than 2,000 more children are in quality pre-K programs, and we're working our way towards 5,000. We're leveraging vacant land to develop

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affordable and workforce housing. Developers are talking to us about how they can use the affordable housing density bonus. By including social impact requirements in our RFPs, we are ensuring that development benefits the community as well as the developer.

We've also implemented programs that help longtime residents remain in appreciating neighborhoods. The Federal Reserve Bank of Philadelphia found that our property tax relief programs - LOOP, homestead exemption, and others - were helping longtime homeowners remain in their homes.

The Basic Systems Repair and other programs are helping low-income homeowners, many of whom are seniors, make the repairs needed to keep their homes habitable. We'll be kicking off a loan program soon -- actually, we already have -- to help homeowners in middle neighborhoods make those same improvements.

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Working with Council, we have identified funding to help tenants fight evictions and to make both landlords and tenants aware of their respective rights and responsibilities.

This progress in our neighborhood is because we have made meeting community needs a priority. When a developer looks to us for help to take advantage of an Opportunity Zone, we're going to ask what's in it for the community, and when they identify a plan, we're going to hold them to it.

Opportunity Zones have the potential to attract investment to neighborhoods that have long suffered from disinvestment. That investment has the potential to bring jobs, goods, and services to communities that are currently lacking in those services.

Our challenge is to deliver those benefits to the residents who are struggling in those neighborhoods. We are committed to working with the private

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sector and with our partners on City Council to make sure Opportunity Zones truly deliver opportunity for all.

I'm open for questions.

COUNCILWOMAN SANCHEZ: Yes. Thank you. Real quickly, and I want to have an opportunity for our tech staff to share some of the datasets and mapping that our tech staff has available for District Councilpeople and Councilmen at-large to specifically look at some datasets, but before we get there, can you just for the record summarize for us the decision-making that went from the federal, state, and local to get us the maps that we have before we go to the maps that kind of give us a profile of what we're dealing with.

MS. FADULLON: Sure. So the authority to designate tracts lies with the state government and the Governor's Office. So we had a conversation with them, I want to say, probably late January, early February of 2018, and the

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state sort of talked to us a little bit about what they were looking for in the tracts that the City would send up. So we looked at some key factors. One was they want to align the tracts with other investment that was already being made on the federal, state, and local level, where there are tracts that had access to transportation, employment centers, universities, and hospitals. And then also I think some of the key things are, the tract had to meet certain qualifications, right? The poverty rate had to be at least 20 percent or the median family income could not exceed 80 percent of the metropolitan area median. So very similar qualifications as qualified census tracts for new market tax credits.

The state made it pretty clear that they also saw this -- and this is what we heard out of the federal government too -- as a mechanism sort of to have investments happen in, I would

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say, sort of transitioning neighborhoods as opposed to really neighborhoods experiencing extreme disinvestment, that they didn't see this as the program for that, but as kind of a sort of middle ground type of program.

So with that, we got together with our colleagues at Commerce, PIDC, and other various City agencies and sort of looked at these factors and ran some datasets, and out popped about, I want to say, around 90-ish census tracts.

As we were going through this analysis right at the end of February when we were getting ready to ship this off to Council to get more input, the feds changed slightly the requirements for the tracts, so we scrambled, we readjusted, and we were able to get things over to Council in early March for you guys to take a look at before we sent them up to the state.

The state had imposed a deadline of getting information to them

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by the 12th of March. And then shortly after we got that up to the state, they let us know that, oh, by the way, they had asked the feds for an extension. So we worked with the state to get the 90 down to 82.

So that was really the process that we went through. Again, the state was very interested in areas where they had DCED investment, RCAP investment, low-income housing tax credit investment, those types of state investments that this program could potentially build off of.

COUNCILWOMAN SANCHEZ: Thank you.

The Chair recognizes Councilwoman Jannie Blackwell has joined the Committee.

Before I ask additional questions, let me recognize Councilman Domb.

COUNCILMAN DOMB: Thank you, Madam Chairwoman.

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Good morning. I have a few questions.

What are the actual number of Opportunity Zones --

MS. FADULLON: Can you do me a favor and just speak up a little bit.

COUNCILMAN DOMB: What are the actual number of Opportunity Zones in Philadelphia?

MS. FADULLON: So we have 82 designated tracts. There's about 8,760 some nationwide. We have 82 tracts. Pennsylvania has 300. I should mention that the state was only allowed to designate 25 percent of the tracts that actually qualified.

COUNCILMAN DOMB: And the other question, I have some statistics here. I'm just curious by Council district, and it shows that we have 12,324 vacant land parcels in the Opportunity Zones among the other different ten Council districts and 412 vacant buildings. Are those parcels and buildings owned by the City

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or are they individuals?

MS. FADULLON: So --

COUNCILWOMAN SANCHEZ: We're going to have a presentation by tech staff a little bit. Let me get to the presentation so they can see the profile of the districts and then we can ask the relevant questions about which ones are City owned.

MS. FADULLON: Really quickly, I mean, just very quickly, so there's about 40,000 vacant either -- some properties, either lots or structures in the City. Only about 8,000 of those are actually publicly owned. So I don't know the specifics about the ones you're asking for, but I think it's safe to assume that probably 20 to 25 percent of those are publicly owned. Given that these are distressed tracts, it may be a little bit more than that, but I think it's probably not 80 or 90 percent, but we'd have to look at exactly those specific.

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COUNCILMAN DOMB: And my last question, have we talked to other cities to see what they're doing so that we make sure that we're competitive --

MS. FADULLON: Yes.

COUNCILMAN DOMB: -- for the investment of this?

MS. FADULLON: Yes. We've been participating in a lot of roundtables. In fact, Mayor Garcetti from LA had something called Accelerated for America that was in town. We participated with that, which was a lot of different mayors and different cities. We've also been coordinating a lot with Erie in the state, who has been all over this, and we've been looking at what other cities are doing. I'll be honest, it's across the board. Some cities are having a big push, saying the doors are open. Others have a little bit of a more nuanced approach. And also because, again, it was the states that had the ability to do these designations, some states have

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really, really, really come out strong as marketing their state.

I think the key, though, that we've heard is, based on the regs so far, in order to take full advantage of the tax benefits, the investment would need to be made by the end of calendar year 2019. So it's really about do you have projects that are really ready to go. And what we've heard, particularly from some smaller/mid-sized cities, is they don't really have a lot of project -- or shovel-ready projects. But, again, it's across the board. We've definitely been looking to see what other folks are doing.

COUNCILMAN DOMB: The reason why I asked that question, I want to make sure that we get, if we can, our fair share or more than our fair share of these investment dollars that could come to the City, and I don't want to put up a barrier that we don't get our fair share. That's my only concern.

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MS. FADULLON: Yeah.

COUNCILWOMAN SANCHEZ: So let me have Herb and -- so the Council President's office put together some datasets.

Herb, will you explain. We wanted to make sure that District Councilpeople and Councilpeople at-large can look at the profile of the zones that have been designated in their district.

So, Herb, you want to go through the datasets. And, again, they are available to District Councilpeople and to the community folks who are here to provide any additional data drops as part of the profile of the Opportunity Zone. Thank you.

MR. WETZEL: I'm sitting here with the permission of the Councilwoman, I want everybody to know. I asked permission.

Greg, can you bring up the map?

So when the census tracts were finalized and approved by the federal

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government, what we wanted to do is provide Councilmembers with not just a map of those, but the underlying sort of data, the socioeconomic and demographic data, both citywide and then in an individual tract. And so the tabs at the top are race and ethnicity, household income, employment, educational attainment, housing tenure, housing value, housing cost burden, and vacancy, both vacant buildings and vacant lots.

And so what we're going to do is just walk through one census tract, 108, which is in Mantua, and give you a sense of going down and drilling into the data.

So citywide race and ethnicity is -- it's about -- the population in all the approved census tracts is about 80 percent minority and 20 percent white, but if you go down into Tract 108 and you can click on it and essentially see that it is 91.4 percent minority. There's a distribution there and also a graph. And

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so that particular census tract is over 90 percent minority.

Let's go to household income for that census tract. And the median household income is 20,000 and the poverty rate is 46 percent in that census tract.

If we go to look at employment, the unemployment rate for the citywide is 6.8 percent. In this census tract it's 15.5 percent. You should know that in some census tracts, it's over 30 percent, the unemployment rate.

Educational attainment, this breaks it down by no high school diploma all the way through graduate degrees. For example, in this census tract, there's 614 people without a high school diploma. And what's really interesting, there's 134 with graduate or professional degrees, which I think reflects the changing nature of Mantua. Is that fair to say? You wouldn't have seen that number probably ten years ago in Mantua.

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Housing tenure is, it divides renters and homeowners, and if we take a look at the housing tenure there, what's really interesting -- and this is true in a lot of these census tracts -- even though they're low-income census tracts, the amount of homeownership is pretty high. Citywide is 51 percent homeownership. Even with that level of median household income, in Mantua it's 44 percent homeownership still.

Take a look at housing value. The median housing value is $72,000. It actually decreased from 2011, I believe that is, by about four and a half percent.

And let's go to housing cost burden, which I think is really an important indicator, and we'll walk you through this in a minute. A cost-burdened house spends more than 30 percent but less than 50 percent of their income for their shelter, whether that's mortgage, taxes, you know, utilities. A

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severely burdened household spends more than 50 percent of their income on their housing. So if we look at renters in that -- can you go back up to renters? Not tenure. Housing cost burden.

So 53 percent of the renters are cost-burdened, meaning they spend more than 30 but less than 50. But more than a third, or 36 and a half percent, spend more than 50 percent of their household income on rent.

Homeowners are not quite as burdened. Twenty-nine percent spend more than 30 but less than 50, but almost 20 percent are spending more than 50 percent of their household income.

And the last one takes a look at vacancy rate. The ones preceding this have to do with the people and the data around their income, their employment, their education, et cetera. This is sort of like development opportunities, and in this particular census tract, there's 759 vacant parcels, of which eight are

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buildings. And to Councilman Domb's question is, the vast majority of the vacant lots and vacant structures are privately owned. Anne is correct, about 8,000 are publicly owned, but the vast majority are privately owned.

So you can take a look at any one census tract and get this detailed demographic and socioeconomic data about that individual census tract. What's clear, though, on a citywide basis, these have high unemployment rates and the vast majority of the population is minority.

So we'd be glad to answer any questions.

