

COUNCIL OF THE CITY OF PHILADELPHIA
COMMITTEE ON FINANCE

Room 400, City Hall
Philadelphia, Pennsylvania
Wednesday, June 20 2018
10:10 a.m.

PRESENT:

COUNCILWOMAN JANNIE L. BLACKWELL, CHAIR
COUNCILWOMAN CINDY BASS
COUNCILMAN ALLAN DOMB
COUNCILMAN WILLIAM K. GREENLEE
COUNCILMAN DAVID OH
COUNCILWOMAN MARIA D. QUINONES-SANCHEZ
COUNCILWOMAN BLONDELL REYNOLDS BROWN
COUNCILMAN MARK SQUILLA

BILLS 180600 and 180603

- - -

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2 COUNCILWOMAN BLACKWELL: Good
3 morning. We want to thank everyone for
4 coming to our Finance hearing. We note
5 we have a quorum. To my left is
6 Councilman Greenlee. To my right is
7 Councilman Squilla. To his right,
8 Councilman Domb. And we're asking Maria
9 Quinones to be appointed so that we may
10 have our quorum and begin. Thank you
11 very much.

12 The Clerk will read the title
13 of Bill No. 180600.

14 THE CLERK: 180600, an
15 ordinance amending Chapter 19-3200 of The
16 Philadelphia Code, entitled "Keystone
17 Opportunity Zone, Economic Development
18 District, and Strategic Development
19 Area," by providing for further Keystone
20 Opportunity Expansion Zones, under
21 certain terms and conditions.

22 COUNCILWOMAN BLACKWELL: Thank
23 you very much.

24 The Chair thanks all who are
25 here and asks Duane Bumb, thank you,

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2 Senior Deputy Director, Department of
3 Commerce, to come forward. Thank you for
4 being here and we ask you to begin your
5 testimony.

6 (Witness approached witness
7 table.)

8 MR. BUMB: Good morning,
9 Councilwoman Blackwell and members of the
10 Committee on Finance.

11 COUNCILWOMAN BLACKWELL: Good
12 morning.

13 MR. BUMB: Good morning. My
14 name is Duane Bumb and I'm the Senior
15 Deputy Director for Business Development
16 with the Department of Commerce. I am
17 here this morning to offer testimony
18 regarding Bill No. 180600, which would
19 authorize the City of Philadelphia to
20 apply to the Commonwealth of Pennsylvania
21 for new Keystone Opportunity Zone
22 designations.

23 The Keystone Opportunity Zone
24 program was created in 1999 to stimulate
25 development on vacant or underutilized

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2 parcels of land. Through this program,
3 both local and state taxes are waived for
4 a period of ten years. The Keystone
5 Opportunity Zones, also referred to as
6 KOZs, allow the City to spur economic
7 development and attract businesses that
8 may not otherwise choose to develop or
9 locate in Philadelphia. KOZs have
10 generated hundreds of millions of dollars
11 in private investment and more than
12 10,000 jobs in our city.

13 As in previous rounds of KOZ
14 extensions and designations, the City
15 will require private owners to make
16 Payment in Lieu of Taxes, otherwise known
17 as a PILOT, in the amount of 110 percent
18 of what otherwise would have been the
19 real estate tax liability for the
20 property in its current condition. That
21 PILOT payment will be allocated to the
22 School District and the General Fund in
23 the same proportions as the real estate
24 tax revenues.

25 The deadline for the

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2 application to the Commonwealth is
3 October 1st, 2018. Given that City
4 Council is headed into summer recess, we
5 respectfully ask that this Committee pass
6 this legislation out of Committee with a
7 suspension of rules to allow for the
8 first reading this Thursday. This will
9 give the School District more certainty
10 about which parcels are being submitted
11 for KOZ designation to be included in a
12 School Board resolution, another
13 necessary step in this application
14 process.

15 We intend to finalize the
16 resolution in August and hope to receive
17 final passage in September from City
18 Council when it returns so that we can
19 finalize and submit our application to
20 the Commonwealth.

21 Finally, I would like to thank
22 the members of City Council who have
23 provided input into this list of parcels.
24 An amendment has been prepared for your
25 consideration incorporating additional

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2 properties into the legislation before
3 you today. Keystone Opportunity Zones
4 play a vital role in the continued
5 economic development of Philadelphia and
6 are key to creating new jobs.