COUNCILWOMAN SANCHEZ: Any of my Council colleagues have any questions for Herb? This information is available. As I said, this is Council President's office and tech staff have put together all of this information, and I think it's important as this discussion evolves that Council, particularly District Councilpeople, get a sense of their

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profile and the opportunities.

I'm going to go back. If there's no questions, I'm going to go back to Anne. I have a couple of questions too.

So, Anne, one of the things that's hugely important is, as I mentioned earlier, the shutdown of the government has prohibited the full regulations. Can you quickly speak to what you've seen in terms of these Opportunity Funds that have been established. We already have a few in the City, right? And what you perceive to be things that are important and are working and then what you feel are some of the unknowns still as we move forward. Because you picked a couple examples, so let's talk about the good ones.

MS. FADULLON: So a few things imbedded in that. So one is, yes, the final regulations have not come out. We were all hoping that we'd see those in January but, again, given the government

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shutdown, it's unknown when we will see those final regulations.

So draft or interim regulations came out, I want to say, around October-ish that literally asked more questions than answered. If you read those regs, the regs are -- there's a lot of questions actually imbedded in the regulations where the Treasury is saying, well, what do you think about this? Do you think we should do it this way or should we do it that way? Which I have to say, I haven't seen that in a lot of other kind of interim regs where there's a lot of questions.

That being said, where we are right now, it's much, I think, cleaner, easier to understand how investments work in a real estate development project in one of those zones as opposed to an investment in a business. So I think what we'll probably see until final regs come out is most funds being interested in some kind of real estate development

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project as opposed to a business investment unless they can really figure out picking sort of that middle ground that that's going to work for them.

I would say from the interest that we've heard from funds, it's a little bit across the board. Some are very large funds and they are coming into Philadelphia because Philadelphia has been able to tell a much better story on the national scene as far as room to grow in the market, price appreciation, that kind of thing. Those folks are generally coming in looking for larger-scale developments. The funds that are forming within the City, some of them literally are just a couple people getting together, because a fund can be self-certified, and investing in a smaller-scale project.

PIDC is working with a couple of business clients there, development clients doing some things around Wayne Junction. There's another one in West

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Parkside, and those are really focused on local business development and job creation. In particular, the one in Wayne Junction has really allowed that minority developer who, because their capital stacks have been so complicated in the past, has never really been able to maintain an equity ownership in any of their projects. This vehicle is now allowing them to maintain some equity ownership. So as a small minority developer, they can start to build that and maybe be able to build capacity and move on. So we're really seeing some different things across the board.

COUNCILWOMAN SANCHEZ: I'm going to recognize Councilwoman Parker and then Councilman Domb.

COUNCILWOMAN PARKER: Thank you, Madam Chair.

And good morning to you, Anne. First, let me start by thanking my colleague Councilwoman Sanchez for this hearing, Council President's office for

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the data.

I wanted to say, Councilwoman, I appreciate it when you open giving your example of promises made but promises that in your experience weren't kept in the Empowerment Zone. However, talk about problems that you would love to have, I would have loved to have had the opportunity for any portion of the Ninth Councilmanic District during those years to have been deemed part of any of those tax-incentivizing sort of zones that would encourage development, but for so many years, Bush, Clinton, all of those federal programs, neighborhoods, middle neighborhoods, portions of Councilman Jones's area were left out of the equation. So I am pleased that we have finally found an opportunity for census tracts in middle neighborhoods to be included in this process.

With that in mind, I want to ask if other cities -- I've heard about Erie, Pennsylvania, Las Vegas, creating

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what they are calling pitch books, and you all may have heard about this, and this is essentially them sort of pitching their Opportunity Zones to developers in a way to like get ahead of them by sort of shaping the conversations about what kind of development they would like to see. Is that a tool or a strategy that we are engaging in?

MS. FADULLON: Yes. So you'll hear that a lot of folks are doing something, they call it, investment prospectus. We actually sort of had that work underway before Opportunity Zones were even a thing. So I think we sent notice to all the Council offices, I want to say, towards the end of like -- sometime in December that we added a tab to our Philadelphiadelivers.com website that's an Opportunity Zone tab. We have what we call the Phase 1 rollout.

So if you open that, what you'll see is some general information about what Opportunity Zones are, but you'll see the map of Philadelphia with the census tracts. And then if you click on the census tract, it will have some of the similar information that Council tech staff brought up, but it's a little bit different. It will talk about population. It talks about the amount of available land. It talks about the public investment that's happened there, the private investment, and it also talks about change in the market.

So it will have some -- there's some information that we thought would be most interesting to people looking to make investment. And then it also -- then there's another piece of that that just talks about the incentive programs that the City already has in place.

COUNCILWOMAN PARKER: So for us, for me, I just thought it was very important to just note that these are some of the tools or strategies that other cities are using and for us to put on the record exactly what our actions

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have been and what we are thinking about doing in the future.

With that in mind, on Page 3 of your testimony you mention something very important to me, and I'll ask her more when she comes up, because Beth really talks about it in her testimony and, that is, ensuring that the needs of the community and that their voices and access to opportunities to participate in this economic investment is actually included. And I love your question in your testimony, you say what's in it for the community, and Beth goes to the heart of it when she starts talking about community benefits agreements.

It's with that in mind that I want to hear from you. What of our local controls do we already have in place that can sort of serve as trail markers or guardrails to ensure that what type of development is being included? And I mention that because I'm thinking about zoning, I'm thinking about community

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meetings, I'm thinking about legislation that this Council has already passed that we hope you will keep in mind, that we've already established using it in the City of Philadelphia, and the developers who are in the room know what we're referencing, but we want to make sure that because it's not mandated, that you think about its use as a part of this process in ensuring transparency relative to whatever kind of development is being proposed. And now I'm referring to our project information form now that is being used as a tool to help RCOs and other community-based organizations to be informed about the amount of jobs. If we're talking about affordable housing, if we're talking about what people are being paid, are they getting retirement security, what investment opportunities are available.

So tell me, what are your thoughts about how we do that, that we engage the community?

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MS. FADULLON: Sure. So I think one of the key things to point out about this, quote/unquote, program is, it's not like low-income housing tax credits or new market tax credits or historic credits or something like that. It's not subsidy money investment. It's simply a tax deduction or a tax break, if you will.

So be that as it may, as we know, a lot of development in Philadelphia often needs some type of assistance, right? And so, for example, they may need some zoning relief or it may need some other kind of subsidy. So if it needs housing dollars, those dollars come with certain income limits and restrictions. So if we're having a conversation with a developer that's doing residential, we may talk to them about doing a component of affordable housing and working with them to see if we can help facilitate that either through investment or through the

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mixed-income housing bonus that Council passed in the last session.

If you need some kind of the below-market financing that's offered by PIDC or their new market tax credits, that comes with again low/mod job creation and those kind of things.

COUNCILWOMAN PARKER: Let me just interject here. Of the 82 designations, how many of them do you think or do we even know or have we even determined if the answer is possible, do we know how many of them will potentially need rezoning or some kind of variance, or not just sure right now because the projects haven't moved forward?

MS. FADULLON: Right. So I think there's a couple ways to answer that. One, we don't know exactly what the specific projects will be, but, two, one of the second phases we're working on in the website that we want to come and have a little more interaction with Council before we put that live is

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looking at how things are currently zoned, what was the recommendation in the district plan or the comprehensive plan, and talk to you about what you're interested in in moving that forward or what are some of your concerns around that. I think that's a conversation to be had. But those are things that we are definitely looking at.

Again, as part of identifying these tracts, it was important for things like access to transportation. So we've had ongoing conversations about promoting more dense development around transportation and we've had conversations about what do we want. We want to continue to promote homeownership and those kinds of things.

And so I think those are dialogues that need to happen and that we look forward to having with you guys probably in the relatively near future. We're kind of fine-tuning our information, because when we come to you,

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we want to make sure that it's accurate, but that's something we need to do.

COUNCILWOMAN PARKER: My final comment, Anne, to you is, when I talked to residents and these were two questions that I just received from residents as this issue has been in the news lately. I'm thinking about Lawncrest and Lawndale. We have the old Boscov's building, the old Boscov's building there. And unlike some of my other colleagues who have large swaths of industrial land and other vacant spaces to be developed, the Ninth Councilmanic District is landlocked, so these spaces in our area are very much rare. But we have the old Fels School building in Summerdale, in Oxford Circle. And so their question to me is, Cherelle, what kind of opportunities for residents, laypeople and/or -- so now they're thinking about this co-opting, how can community-based organizations, will it be possible to pull revenue to participate

or invest in any way, and I said to them,
nothing beats a failure but a try. It is
something we need to put on the minds of
the Administration, I would share with my
colleagues, but we should be as
innovative and creative as we possibly
can to ensure access to equity and
opportunity for residents who come from
all walks of life who are in these 82
regions.

So I'm not expecting you to
give me an answer right now, but I do ask
that you find a way to put that up on the
vision board to say while this program is
still being defined, how can we find a
way to make this happen.

MS. FADULLON: Yeah. I mean,
just really quickly, again, I just want
to say a couple things about that. One
is, the only dollars that can be invested
that get the tax benefits have to be --
they have to come from capital gains.
You can't get these tax benefits unless
the actual dollars you invested come from

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capital gains.

That being said, the example of the project in Wayne Junction, they have some Opportunity Zone funds in them that came from capital gains, but they also did some crowd funding that was from the community to give an opportunity for the community to have as their -- a small piece of equity in it. We're not talking big equity or big dollars, but it's an opportunity, and I think those are the kinds of things that we're very much interested in trying to figure out how do we pursue them as a way for us to scale those kinds of efforts up.

COUNCILWOMAN PARKER: Thank you, Councilwoman Sanchez. That's a start.

COUNCILWOMAN SANCHEZ: No; absolutely, and that's why it's important that we begin to have these conversations, because we're getting calls about -- because we have to keep in mind, this is a tax incentive program

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designed after a billion dollar tax cut that the federal government gave folks, right? So now people have the capital gains as a result of tax policy and they have to figure out where they park it, right, and we want to see the investments happen. How they park it will in part be shaped by the opportunities we create and ensuring that kind of equitable development. So I don't think those things happen by accident. I think we have to be intentional.

Councilman Domb, you had a question.

COUNCILMAN DOMB: Thank you, Madam Chairwoman.

Anne, I have a question for you. You mentioned the process of how you selected these Opportunity Zones, and were they middle neighborhoods that you selected mostly? What was the process?