7 I appreciate your time this
8 morning, and I am happy to answer any
9 questions you may have at this time.

10 COUNCILWOMAN BLACKWELL: Thank
11 you very much.

12 The Chair notes that Councilman
13 Oh is here as well.

14 Are there any questions or
15 comments?

16 Councilman Domb.

17 COUNCILMAN DOMB: Thank you,
18 Madam Chairwoman.

19 In the proposed amendment to
20 the bill, there's several locations
21 listed. Do you think all those are
22 potentially eligible?

23 MR. BUMB: We received these
24 relatively recently. This has been a
25 fast-moving process, and we've done some

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2 preliminary review of them, and we do
3 think that some of these sites will not
4 be eligible. The test for that for us
5 would be are the sites occupied. And so
6 if we go by a commercial property and
7 there is an operating business in that
8 property, it on its face will not be
9 eligible. And the other sort of test
10 that we would be looking at as a
11 longstanding policy would be whether it's
12 a residential use or likely to be a
13 residential use, where we would not want
14 to encourage that. We are looking to
15 create opportunities for job generation,
16 and so residential does not do that.

17 So we don't know that yet.
18 We've done some preliminary work, and
19 we'll have a better sense of that later
20 this summer, and clearly we'll have a
21 better sense when we come back or before
22 this comes to final passage.

23 COUNCILMAN DOMB: So in your
24 testimony, you said the KOZ, which I'm in
25 favor of, basically gives companies the

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2 opportunity to go into a zone where they
3 are excluded from paying certain taxes,
4 and they normally wouldn't come into the
5 City if they had to pay those taxes, I'm
6 assuming. Is there one or two specific
7 taxes that motivates them to come in that
8 gets waived? Can you identify what those
9 taxes would be?

10 MR. BUMB: Well, the local
11 taxes that are waived under the four
12 large categories would be real estate
13 tax, use and occupancy tax, sales tax,
14 the 2 percent local component as well as
15 the 6 percent state component, and the
16 business income and receipts tax. It
17 also waives state taxes. So depending
18 what the business is, certain of those
19 taxes will have much more impact to them
20 than others, and different types of
21 businesses will have different sort of --
22 for some businesses, the business income
23 and receipts tax exemption is a very
24 powerful sort of motivator. Again, for
25 the real estate tax, since we are putting

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2 a PILOT, or a Payment in Lieu of Taxes,
3 in place anyway, you're effectively
4 paying 110 percent of what you would have
5 paid under the exemption. So that's a
6 little bit netted out. And then for sort
7 of large commercial properties, U&O tax
8 is another sort of -- does lower the sort
9 of cost of doing business in those first
10 ten years of operation.

11 COUNCILMAN DOMB: What I'm
12 trying to figure out, is there a tax,
13 whether it's the BIRT tax or whatever,
14 that is one particular tax that's been a
15 major impediment for businesses to come
16 into the City or expand in the City,
17 which the KOZ handles? I'm wondering
18 which tax would that be.

19 MR. BUMB: Again, different
20 sort of developments will impact
21 differently. I would sort of say if
22 we're talking about attracting businesses
23 from outside the City into the City,
24 corporate headquarters in particular, the
25 BIRT tax is the one where this is most

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2 compelling and powerful.

3 COUNCILMAN DOMB: The net
4 income portion of the BIRT?

5 MR. BUMB: Yes.

6 COUNCILMAN DOMB: Which is,
7 what, 6.2 to 6.3?

8 MR. BUMB: Yes.

9 COUNCILMAN DOMB: So you think
10 that's the number one, the net income
11 portion of the BIRT?

12 MR. BUMB: Right. For a
13 developer, again, because the real estate
14 sort of PILOT nets out the real estate
15 tax savings, the compelling sort of tax
16 would probably be the sales tax. So that
17 all materials and equipment that are
18 purchased for that site for the
19 construction are exempted from that 8
20 percent. So there's an 8 percent savings
21 built into that for a developer.

22 COUNCILMAN DOMB: That's a
23 one-time. The net income portion is an
24 annual --

25 MR. BUMB: That's right.

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2 COUNCILMAN DOMB: -- for ten
3 years.