MS. FADULLON: So it was kind of middle neighborhoods, but I think we got clear guidance from -- one of the few

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areas where we got some clear guidance was from the federal government and the state saying -- because, again, this isn't subsidy money. So it's a tax break to the investor. So really, frankly, the projects that this money -- or the investors are likely to look at are projects that would have already been feasible, that it will take a good project and make it better. It may take a project that was on the cusp and get it to go. It's not going to take a project that wasn't a great project that needed substantial subsidy and make it work.

COUNCILMAN DOMB: Okay. And then in your crystal ball looking out five to seven years, what do you see the majority of the uses of these Opportunity Zones?

MS. FADULLON: So I think, honestly, we'll probably see a lot of mixed use, but we'll see a lot of residential. We may see some office, some hotel. It works pretty well

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residential because it's got to be a ten-year hold. So it works pretty well with residential. It works pretty well with a hotel. Our office market continues to be soft, so we may see some creative things like that.

I mean, it's interesting, because if the regs were out, the ideal investment for the investor for the return would be to take an empty building, occupy it with a bunch of small startups, with the hope or idea that those small startups in ten years will become like pretty big companies or have rapid growth, and that would be how you would kind of maximize this opportunity, which is not a surprise given that one of the architects came out of the technology industry. But the way -- based on the existing interim regs, the way you would get there is very, very convoluted and that's a risky kind of investment to do something like that. So I don't know that in Philadelphia that we're

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necessarily going to see that type of investment. I think we're going to see more of the residential with some kind of other component, be it hotel or retail or commercial, something like that.

COUNCILMAN DOMB: And so just so I'm clear, the population of the United States is 325 million right now and we received one percent basically of the Opportunity Zones that the U.S. government granted, right? You said there was 8,760. We got 82 of them. Yet our population is a half a percent. So we did pretty well in this allocation.

MS. FADULLON: Let's just say we pushed the envelope with the state a little bit.

COUNCILMAN DOMB: That was good, because we got one percent of the allocation based on a population of a half a percent.

Having said that, is there an opportunity to work with the Commerce Department and target 50 of our suburban

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companies and figure out some of these Opportunity Zones, could we suggest that the owners of these companies come into the City, build an office building for their people, with the tax benefits offset some of their objections to coming into the City, and attract them as a business tool to come into the City? Use this as a business tool to attract jobs into the City.

MS. FADULLON: I think -- I don't want to speak for the Commerce Department, but I would assume that they are probably open to having a discussion.

COUNCILMAN DOMB: All right. Thank you.

Thank you, Madam Chairwoman.

COUNCILWOMAN SANCHEZ: Thank you.

Before I let Anne go, I think some of the questions with that is the way this works, as Anne says, there's a time limitation for when they can maximize, which means by the end of this

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calendar fiscal year, and then the appreciation value has to be how much? Within 30 months?

MS. FADULLON: Yeah.

COUNCILWOMAN SANCHEZ: So there's a timeline there.

MS. FADULLON: So essentially once you realize the capital gain, you have 180 days to invest in an Opportunity Zone fund. Then that fund has 180 days to invest in a project. That project has 30 months to then -- well, you then have 30 months to double the basis that you've invested in that project. That's a little bit slightly nebulous because part of it is, you could have a plan to make sure. But, yeah, pretty much given that timeframe, how long it takes to get through entitlements, get drawings together, all of that, you're pretty much looking at a project that's -- if it's not already ready to go in calendar year '19, it will have been fully entitled and permitted and ready to start construction

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in 2020. So, yeah. Based on the legislation right now, it is a pretty tight window if you want to take full advantage of all of the tax benefits.

If you're just interested in sort of the big kicker, which is if you invest -- and I'm just going to make it sort of simple. If you invest a million dollars today and ten years from now it's worth 2 million, you don't have to pay any capital gains on that additional million. That benefit can extend further out.

COUNCILWOMAN SANCHEZ: It can extend out, I think, almost to 2046, if my Ballard Spahr three-hour CLE class taught me anything.

MS. FADULLON: I could have sat with you for 20 minutes.

COUNCILWOMAN SANCHEZ: We're going to take some testimony. One of the things we talked about with the Administration -- again, we appreciate the Administration's willingness to have

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these conversations with us, as this is an evolving process -- is, will the Administration be putting forth recommendations for regulations when the government opens up again officially on the record. I think one of the conversations I had with the Administration is, if we leave it open and we don't articulate what is important for the City, then whether it makes it to the regulation or not, it does send a signal about the types of projects and investments we'd like to see in the 82 census tracts and what we're looking for, right? Because if people want shovel-ready or almost shovel-ready projects, then we have an opportunity to shape that, right, so people can get maximized investment. Will we be putting something officially on the record?

MS. FADULLON: Yeah. We've been working with national organizations that are commenting, and you raised this when we had our pre-meeting, and I think

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that there's interest on the part of the Administration of putting forth some direct letter.

COUNCILWOMAN SANCHEZ: Okay. Thank you. So thank you so much. I don't know if you're going to stick around, but we do have some other testimonies. This is the beginning of a conversation, a public discussion, so we expect that stuff will evolve.

I'm going to call the second panel - Beth McConnell, Brittany Forman, Andy Rachlin, Jeff Hornstein, and Andrew Frishkoff. For the testimonies that are available in writing, they've been circulated to the Committee.

(Witnesses approached witness table.)

COUNCILWOMAN SANCHEZ: Beth McConnell, Brittany Forman, Andy Rachlin, Jeff Hornstein, and Andrew Frishkoff. After that, our third and last panel is Maria Gonzalez, John Chin, Will Gonzalez, and Jaime Farrant.

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I want to thank folks for putting together their thoughts with something that is not completely defined yet. Thank you. Thank you. Good morning, all of you.

MS. McCONNELL: Good morning. Good morning, Chairwoman Quinones-Sanchez and other members of the Committee. My name is Beth McConnell. I'm the Policy Director at the Philadelphia Association of Community Development Corporations, PACDC.

As we just heard, the provisions in the Tax Cut and Jobs Act that created the Opportunity Zone program do not contain any requirements that qualified investments in the funds serve any social or public benefit, and as federal tax policy, local jurisdictions can't impose qualifications on what kinds of entities or types of projects receive the tax benefits, of course. And we may not even know what projects are being developed through Opportunity fund

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investments. But Philadelphia does have other tools at our disposal that are worth considering to ensure that new investment that flows from Opportunity funds creates more equitable communities.

For instance, given the significant tax benefits that the projects will get, we could modify the ten-year tax abatement by requiring that developments offer some percentage of affordable homes or commercial space in order to qualify for that abatement. Some have suggested that the State Constitution's Uniformity Clause would prohibit having different abatements in one geographic part of the City from another, but the City of Pittsburgh has seven different abatement programs with a variety of eligibility requirements and abatement values. So there's certainly some precedent in the state for nuance in abatement policy that we could either apply here or seek permission from Harrisburg to apply here.

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Additionally, under our zoning powers, the new mixed-income housing policy that Council approved in 2018 -- and I thank Council for the support and Councilwoman Sanchez particularly for the leadership on that -- could be strengthened in Opportunity Zones by making it a mandatory program and by requiring that all affordable units be constructed on site rather than having a pay in lieu to get out of the requirement. Skeptics of this policy have suggested that a mandatory requirement could deter potential investors, but keep in mind there are more than 800 similar policies in jurisdictions all across the country, including Boston and New York and DC and Chicago, most of New Jersey, most of California. So developers and investors have been quite acclimated to these policies elsewhere as a part of doing business.

Once Council and the

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Administration are able to work through some of the challenges that we're facing now with our property disposition system, we could also ensure that any public property that's sold or transferred to private entities in the zones come with a requirement for serving some community beneficial need. Similarly, identifying strategically valuable parcels for acquisition in the zones that are vacant and tax delinquent, with the end goal of putting them into productive reuse for community benefit.

Now, as we heard, the maximum value to investors is for projects that are ready to go in 2019, but they will still receive value if the projects go in 2020, 2021, 2022, just perhaps fewer years but still a great tax incentive.

I think we also can do a better job here locally of providing training and technical assistance to local community groups to negotiate community benefits agreements with developers. The

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City would not be a party to those privately negotiated agreements. They are between the community group and the developer. But the City can help support the training and technical assistance for how both parties can enter into good-faith, productive negotiations around the availability of community space, affordable space or other provisions.

Finally, we can just build on existing programs that we already have both in Opportunity Zones and throughout the entire City to invest in our small businesses. We have some great programs to help homeowners that are facing rising property taxes and fear of displacement. We don't have any programs for small businesses. So a targeted program that could help a business through a combination of some rent or property tax relief but also combined with technical assistance to help them boost their revenue, that could increase business

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stability in the Opportunity Zones and build wealth for small entrepreneurs. You're all familiar with the Basic Systems Repair Program, which is a great program for homeowners. We don't have anything like that for small businesses that need investment inside their stores for the health and safety and well-being of the employees and the customers.

So these are policies and programs that would make sense even if there were no Opportunity Zones as a way to create a more equitable city by ensuring that those who are typically hurt and left out of growth see some benefit from a changing city. We look forward to working with Council and the Administration to achieve that goal, and thank you again for the opportunity to testify.

COUNCILWOMAN SANCHEZ: Thank you.

The Chair wants to recognize, I forgot to mention, Councilman

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Taubenberger has joined us since earlier. My apologies. And Councilman Brian O'Neill to my far left.

MS. FORMAN: Good morning, Chair Quinones-Sanchez and members of the Committee on Appropriations. Thank you so much for inviting Econsult to join this important discussion. My name is Brittany Forman. I'm a Director at Econsult Solutions and I help to coordinate the Internal Opportunity Zone team and am excited to be here today to share some of our insights onto the program.

COUNCILWOMAN SANCHEZ: Can you pull the mic up.

MS. FORMAN: Sure.

Currently Econsult has several clients that either have Opportunity Zones, are in Opportunity Zones or are trying to develop within Opportunity Zones. We're working with developers who need market analyses to verify that their projects could work in that specific

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market. We're helping developers calculate the benefit of the tax deferral, reduction or elimination in various scenarios. In addition, we're working with a national property owner who has sites in Opportunity Zones across the country. And I think most relevant to today, we are working with several municipalities and community development organizations in the region, including Wilmington, Delaware, the City of Chester, Borough of Pottstown in Pennsylvania, as well as with North Broad Renaissance right here in Philadelphia.

So I believe it's helpful to start with a bit of context to help clarify what this program is and what it is not. The concept of using the capital gains to invest in distressed areas, it was introduced in 2015 by the Economic Innovation Group, a bipartisan public policy organization. And while it did pass in the Tax Cut and Jobs Act in 2017, it was based on prior legislation

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championed by Senator Cory Booker and Tim Scott, as well as Representative Tiberi and Kind. And so at its core, it is a bipartisan effort to provide tax incentives to invest in previously forgotten communities.

And on the flip side of what it's not, it's important to remember that this is not a typical government program. It's not a program where money comes through -- a specific amount of money comes through the federal government, pass through states to the local government, that has a specific purpose to go into a specific location and has requirements and reporting requirements around it. That's not what this is, which means that government personnel and elected officials have very little say on where these investments end up beyond the local zoning ordinances and restrictions. Therefore, it's that much more important for government to be seen as a partner to work with and not a hindrance to avoid.

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And so despite the difference of this particular program, we still believe that the ultimate community impact is a function of both local government action as well as the incentive itself.

In fact, there are a number of -- excuse me. The number one role of government should be to attract investment in ways that maximizes local goals. In other words, government has got to figure out ways to get investments that do generate the spillover benefits for the residents and businesses who are already there, but it's essential to do so in a way that doesn't increase red tape. And this can be done by focusing on three strategies.

First, municipalities must aggressively market themselves. And we have been researching and we're working on a variety of marketing tools, including -- I think you've seen the websites and the story boards, the

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investment prospectuses.

Secondly, municipalities should develop a coordinated strategy amongst all of the community development stakeholders to identify what the local goals you are going to prioritize or which local goals you will prioritize.

And, finally, municipalities should align their resources to demonstrate that the government supports the Opportunity Zone investments in the first place, and this can be through infrastructure improvements near development sites, grants, financing tools or even streamlining the development review and permitting process.

So from our client work and knowledge of real estate markets, we are seeing a number of trends that I wanted to share with you today. First, there's a significant knowledge gap between the investment world and the community development world. The investment world

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is moving fast. They understand this incentive. They have set up their funds and they're ready to move.

The community development world is moving much slower. We've been out and round talking with organizations, elected officials and, honestly, they are still trying to come to grips with what this program means and what it means for their communities. Part of that is because all the regulations are not out yet, as we've heard earlier.

The early movers are projects that would have been developed in the absence of these tax incentives and projects that are in hot real estate markets. That's not to say it may be that in the future, but that's who is moving right now. And it's likely that most of the Opportunity funds will never be publicized, and it will, therefore, be hard to track at a local level.

So of the funds that are publicly advertising right now, the

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majority of them are agnostic capital, and we like to say that as opposed to just saying they don't really care, but in reality, they don't really mind where they wind up as long as it's a development and a project that's going to bring a positive return to their investors.

However, there are some funds that we are seeing that have social impact goals and they're being backed by foundations. The Kresge and Rockefeller Foundations just committed 25 million to support social impact organizations that are ready to set up funds.

And, finally, there are some banks, including PNC, that are setting up funds to help fulfill their CRA requirements.

And so from a purely economic perspective, additional investment in distressed communities is a good thing. It's a positive thing. However, like all complex public policy issues, the devil

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is in the details. It's all about the implementation process. And so a number of key questions remain. How will these projects be reported? How will the outcomes be tracked? And a lot of that is not known right now and hopefully will be clear with the next round of regulations.

So in closing, we anticipate that the Opportunity Zones can be successful and it is a promising development tool and one that municipalities should actively promote and align their resources to attract investments that maximizes local goals.

Thank you for your time.

MR. FRISHKOFF: Good morning, Chairwoman Quinones-Sanchez, members of the Committee, and other members of City Council. Thank you for the opportunity to testify regarding Resolution 180960. I am Andrew Frishkoff, Executive Director of Philadelphia Local Initiatives Support Corporation, also known as LISC. I would

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like to present testimony regarding the impact of federal Qualified Opportunity Zones on the fair and equitable development of Philadelphia.

First, LISC is a non-profit housing and community development organization and certified Community Development Financial Institution with offices in 33 cities throughout the country and a rural network encompassing 86 partner organizations in 44 states. LISC's work supports a wide range of activities, including affordable housing, economic development, building family wealth and incomes, education, community safety, and community health.

Based largely on LISC's experience working in communities and our deployment of private-sector capital through tax credit investments like the low-income housing tax credit and new markets tax credit, we believe the Opportunity Zones initiative has potential to attract new investment

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capital into lower-income urban and rural communities. However, this potential for new investment comes with significant risks. These are:

Lack of federal oversight may lead to program abuses. Opportunity Zone incentives focus on back end financial returns rather than on investments that may be designed to result in community impacts. Opportunity Zone investments might aid in the gentrification and displacement of residents and businesses in Opportunity Zone communities. Opportunity Zone incentives might lead to demolition of occupied and viable properties as well as historic ones in order to build new and larger properties. Opportunity Zone incentives might lead to over-investment and might produce highly localized real estate bubbles in certain asset classes.

As a CDFI that anticipates creating Qualified Opportunity Zone funds, LISC has specific values and

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guidelines for its own investments that should ensure that we do not add to these risks. We want to participate in the financing of smart, inclusive, impactful housing and economic development projects that provide an advantage for underserved communities to access economic opportunity. Smart development brings the right mix of development to support the long-term stable economic growth of a community, avoiding overbuild or development bubbles. Inclusive development ensures that all income levels within these communities will benefit from the economic progress of the community. Finally, we define impact development as projects that offer specific advantages to underserved communities and populations.

These are LISC's aspirations. I can't state at this time whether we have raised any funds from investors nor when we may have funds available for Philadelphia. As with other prospective

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Opportunity fund managers, we are awaiting additional regulatory guidance. I will state that we hope to form a family of regionally focused funds. We think these funds would be attractive to investors because they would provide localized impact. We believe it is likely that some local investors will share our mission-based focus on smart, inclusive, and impactful investments.

As for what City Council and the Administration can do to alleviate these risks, I will echo recommendations you've heard previously. First, you can try to mitigate the risks through the powers of zoning and land use regulation. These are not foolproof, but you have the ability to ensure that local zoning does not further incentivize displacement or over-investment. More restrictive zoning in Opportunity Zones will allow the City and community groups to negotiate with developers to minimize displacement and discourage development that does not

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benefit neighborhoods. A careful and transparent property disposition policy can ensure that the City does not make its own property available to developments that displace residents or lead to a local real estate bubble.

Secondly, the City can try to proactively encourage positive impacts that align with City policy priorities. This could include inclusionary zoning or revised transit-oriented development overlays that offer significant density bonuses but which also require anti-displacement and inclusionary practices.

The City could form land development partnerships in Opportunity Zones, as it has done previously in the Navy Yard and elsewhere. This may include joint ventures where public agencies control some parcels and private entities own adjacent parcels and where the combined parcels could support high impact development.

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I will add that some community partners have approached LISC about financing private property acquisitions that would be for the immediate purpose of removing properties in Opportunity Zones from the speculative market. The eventual goal would be to preserve or redevelop such properties to meet identified community needs such as affordable housing. LISC's standard financing does not allow for such community land banking. However, we recognize the tremendous need for this, and we are exploring raising patient and low-cost funds that would allow us to assist with such community preservation efforts. If such efforts could align with City land development, this could increase the positive impact of Opportunity Zone investments.

As a third strategy, as already stated, the City can work with PIDC and other partners to market local Opportunity Zones to investors whose

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strategies align with City priorities. If the City wants to encourage more investments in workforce housing, it will need to market available opportunities to investors who understand residential housing markets. If the City wants to attract investment to overlooked neighborhoods, it may need to develop a market prospectus that highlights the financial returns and social impacts that investments could yield in those neighborhoods.

Finally, I would like to address one last risk that is probably obvious to some members of City Council. There is a risk that local and state governments may overreact to Opportunity Zone designations and over-allocate scarce public resources to Opportunity Zones to the detriment of other areas of the municipality or state. If I may speak briefly to this last risk, I would simply remind us all that Philadelphia is a large city and most of its

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neighborhoods and commercial areas are not in designated Opportunity Zones. Some neighborhoods are only partially included in zones. We should ensure that whatever local policies we enact in response to Opportunity Zones do not inadvertently harm communities that fall outside of the zones.

Thank you for the opportunity to testify.

COUNCILWOMAN SANCHEZ: Thank you.

MR. RACHLIN: Thank you, Chairwoman Sanchez and members of the Committee. My name is Andy Rachlin. I'm a Managing Director at Reinvestment Fund, a large Community Development Financial Institution based here in Philadelphia and working nationally. Thank you for the opportunity to testify today.

As you've heard, Opportunity Zones are a relatively simple tool, free of the kind of restrictions that characterize many federal development

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funding sources, and this is a strength in many respects. The flip side of this simplicity, though, is that Opportunity Zones are only lightly targeted. They do not need to evidence any particular positive impact or the avoidance of any particular negative impact.

You've already heard a great deal about the diverse nature of the Opportunity Zone census tracts, so I won't belabor the point. I will, however, point to some analytics that Reinvestment Fund's research team has done that can help point to the opportunity and risks specific to various census tracts.

In the map that I've attached to the written version of my testimony, which looks like that, you can find it in your packets, you'll see that the qualifying tracts overlaid on top of two crucial layers of data. The first is our Market Value Analysis, which I know is a tool familiar to many on City Council.

1/23/19 - APPROPRIATIONS - RES. 180960 The MVA measures the relative strength of the real estate markets across the City. The other is our Displacement Risk Ratio, a metric designed to indicate the risk that existing residents will be displaced due to rising property values in a given census tract, a critical measure of the broad phenomenon we call gentrification. By layering these together, we can see on the one hand where exactly Opportunity Zones are most likely to amplify affordability concerns and also, on the other hand, where Opportunity Zones alone might not be enough to incent development and, in fact, disinvestment is perhaps a greater concern than gentrification.

The reason that Opportunity Zones may struggle in some places on their own to incent development is that an Opportunity Zone offers only relatively modest subsidy. You heard Anne Fadullon mention this earlier, and I'll try to quantify it a little bit.

Compare it, for example, to the

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level of subsidy offered by new market tax credits. On a given $50 million project, an allocation of new market tax credits could produce something on the order of $10 million in new, effectively free equity capital to the project. An Opportunity Zone designation for that same project, by contrast, might only produce something on the order of 2 million of new equity based on the same cash flows in the project.