4 One last question. The real
5 estate values of the current KOZs, after
6 the KOZ burns off, have we seen any
7 change in the value of the rents being
8 offered for lease? Have they gone up,
9 down, stayed the same? Has there been
10 any change in the value of the real
11 estate without the KOZ?

12 MR. BUMB: We've seen sort of
13 real estate values going up. Whether
14 they're in -- the assessments are going
15 up. And because in a commercial or
16 office or setting, most are triple-net
17 leases, where the savings in real estate
18 tax right now will pass through to the
19 tenants at the end of the abatement
20 period. I would say the real test is
21 actually next year. We have several
22 commercial properties, both in University
23 City and at the Navy Yard, that will
24 expire at the end of this year, and the
25 earlier round of KOZs were largely

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2 focused on industrial properties where
3 they were owned by the business. So we
4 haven't seen as much commercial activity
5 impact as we will see sort of next year
6 when those properties become taxable.

7 COUNCILMAN DOMB: Aren't we
8 supposed to be studying the benefits of
9 the KOZ and what's going to occur after
10 the KOZ burns off? Isn't that part of
11 the study that the Commerce Department --

12 MR. BUMB: Yes. It is in fact
13 one of the sort of several components,
14 incentive components, that we are sort of
15 drilling down into to better understand.
16 That's right.

17 COUNCILMAN DOMB: Do we have
18 any idea when that study is going to come
19 through?

20 MR. BUMB: I think there's been
21 a delay in that. I think it will
22 probably at this point be either later
23 this summer or early this fall.

24 COUNCILMAN DOMB: So you think
25 it will be before 2019?

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2 MR. BUMB: I think it will be
3 before City Council comes back into
4 session this fall.

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

8 Thank you, Madam Chairwoman.

9 COUNCILWOMAN BLACKWELL: Thank
10 you.

11 The Chair notes that
12 Councilwoman Reynolds Brown is present.

13 Councilman Oh.

14 COUNCILMAN OH: Thank you very
15 much, Chairwoman.

16 I don't have any questions
17 about this particular bill, but I do have
18 a question in general about KOZs.

19 If a KOZ is approved, can a KOZ
20 be unapproved by an amendment to the
21 bill?

22 MR. BUMB: Once we submit an
23 application to the state -- KOZ is a
24 state program, so we will apply for to
25 participate in that program. We need

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2 City Council authorization to make that
3 application. Once we're in the program
4 where we have sort of committed to sort
5 of waiving certain taxes for a defined
6 period of time, in this case ten years,
7 there is no sort of -- states are saying
8 we have a commitment now and as does that
9 business.

10 I will say that each business
11 every year must apply to be certified for
12 continued participation in the program.
13 So if a business -- and that's a
14 certification to the state every year,
15 and the City reviews and approves as
16 well.

17 If a business becomes
18 delinquent in any sort of obligation to
19 the City or State, they could be excluded
20 from the program that year until they
21 sort of become current. If a business
22 does not meet its initial commitment for
23 job creation, if that was one of the sort
24 of tests for them getting certification,
25 they can be denied again by the state.

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2 So the business applying each year has to
3 apply each year. It's a pre-perfunctory
4 review generally, but it doesn't -- if a
5 business has sort of dramatically changed
6 sort of scale, they can be denied.

7 COUNCILMAN OH: Okay. My
8 concern is for any business that does not
9 live up to its promises, of course, but
10 I'm also concerned about non-profits that
11 act as a non-profit and then hire a
12 for-profit management company to run it
13 as a business, because I think those are
14 two different things. They're a
15 non-profit and they are focused on, let's
16 say, successful innovation, and then they
17 hire a non-profit and now they're focused
18 on high rents. I think those are two
19 different purposes. But thank you for
20 the answer.

21 MR. BUMB: Sure.

22 COUNCILWOMAN BLACKWELL: Thank
23 you very much.

24 Any further questions or
25 comments?

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2 (No response.)

3 COUNCILWOMAN BLACKWELL: Thank
4 you very much.

5 Will the Clerk please read the
6 title of Bill No. 180603.

7 THE CLERK: 180603, an
8 ordinance amending Chapter 19-2900 of The
9 Philadelphia Code, entitled "Senior
10 Citizen Low Income Special Tax
11 Provisions," by providing for regulations
12 relating to eligibility, under certain
13 terms and conditions.