If we take these aspects of Opportunity Zones together, their lack of requirements that tailor them to projects with positive social impacts, the wide spectrum of conditions on the ground in eligible census tracts and the relatively modest subsidy that an Opportunity Zone offers, we can begin to get a sense of their limitations.

Simply put, Opportunity Zones are unlikely to radically change the nature of development in any given place, but rather to nudge development further

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and faster in the direction it was already headed.

In this context, Opportunity Zone benefits are unlikely to naturally flow to highest impact projects per se. Rather, they are likely to flow to projects that offer the best risk-adjusted returns, like the private capital markets they are intended to reflect and weighted heavily toward projects in strong census tracts and backed by bigger developers that are known commodities.

While relatively few concrete projects utilizing Opportunity Zone financing have yet been made public, we can already begin to see this trend in action. In Baltimore, for example, where we also work, the first announced Opportunity Zone project was not a health center or affordable housing but rather a large commercial development backed by an institutional developer and anchored by an office complex, chain restaurants, and

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an LA Fitness gym. This isn't a bad project by any means, but nor is it likely to positively contribute to equity in the community in the way we imagined OZ projects might and should.

As we think about how to respond to these kinds of concerns at the local level, I believe that carrots are more likely to be impactful than sticks, both because there is limited ability to regulate Opportunity Zone activity at the local level, as you've heard, and also because attempts to regulate the program could impede one of its chief values, which is that Opportunity Zones are constructed broadly enough to meaningfully scale.

This could mean, for example, offering additional incentives in the form of low interest or subordinate loans to developments in Opportunity Zones that demonstrate measurable positive benefits, say, including a health center geared to serve low-income people. Similarly,

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local incentives could support projects that actively mitigate potential downsides of Opportunity Zone development in tracts where there's a primary concern, including, for example, as you heard Beth mention, lower cost housing and development market experiencing a lot of price pressure.

I should note that PIDC, working with Anne and with the Commerce Department, has commendably already found ways to construct exactly these sorts of incentives using some of their own resources, but to be frank, the scale at which they're able to operate without broader public support is limited.

As such incentives are developed, it will be important to help us use data to guide deployment. For example, as the map I referenced earlier makes clear, the worry that an Opportunity Zone might contribute to rapid gentrification is a much greater concern in some census tracts than

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others. In a neighborhood where affordability is at risk, incentives should prod developers to preserve it. But in neighborhoods without market pressure where disinvestment is, if anything, at greater risk, the incentive should be to stabilize properties and eliminate blight.

I would, as an aside, note that one excellent vehicle for doing the latter is workforce housing, an investment type you've heard others mention and that I believe may be particularly well-suited for Opportunity Zone support for various reasons.

Finally, if the City is going to incentivize certain Opportunity Zone projects, it would also be useful to couple that incentive with some data collection protocols. Another weakness of the Opportunity Zone legislation is that it doesn't require Opportunity Zone projects to report much about their nature or operations, so it will be difficult, absent local action, to reasonably asses their impact. A local intervention presents an opportunity to remedy this shortcoming as well.

Thank you very much again for the opportunity to testify.

COUNCILWOMAN SANCHEZ: Thank you to all of you. Real quickly, and I'll pass over to Councilman Domb, I have a few questions for different parts of you.

What, if anything, have any of you seen, particularly Econsult and the Reinvestment Fund, has been a good practice that other people are utilizing that locally we should act quickly on?

MS. FORMAN: Are you talking about a good practice from the municipality side?

COUNCILWOMAN SANCHEZ: Yes, municipality.

MS. FORMAN: So marketing themselves aggressively is going to be incredibly important. So that's what

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we've seen some of the early municipalities and states do. I think Anne had mentioned this a little bit. There are some really fantastic websites. Delaware has a really good one. It has a story board, a technical board. So literally has every single Opportunity Zone out there and throughout the entire state, and not just the demographics of it but also kind of the incentives that are overlaid in those areas and just the story of what could -- the vision of what could be in those different areas. So I think that is really important.

The other thing that people are doing and some municipalities are not doing, which they're trying to get too, is bringing their stakeholders together, whether it's the government, whether it's the community development organizations, CDCs, to really say what is it that we want in this specific area. And I think Philadelphia is ahead of the curve by having a very sophisticated Planning

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Department and sophisticated master plans and neighborhood plans. So that is one step in the right direction. But aggressively marketing and really trying to overlay -- I mean, what's really important to remember is that this is very fluid capital. It can go anywhere, right? So it's really important to say we have our act together, we know what we want here, we have our goals here, and look here in Philadelphia.

MR. RACHLIN: Yeah. I would essentially echo that. It's hard in a certain sense to say what a good practice is, because there are effectively no projects with shovels in the ground yet, so we're sort of speculating. But I think we can infer from the way that cities have successfully corralled other subsidies to sort of punch above our weight, as Councilman Domb suggested we've already done in terms of how well organized we were in sort of corralling census tracts in the City to have sort of

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more than our population might suggest, essentially being organized is the first and probably the cheapest and most bang for the buck step.

So if you look, for example, at cities that have been very successful at recruiting more than their population base share of new market tax credits, one of the consistent things they've done very well is organize pipelines of projects so that a given investor can look at what their investment objectives are and very quickly see where they could deploy that capital, because new markets likewise are capital that tends to be able to sort of move around. That's something that PIDC has done, for example, very effectively in the new market tax credit space and has already started to do, along with the Commerce Department and Anne's office, in the Opportunity Zone space, and I do think that that is exactly the right first investment based on what we've seen from

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other programs and their effect.

COUNCILWOMAN SANCHEZ: So, Andy Frishkoff, since you were here during the American Street Empowerment Zone days, I want to kind of reiterate a part of your testimony that's hugely important, not that these Opportunity Zones are not important, but the caution about diverting a current plan and current investments. So given that experience, your old hat when you were here, and the cautionary tone that you've put in your testimony, what would be your recommendation or what do you see in your national lens through LISC?

MR. FRISHKOFF: Well, I think the one piece is, what the City has in abundance I think are plans and priorities, and Opportunity Zones shouldn't distract from your plans and priorities. I think it's fairly clear that just by what was eligible, et cetera, Opportunity Zones are basically non-sequiturs for most middle

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neighborhoods. Most middle neighborhoods weren't necessarily eligible. They weren't designated. If you have a set of middle neighborhood strategies, you can't let Opportunity Zones distract you from those strategies, and you need to figure out how you do both.

Similarly, and the Seventh District is an example of this, you have neighborhoods just as with the Empowerment Zone and with renewal communities where neighborhoods are bisected. Half are in and half are out. Fifth Street is the dividing line in Fairhill. Kensington Avenue is the dividing line in Kensington. And so one of the key questions for those commercial corridors in those neighborhoods is, how do you try to make sure that you really have sensors on the ground in case you start to see really distorted investments or consequences going from one half to the other, and that's probably kind of the micro level.

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I think the other piece is, I think on the one hand everybody is focused on the clock is ticking and the highest impact investments are now. I think what's quite likely to happen in the federal policy level is either this has legs and gets extended, in which case invariably there are opportunities to go back and redesignate as there were with some Empowerment Zones and with the renewal communities, or it was not much of anything and we all forget about it in a couple years and go on to other things. But I do think paying attention to where you had missed opportunities, where you might wish that you could have unified areas all in or all out is something I would recommend.

COUNCILWOMAN SANCHEZ: And then, finally, Beth, in terms again looking at there are some very aggressive cities who are like we're open for business, do whatever, right, and then there are other cities, as was mentioned,

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that are articulating exactly the types of investments they want to facilitate and incentivize, what should we be doing over the next few months or what would you like to see in terms of public-private partnerships for us to monitor this and, again, not to create barriers but to be more intentional? What would you like to see?

MS. McCONNELL: I think maybe not in all, but in many of the designated Opportunity Zones, we have organizations, non-profit organizations, community groups that have already done a community engagement process and a planning process for what they want to see in their neighborhoods, the kind of housing, the kind of economic development, the kind of capital improvements, the work on the commercial corridors. So I think going back to those plans and seeing how can we use either the Opportunity funds to invest in those things or how can we steer other City investment that may be

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completely disconnected from Opportunity Zones into those places because we know it will be necessary to invest in the people and the businesses and the places that non-mission-driven investors will overlook and could potentially displace.

COUNCILWOMAN SANCHEZ: Councilman Domb.

COUNCILMAN DOMB: Thank you, Madam Chairwoman.

I guess most of my questions I think are going to be for Mr. Rachlin. First of all, your chart is excellent on the -- it's very helpful to me.

I had several questions. One question is, a property that's in an Opportunity Zone versus one that is not in an Opportunity Zone, do we have any idea what the delta is on the value? If you had a property in a Opportunity Zone, I had one that was not and a similar property, is there a 10 percent difference, 20 percent difference? What's the difference in the value?

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MR. RACHLIN: To be honest with you, I haven't thought about it in those terms. Using the numbers we have, we could run an estimate. We've thought about how much equity could a property absorb relative to how much debt would need to be financed to make a given project work based on the same cash flow. So if you take a building and you assume its cash flows are constant, because it is what it is and you can rent the apartments or stores or whatever for what it is, what debt/equity mix is possible based on the returns that equity would require, and essentially what we're seeing -- again, we haven't seen a whole lot of like fully baked projects saying this is our pro forma, but talking to a number of the national accounting firms like CohnReznick that are helping developers put these kinds of projects together and think about how to factor in the effect of the Opportunity Zone, what we're seeing is that investors are

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willing to take their sort of target IRRs, internal rates of return, down from the sort of mid to high teens to the low to mid double digits and they're willing to take their sort of annual cost of capital from the high single digits down into the mid single digits. So that allows something like a 20 percent increase in how much equity a property is able to carry based on the same cash flows, because the difference in return is made up for by the tax benefit.

COUNCILMAN DOMB: So any idea? Is it 10 percent more, 20 percent more? Any ballpark range?

MR. RACHLIN: Well, if the same property can carry 20 percent more equity, yeah, that would probably be in the ballpark.

COUNCILMAN DOMB: 20 percent?

MR. RACHLIN: Ten to 20 percent more equity, roughly. And I should say that those are very rough numbers, because the factor that can change a

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great deal property to property and it's very locational is what a developer's bet effectively about how much that property is going to appreciate is, because the value of that appreciation tax benefit is so great, that if you're in a neighborhood where you think the property is going to appreciate a great deal, you might be willing to invest a great deal more, not on the basis of anticipated cash returns but on the basis of anticipated exit returns.

COUNCILMAN DOMB: Right. So let me just go to the map that you provided us for a minute. I want to make sure I understand the map.

You have in the map, is it Parkside is in the Opportunity Zone?

MR. RACHLIN: Parts of Parkside, yeah.

COUNCILMAN DOMB: So those slashes are basically where the Opportunity Zone is?

MR. RACHLIN: That's right,

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yeah.

COUNCILMAN DOMB: And some of those slashes are in the steady weak market neighborhoods, I see.

MR. RACHLIN: Yes.

COUNCILMAN DOMB: And a big piece is along the river from, looks like, Northern Liberties all the way up to Holmesburg.

MR. RACHLIN: That's right.

COUNCILMAN DOMB: That whole section is in the Opportunity Zone?

MR. RACHLIN: That's my understanding, yeah.

COUNCILMAN DOMB: That's a big -- I mean, would that be like master plan? Because that's a huge section of our real estate.

MR. RACHLIN: Yeah. I'm not intimately familiar with how census tracts are constructed, but that's my understanding.

COUNCILMAN DOMB: Okay. And then --

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MR. RACHLIN: It may have to do with the fact that parts of those River Wards are not terribly dense, so the population is not very heavy because it's the industrial portions of --

COUNCILMAN DOMB: I'm just looking at the chart and saying what are the opportunities in Philadelphia, and that looks like a great opportunity along the waterfront there.

The other question I had, 46th and Market, which we've had discussions on, the building, is that in the Opportunity Zone?

MR. RACHLIN: I'm sorry? Say that again.

COUNCILMAN DOMB: 46th and Market.

MR. RACHLIN: 4601 Market? I don't know. I think it is, but I don't know if it stretches that far. We can certainly get you an electronic version of the map that you can zoom in and see the streets.

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COUNCILMAN DOMB: Because I know we're discussing the potential sale of that building, and I would say if it's in the Opportunity Zone, that should hopefully get us a better price.

MR. FRISHKOFF: I'm almost positive that it is in the Opportunity Zone.

MS. McCONNELL: They're going to pull up the maps now.

COUNCILMAN DOMB: This is a very good map, by the way, that you did. I appreciate it.

MR. RACHLIN: Thank you. I should say for the record that I had no hand in it whatsoever. Ira Goldstein and his team get the credit for that, not me.

COUNCILWOMAN SANCHEZ: We thank the Reinvestment Fund for all of its work.

COUNCILMAN DOMB: So on this map, does Councilman O'Neill's district have any Opportunity Zones?

COUNCILWOMAN SANCHEZ: Yes; the

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top.

COUNCILMAN DOMB: Just one?

COUNCILWOMAN SANCHEZ: Up at the top.

COUNCILMAN DOMB: I see. Okay.

So 46th and Market is in the Opportunity Zone?

MR. WETZEL: It is.

COUNCILMAN DOMB: Okay. I have no further questions. Thank you very much. Thank you.

MR. RACHLIN: Thank you.

COUNCILMAN DOMB: Thank you, Madam Chair.

COUNCILWOMAN SANCHEZ: Councilwoman Parker.

COUNCILWOMAN PARKER: I'm sorry. We're just having an inside moment here.

Let me just say first thank you to each of you for your testimony.

Councilwoman, I'm thinking about that three-hour CLE that you talked about at Ballard Spahr that produced

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this, and then I'm listening to your testimony, Brittany, and I want you to think about a semester with Dr. Peter Angelides saying, Cherelle, you are not allowed to talk about economic normatively, only positively. So those are the questions I want to ask you, Brittany. And, listen, that was grueling.

Brittany, tell me this: I appreciate you giving us context and the history of how the whole Act came into being, but you very specifically -- and I want to, because I'm going to come back to you, Andy Frishkoff, because you give hope about the regional alliances, right, very normative, this is what we hope, this is what we think, we can't prove it now.

But you very specifically, Brittany, talk about the agnostic investors, and just for the record, I want you to explain what is an agnostic investor. And we heard you talk about

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the return, but Philadelphians should know that right now factually these are many of the folks who are investing.

MS. FORMAN: So when we say agnostic investor and agnostic capital, we're talking about a fund that is set up that really doesn't have a specific desire to be in any maybe specific place or desire to be in a community and say I want this project to happen so it can benefit the community in this way. And so really they're just looking to -- they have the requirements of the fund. Ninety percent of it has to go into a Qualified Opportunity Zone. They have all these requirements. They just need to make sure that their project appreciates over time so that they can get the maximum amount of benefits for the investors, the original people who put in their capital gains.

And so there are a number of -- so the funds that are being developed right now, and there are two different --

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again, some of the funds are not publicly letting people know that they're developing funds and developing projects, but there are two kind of websites or organizations that are tracking funds right now and Overgraddick (ph) is one and the other is NCSHA, National Council of Housing and -- State Housing Associations. And so there's a whole list of funds that are out there, and a lot of them are just saying national or a lot of them are saying multi-family but national. Some of them are saying we want to be specifically Northeast. We want to do, I don't know, healthy food access in the Northeast. And so -- but, yeah, there are just a lot of funds out there that are pulling together lots and lots of money and they are just trying to find the projects that are going to get them the returns that they need.

COUNCILWOMAN PARKER: In addition to that, from time to time I know all of the District Councilmembers

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have experienced this. You have aligned what you very specifically noted, it's very important for government to be seen as a partner to work with and not a hindrance to avoid. From working with the clients you're interacting with, helping them with market analysis, tax reduction, elimination and different scenarios, tell me, can you very specifically give some examples of what would be considered, just to sort of get on the record? So Councilwoman Sanchez asked about what are the best practices you guys are seeing across the country, but I want you to very specifically, if you can put on the record, members of the City Council of Philadelphia whose districts contain these locations, we would hope that you would avoid X, Y, and Z locally. Is there anything you can put on the record for us?

MS. FORMAN: Let me say -- maybe. Let me say on the positive side, so things that Anne was talking about,

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saying if you're interested in being here, what's in it for us, but the first part of that is, if you're interested in being here, we, the City government, can bring things to the table, and that is a way to be a partner to say, hey, we can bring infrastructure development around here, we can bring -- we can let you know the projects that are in the pipeline that already have community support. And so that's a really positive way -- I think the approach that she's taking already is a positive way to be a partner.

On the flip side, of being an obstacle, I would think that if it was -- I would think that if you were to say, oh, if you want to build the project here, you have to go through five different community meetings, something like that. I don't know how many you typically do, but maybe -- the thing is that we cannot delay. You don't want to add in --

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COUNCILWOMAN SANCHEZ: Are you from Philadelphia?

COUNCILWOMAN PARKER: Thank you, Madam Chair.

MS. FORMAN: I'm from the region. I'm not from the City.

I'm trying to say things that are going to delay the process essentially is what you want to avoid.

COUNCILWOMAN PARKER: Well, no. I appreciate that and really did -- Anne really talked about different tools that the City of Philadelphia was already, we are already working on promoting to further incentivize and let the investment community know, hey, Philadelphia is open for business, but I really did want you to get some of that on the record beforehand, because sometimes, Councilwoman, Madam Chair, we get accused of not asking, right, in advance. So at least I can say we asked that positive economic analysis thinking, Econsult, on the record and they gave us

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what they could.

Andy, I want you, Frishkoff, LISC, tell us about this regional concept that you are thinking about now. I know you said you don't have it etched in stone, but you talked about these investments potentially, potentially being used to attract investors who are concerned about a localized impact. Are they far, few and in between? Without any firm commitment, what is the sense?

MR. FRISHKOFF: Well, so I think here's the one difficulty for us sort of going into it. On the one hand, we and Reinvestment Fund both have had a lot of success in attracting investors and along the lines of sort of Community Reinvestment Act or philanthropic investments and whether they're looking for a rate of return or not, but we with the low-income housing tax credits, the new market tax credits, and our loan funds have had alignment with those corporate and institutional investors.

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Those aren't necessarily the same investors who are likely going to be the large players in the Opportunity Zone investment. So for us, we have had to invest in our own infrastructure to build new relationships.

Now, we've been doing some of that already. We have some partnerships with people like John Legend and others in New York City which pre-date Opportunity Zones, but they may better fit the profile, somebody who is looking for a return but also social impact.

You look at some of the athletes and others who are now active, not necessarily as sole investors but in partnerships in Philadelphia. Are they more likely the target investors particularly for localized or regional funds.

I think what we offer and the Investment Fund potentially offer is that we exist in multiple cities. So we also offer the opportunity to be an investor

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not just in Philadelphia but in Newark or in Baltimore, in Reinvestment Fund's case DC, New York. So that may appeal to some investors who are not overly localized.

And then I think this is a different part of, I think, what Councilman Domb was asking earlier. We also have a lot of wealth that's in suburban communities, corporate or individual, and for the most part, we don't have a lot of suburban Opportunity Zone tracts. There are some. And the question is, do those investors potentially have a regional interest in Greater Philadelphia that they wouldn't necessarily have in metropolitan New York. In metropolitan New York there are probably bigger upsides and some bigger players, so for the agnostic investor, they may seek out those returns. But if they have any regional sort of ties, then it may be that they would look to something in Philadelphia.

And the other piece too is that

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you don't have to be a big fund. You, as a real estate developer, can create your own fund. And so you in theory as a business, if you wanted to relocate in Philadelphia, might be able to invest in your own relocation. Now, whether you choose to do that or not, to Andy's point, there are marginal benefits on the returns, but they might be the final tipping.

COUNCILWOMAN PARKER: Madam Chair, my last comment or question for Andy is, let me echo Councilman Domb's comments about the mapping. Obviously you know I depend on the Reinvestment Fund for everything, right? And we've been working together for --

MR. RACHLIN: Ira says hi.

COUNCILWOMAN PARKER: -- a very long time. In your testimony, you talk about -- and if Councilman Johnson were here, I know he would want this on the record or just further delve into it. You talk about in a neighborhood where

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affordability is at risk, incentives should prod developers to preserve it. So, again, I'm thinking about Brittany's comments, but then I'm thinking about your statement that our incentives should prod developers to preserve it if affordability is at risk. Does anything come to mind, any specific tools or structure that says, wait, you can walk and chew gum at the same time, City of Philadelphia, and this is a way you can do it?

MR. RACHLIN: Well, so I think what I'd say is specific policy -- I'm a lender by trade. Specific policy proposals are sort of outside my ambit, but I think you heard from Beth there's a variety of tools out there that may be able to be sort of dissected and used differently on a neighborhood-by-neighborhood basis, and that's essentially what I was encouraging, that in a neighborhood like big parts of Councilman Johnson's

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district where affordability is the primary concern, you'd want to be conscious to have one tool in Opportunity Zones, because they're likely to have a sort of accelerative effect of that phenomenon there, but you wouldn't necessarily want to put the same kinds of restrictions or boundaries on that same tool in other districts where the primary concern is disinvestment, not overinvestment, right? So that was the point I was trying to make.

I did also actually want to amend an answer, if I might, that I gave to Councilman Domb. As I was thinking after the fact about the math in my head about the effect on purchase price, I think 10 to 20 percent is probably overstated. If we think about my example of a $50 million project being able to increase the total amount of capital that can be invested in that project on the same cash flows by about $2 million based on an Opportunity Zone designation, that

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suggests something more like on the order of 5-ish percent increase in purchase price if you're thinking about it from a buyer's perspective. Again, that will vary significantly based on what that buyer's sense of long-term appreciation possibility is.

COUNCILWOMAN PARKER: Madam Chair, thank you.

Thank you, Andy, for your response, and you said what I hoped you would. And sometimes I don't know that we really get this, but, in essence, there is no one-size-fits-all package that we should be developing in all of the City's locations. It would have to be tailored for each different district, and not only just each district, if you're on one side of the Ninth, Councilwoman, and then you go over to the other area, you wouldn't offer the same incentives there. So I appreciate your getting that on the record.

In addition to that, I want to

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leave with -- you all read the article about Minneapolis and this one-size-fits-all adjustment for zoning with single-family dwellings. I also wanted you to get that on the record too, because, Councilwoman, I think we'd be going to Wolf if somebody talked about doing that here in the City of Philadelphia.

So thank you all so very much for your testimony.

And, Councilwoman Sanchez, thank you for your leadership in putting together this hearing.

COUNCILWOMAN SANCHEZ: Thank you. I think what we're trying to develop and I guess the discussion is what is the narrative, right? How can we have a narrative that says we want investments, but we also want investments that are shared values about the type of city we're trying to create, right? And I don't think that's a conflict. I think that we should be intentional in

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providing incentives and facilitating for those social impact developers, right? So for me, my intent is particularly because so much of my district is part of this, right, and how much we struggle with equitable development in those areas is, we want to attract folks who are okay with making money and having impact as opposed to just saying just come in here, you're going to drop money and make money and we're not going to give you a hard time. I don't have a problem letting folks know I'm going to give you a hard time if that's your only goal. I'm okay with you making money and having an impact, and I don't think that should be in conflict.

So I think that's what we're trying to do, is develop that narrative and people are prepared.

Councilman, do you have another question for this panel? We have one more panel.

COUNCILMAN DOMB: Thank you,

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Madam Chairwoman.

COUNCILWOMAN SANCHEZ: I'm sorry. Councilman Taubenberger. My apologies.

COUNCILMAN TAUBENBERGER: I yield, but let me ask a question before the panel is dismissed.

COUNCILMAN DOMB: Two questions. First, the area of the opioid problem in Councilwoman Sanchez's district, Kensington Avenue from like Lehigh up to Allegheny, let's say, is that in the Opportunity Zone? Because it looks --

COUNCILWOMAN SANCHEZ: All of it.

MR. FRISHKOFF: Well, it's half. So the western half is in. Anything on the eastern half is out. That's the census tract divide.

COUNCILMAN DOMB: So one side of the street is in, one side is not. Okay.

And then the other question I

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had, and you made this comment I think, Mr. Frishkoff, in your testimony, which I thought was a good idea, you talked about how the City could form land development partnerships in Opportunity Zones as sort of the Navy Yard. And when you look at this map that you put together, it seems to me that this Kensington, Port Richmond, Frankford swath of land along the river should be something we should look at as a city as maybe a second Navy Yard or something like what other cities like Camden has built on the waterfront there, where we could have a tremendous job generation going on there that would support those areas of Juniata, Olney, Tioga that need jobs. This seems to me where we should focus on doing a second Navy Yard, big project. And even if we had to give whatever incentives for the jobs, we should give them, because we need those jobs in the City. What is your thought on that?

MR. FRISHKOFF: I'm not a port

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export, but I think that's the type of opportunity I think there and around some of our large transit stations and transportation hubs. Those are where I think you could do some very interesting land development. And I think that the City of Wilmington has put their port fully in the Opportunity Zone, at least those parts that are eligible. And so I think -- and just to be clear, the Navy Yard was ineligible under the guidelines, so there was not an option for the Governor to put the Navy Yard in, but to your point, here's another part with river amenities that we could take advantage of.

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

Thank you, Madam Chairwoman.

COUNCILWOMAN SANCHEZ: Thank you.

We are going to count on the expertise of this panel and the partnership that you've always given the

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City and our ability to create and ensure appropriate implementation of all these policies. As Councilwoman Parker said, we really, really value our partnership together. Thank you.

We're going to go to our final panel.

COUNCILMAN TAUBENBERGER: Hold on here.

COUNCILWOMAN SANCHEZ: Oh, I'm sorry, Councilman Taubenberger. I am so sorry.

COUNCILMAN TAUBENBERGER: You don't have to apologize. You don't have to apologize. Madam Chair, thank you.

I want to thank Panel 2. I thought everything was very, very informative and are quite a bit, but I do have a specific question for Mr. Frishkoff, and that being in your testimony, you had more or less alluded to if this program gets legs, it may be extended. The federal act that gave life to this program, is there a sunset

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provision in that?

MR. FRISHKOFF: There is, and there's also some questions about exactly when certain things start and stop. So, for instance, at least one reading is that if you were to put an investment in place in 2020, that you would still have your full ten-year benefit if you hold that investment, although there are certain aspects that sunset after 2027.

COUNCILMAN TAUBENBERGER: So there is a potential that it could sunset at 2027?

MR. FRISHKOFF: There are certain things that start to come to an end at 2027.

COUNCILMAN TAUBENBERGER: Of course that could be extended by Congress --

MR. FRISHKOFF: Exactly.

COUNCILMAN TAUBENBERGER: -- if it's successful.

MR. FRISHKOFF: Yeah.

COUNCILMAN TAUBENBERGER: And

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also I guess my other question that leads into that is, if the parcel is sold during that time, do the benefits go with that?

MR. FRISHKOFF: So your investment to have your maximum benefit, your maximum after-tax benefits, your investment would need to be in place for ten years to maximize your investment, but if that investment is sold, you will have some after-tax benefit, but you will not maximize it.

COUNCILMAN TAUBENBERGER: But it will not maximize.

MR. FRISHKOFF: Right. So the property itself, unlike sort of like, let's say, a Keystone Opportunity Zone, the property itself doesn't have a designation. It's your investment in the place that actually has the designation. And so when your investment starts and stops, that, in a sense, determines --

COUNCILMAN TAUBENBERGER: So these investments must be made prior to

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2027 as the law reads now?

MR. FRISHKOFF: That's basically -- I mean --

MS. FORMAN: So there are two portions of it. The initial capital gain that you put into the fund, that's what he's talking about, if you get it in before 2026. So that can be deferred up until 2026. By 2026, you have to pay taxes on your initial capital gain. And so in that timeline, depending on when you put it in, there's a 10 percent reduction or 15 percent reduction on your taxes on that initial capital gain. But you can put your money in in 2027 and you wouldn't get that initial reduction or deferral of capital gains. You can put your money in in 2027. Ten years down the road, it's 2037 and you've held it for ten years, you can sell your investment in that fund, and then you would have the elimination. You would not have to pay the -- if the project appreciates, you would not have to pay

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capital gains on that appreciation.

So there's two pieces of it, but what Andy was saying is correct in terms of the initial capital gains amount, after 2026 you don't get that tax benefit.

COUNCILMAN TAUBENBERGER: Okay. Thank you all very much for that explanation.

Madam Chair, thank you.

COUNCILWOMAN SANCHEZ: And that's an important piece, because it could be a double whammy in that you're not paying on your first investment and then you have the potential not to pay on any of its appreciated value, which is why the time period could be extended. And so some people can maximize doubly if they invest appropriately.

COUNCILMAN TAUBENBERGER: Thank you.

COUNCILWOMAN SANCHEZ: Thank you.

Thank you again. Thank you

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all, and we will be looking to you for more advice, more mapping, and more datasets.

(Thank you.)

COUNCILWOMAN SANCHEZ: All right. Maria Gonzalez, John Chin, Will Gonzalez, and Jaime Farrant. Oh, John is not here. Okay.

(Witnesses approached witness table.)

COUNCILWOMAN SANCHEZ: Hello.

MS. GONZALEZ: Hello.

COUNCILWOMAN SANCHEZ: Good afternoon. I was checking the time.

MS. GONZALEZ: Is it afternoon already?

COUNCILWOMAN SANCHEZ: I see.

MS. GONZALEZ: Well, good afternoon, Madam Chairwoman Quinones-Sanchez and members of City Council. My name is Maria Gonzalez. I am the President of HACE and also the President of the Board of Directors of PACDC, the Philadelphia Association of

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CDCs, and thank you so much for inviting my testimony.

HACE is a community development corporation. We're a non-profit, and we have been serving the Fairhill and St. Hugh neighborhood since 1982. Our work is guided by neighborhood plans that prioritize the needs of community residents and other stakeholders in the community. We focus in the implementation of our ten-year neighborhood plans to serve core activities that involve bricks and mortar development of commercial spaces and also multi-family developments. We also focus in civic engagement and working with our community residents, supportive services for seniors, housing and energy counseling, and also targeted corridor management.

The organization's focused area is bounded by Huntingdon Street on the south, Glenwood Avenue to the north, and from 6th Street to B Street on the east.

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The area includes five census tracts that have high poverty rates ranging from 53 percent to 68 percent, which are among the highest in the City. As with many other areas in the City, this community needs investment, but we need the right kind of investment that will benefit existing residents and give them a better housing and economic opportunity.

Based on HACE's ten-year neighborhood plan, the Good Land's 2025 neighborhood plan, we have many needs that were identified, and some of these include investment in our commercial corridors. Right now we estimated that about 24 million in retail sales is leaving the neighborhood, and if there were more retail opportunities to meet the needs for full-service restaurants, clothing stores, and other types of businesses, we could keep that spending in the neighborhood and add about 230 full-time jobs for community residents.

We've also identified specific

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parcels of land in our neighborhood that can be sites for affordable housing to serve low-income renters and also low- and moderate-income families and provide them the opportunity of homeownership.

In addition, we've also identified homes that are in significant need of repair that can either continue to be used for affordable housing, to repair them for the families that are there or also to put properties back in the tax rolls, rehab them and then have them occupied.

Theoretically, the Opportunity Zone program could be used as a mechanism for leveraging resources to address the needs for these and other additional investments in our neighborhoods, but we have significant concerns about whether the Opportunity Zone designation will help Fairhill. It is hard to see why Opportunity Zone investors will want to invest in these projects since serving our existing population requires

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subsidized housing options and other retail options that are affordable. Investors will need to be mission-driven and comfortable with returns that are far lower than they have achieved in -- if they invested in gentrifying neighborhoods.

If investors do choose this neighborhood for market-rate development to attract higher-income residents into the neighborhood, then we need to be mindful that those projects will not serve -- will not serve existing residents and over the long term they can also help displace residents from our communities. So we need to focus on investments that benefit long-term residents and businesses so they can stay in the neighborhood they've chosen to live and work for a very long time.

To truly meet the needs, we are committed to working with City Council and the Administration to work together and figure out how we can best use

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Opportunity Zone funds for land acquisition and disposition that can support community beneficial uses such as those identified in HACE's neighborhood plan, how to use Opportunity Zone funds for affordable housing development for both rental and homeownership to meet the needs in our communities to increase housing production, and learn how to leverage these funds to support capital improvements on corridors and retail attraction strategies to help capture the millions of dollars that are leaving our neighborhoods due to the poor business mix and insufficient supports for small businesses.

There is more to learn about Opportunity Zone and how we can best use this vehicle in our neighborhoods. We hope that Council and the Administration can work with us and other CDCs that have Opportunity Zones in their service territories to ensure that we're using every tool for equitable development.

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Thank you for the opportunity to testify, and thank you, Councilwoman Quinones, for convening this very critical conversation.

COUNCILWOMAN SANCHEZ: Thank you.

I'm going to let everyone talk and then I want to talk a little bit around commercial corridors, because I think that's a huge piece for this.

Will or Jaime.

MR. GONZALEZ: Muchas gracias. Thank you, Councilwoman, for inviting us and giving the opportunity to speak today. My name is Will Gonzalez. I'm the Executive Director of Ceiba, and Ceiba is a non-profit organization in Philadelphia that promotes the economic development and financial inclusion of the Latino community through collaborations and advocacy aimed at ensuring Latino access to quality housing.

We are very concerned about

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Opportunity Zones. We see them as a two-edged sword, very sharp on the edge of promoting displacement and gentrification. We are very happy that you organized this hearing, as it's important that we try to leverage whatever resources both the public can provide and the private industry can provide, and by private, I mean philanthropy, non-profit organizations, think tanks, to make sure that we don't hurt the community through this infusion of capital.

I like what you said about making sure that things are transparent, and I know somebody talked about the speed of things. Accountability is not delay, and I appreciate that you mentioned that, because what we want to do is make sure that there's accountability and that there's leverage to support these communities that especially are in transition.

As you well know, in the Norris

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Square area, it's been through some transition where some of the neighbors that helped in the progress of that community are now being displaced. And we think it's important that Council also look at the letter that Cory Booker wrote. He's one of the originators of this idea, and he talked about measurements of success, the regulatory authorities identifying what the outcomes can be, tracking those outcomes, et cetera.

I know these are trying times because of the leadership at the executive branch of the federal government, but we hope that that changes before 2026. So I think that it's important that we be engaged. I also like the idea of getting the City engaged in the advocacy process of those regulations at the federal level. And the City should not be doing this on its own. We are allies in that fight and should leverage that work with us on this

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fight to make sure that the regulations represent equitable development.

I support the ideas that were presented by PACDC about dealing with issues of tax abatement. I think that it's time that those taxes be collected to serve the communities. You can go from the School District to helping address issues related to those neighborhoods in terms of safety and development, job opportunities. We need to make sure that in those particular areas, if possible, since they're already getting a break in one area, maybe we can totally get rid of the tax abatement in those communities.

I think issues related, like Ms. Gonzalez from HACE mentioned about land control, are really important. If there are 8,000 publicly owned parcels, then let's work with the community-based organizations that have been thoughtful and deliberate. Each -- I can speak for the Latino community. Each of the Latino

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CDCs has an excellent plan and they have ideas as how to leverage for the public good those parcels. And so providing community control of those parcels to those organizations that will make best use of it must be maximized.

I think also the capacity to engage is important. The organizations are facing many challenges, and we need to promote the capacity to engage. That includes providing the capacity of the RCOs to really be able to come out with community benefits agreements that are key to this as these projects may be seeking the blessing of the RCOs, et cetera.

Last, but not least, many of these communities are in need of good housing counseling, and what's happening lately is that a lot of things are being thrown down the housing counselors. I believe in the efficacy of the housing counselors, but we also need to make sure that in these communities they're

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supported. There's issues related to eviction, home repair, foreclosure, lots, and chief among them, tangled title. And so those issues need to be addressed on a case-by-case basis, and housing counselors are best positioned to do that, but there's only so much two hands per person can do. And so obviously supporting the community-based organizations to make sure that they have the capacity to deal with these things on a case-by-case basis.

I think the other most important thing is that there's an interest about social responsibility investing, and Philadelphia is one of the leaders in that in the philanthropic community. I know that philanthropic foundations, they're not looking for the tax break, but they could play a leadership role in doing the marketing, and I like what you said, the proper marketing, because it's not we're open for everybody to come in. We don't want

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sharks, right? Nothing against sharks, but at the same time, we can promote the City of Brotherly Love as a best place to do social responsibility investing with the support of a city that favors it, with the support of a philanthropic community that's invested in it, and with the support of strong community-based organizations that have good plans and have thought how to maximize equitable development.

We appreciate that this is a continuing discussion. We hope to continue to be engaged. And anything that we can do to help further on this, please call us.

COUNCILWOMAN SANCHEZ: Thank you.

The irony that this morning's story around the fraudulent deed situation and we spent all this money on tangled titles, people who legitimately have a claim to a property and then in the midst of that we continue to record

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fraudulent deeds. It's like the irony.

Anyway, I digress.

Jaime.

MR. FARRANT: It's all relevant.

Good afternoon, honorable members of the Council. My name is Jaime Farrant and I am the Director of Community and Economic Development of Asociacion Puertorriquenos en Marcha, or APM, speaking today on behalf of our CEO, Nilda Ruiz. Thank you for the opportunity to come testify on the subject of Economic Opportunity Zones and the impact that this might have in our great city. We support Councilwoman Quinones' interest in holding this session, which we see as an important step towards ensuring that Economic Opportunity Zone funds are invested in equitable ways that generate more opportunities for all.

APM's service area was classified last year as an Economic

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Opportunity Zone. Consequently, we have been monitoring the proposed regulations that the IRS has been crafting for this policy and studying how zones are being established around the country thus far to see if they can represent an opportunity for us to help families achieve their greatest potential by improving the quality of life in the communities that we serve.

Last year after our service area was designated as an Opportunity Zone, we were approached by a financial institution that expressed interest in investing part of the process of one of their Economic Opportunity Zone funds in one of our projects. We explored the possibility of making a $6 million deal with them to preserve 45 affordable housing units. However, after much analysis, due to the complexity of the tax credits, our legal obligations, and organizational mission to maintain affordable rents for our residents, we

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could not reach an agreement with them.

Notwithstanding this setback, APM is open to partnering with Economic Opportunity Zone funds and investors to develop this and other projects. We are particularly interested in developing more mixed-use developments like Paseo Verde, workforce development initiatives, and more affordable housing units.

That being said, we want to work with investors and partners that share our desire to develop projects like these that are equitable and do not lead to the displacement of our community. We see Economic Opportunity Zone funds as a tool that can be used to help achieve these goals, and we want to see that they are used toward projects that improve communities and do not displace or destroy them.

Thank you for the opportunity to speak here today.

COUNCILWOMAN SANCHEZ: Thank you, Jaime.

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Real quick, on the project that kind of fell through, without disclosing who, in the pro forma what was the gap that the investors saw in the pro forma for the project to move forward?

MR. FARRANT: The gap was --

COUNCILWOMAN SANCHEZ: Was it land? Like could it have been filled?

MR. FARRANT: It's more the return that they were seeking on the investment. The building that we're seeking to preserve is under restrictive covenant that we have to keep at an affordable rent, and essentially APM's mission is to maintain that rent as affordable once the covenant expires, but we weren't able, unless we pretty much raise it to market rents, we would not have been able to meet their demand.

COUNCILWOMAN SANCHEZ: So it was their rate of return during the period -- going back to the explanation of the tax benefit being on the initial investment and not capital gains on the

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initial investment, even on that initial investment that they could have realized the tax benefit, that wasn't enough. They wanted to realize the second part of it?

MR. FARRANT: Yes. And then we would have had to repay on the back end after the ten years, and we simply could not make the math work on the back end.

COUNCILWOMAN SANCHEZ: Okay. That's interesting.

Well, I thank all of you. Again, as I said, we have an interest in helping to shape this. If both -- and I should have said this to Beth. If organizations have and want to present to the feds some recommendations around some regulatory recommendations, please submit them and submit them to us for the record. I strongly believe that as a city, we should put something on the record, but also look to all of you for advice about what we should be requesting. Again, I think Philadelphia

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being such a large city with such a high rate of poverty, I think us articulating some concerns and some recommendations is hugely important as we look at what other cities are doing and trying to make sure that, again, we are having a social impact. I like Andy Frishkoff's definition, smart development, inclusive development, and impact development. And so I think that captures what we want to do.

We will continue to ask the Administration to engage, and we'll figure out how to formalize that. Council President Clarke and the team at tech staff have been trying to be as proactive as possible, and so we will follow up.

So thank you for your patience today.

(Thank you.)

COUNCILWOMAN SANCHEZ: Thank you. Any other testimony on this bill?

(No response.)

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COUNCILWOMAN SANCHEZ: Seeing none, the Committee on Appropriations will adjourn to the call of the Chair.

Thank you very much.

(Committee on Appropriations adjourned at 12:20 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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