14 COUNCILWOMAN BLACKWELL: Thank
15 you very much.

16 The Chair notes that
17 Councilwoman Cindy Bass is also present.

18 Will Marisa Waxman, thank you,
19 come forward, First Deputy Commissioner,
20 Department of Revenue.

21 (Witness approached witness
22 table.)

23 COUNCILWOMAN BLACKWELL: Good
24 morning, and feel free to begin your
25 testimony.

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2 DEPUTY COMMISSIONER WAXMAN:

3 Thank you. Good morning, Councilwoman
4 Blackwell and members of the Committee on
5 Finance. My name is Marisa Waxman. I am
6 the First Deputy Revenue Commissioner. I
7 am here today to support Bill 180603.

8 This bill authorizes the Department of
9 Revenue to revise the real estate tax
10 regulations to expand the eligibility for
11 the Low-Income Senior Citizen Real Estate
12 Tax Freeze program to include residents
13 of cooperative buildings.

14 For participants in this
15 program, the real estate tax bill on
16 their home will not increase, even if
17 their assessed value or the rate
18 increases in the future. Applicants must
19 meet both age and income requirements to
20 be found eligible for a real estate tax
21 freeze. An eligible senior is someone
22 who meets any of the following
23 requirements: a person aged 65 or older,
24 a person who lives in the same household
25 with a spouse who is aged 65 or older, or

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2 a person aged 50 or older who is a widow
3 or widower of someone who reached age 65
4 before passing away.

5 Additionally, applicants must
6 meet income requirements of \$23,500 or
7 less for a single person or \$31,500 or
8 less for a married couple.

9 This current program currently
10 has over 13,000 low-income seniors
11 enrolled that save on average \$561 with
12 the Senior Freeze, plus they all receive
13 the homestead exemption, bringing the
14 total average discount to just shy of
15 \$1,000 per year.

16 Presently applicants for the
17 Senior Tax Freeze need to be the owner of
18 the home. This works for the vast
19 majority of homeowners in Philadelphia in
20 single-family homes, row houses, and
21 condos, but cooperative buildings work a
22 little bit differently. Cooperative
23 buildings or complexes are owned by a
24 legal entity, run by a board, and with
25 the residents owning shares of the legal

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2 entity rather than the individual unit.
3 The co-op has a single OPA account number
4 and gets a single tax bill for the entire
5 complex. It is up to the governing board
6 to figure out how to allocate the bill
7 among the members.

8 There are 11 co-op buildings in
9 Philadelphia, with a total of around
10 2,600 owner-occupied units. The change
11 to Revenue's regulations will allow
12 residents of co-ops who meet the age and
13 income criteria to apply for the Senior
14 Tax Freeze. We expect some, but not all,
15 of the residents to be eligible.

16 Co-ops are already eligible and
17 are able to participate in the homestead
18 exemption, and this will increase the
19 available tax relief. Revenue has
20 already reached out to the 11 co-op
21 properties so that we can collaboratively
22 design the application and discount
23 calculation process since it will be
24 unique. We will be implementing this
25 change and conducting outreach at these

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2 properties this summer, in advance of the
3 fall deadline for the Senior Freeze
4 applications.

5 The Administration fully
6 supports this change to grant eligible
7 co-op building residents access to the
8 Senior Freeze program.

9 Thank you for the opportunity
10 to testify, and we're happy to answer any
11 questions.

12 COUNCILWOMAN BLACKWELL: Thank
13 you.

14 Any questions or comments for
15 this witness?

16 (No response.)

17 COUNCILWOMAN BLACKWELL: Thank
18 you very much.

19 Is there anyone else who would
20 like to testify?

21 (No response.)

22 COUNCILWOMAN BLACKWELL: Seeing
23 none, we will end this part of our
24 hearing and enter into our stated
25 meeting.

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2 The Chair now recognizes
3 Councilman Greenlee for a motion on the
4 amendment to Bill No. 180600.

5 COUNCILMAN GREENLEE: Thank
6 you, Madam Chair. I offer an amendment
7 to Bill No. 180600. A copy of the
8 amendment has been circulated. I move
9 for the adoption of the amendment.

10 (Duly seconded.)

11 COUNCILWOMAN BLACKWELL: Thank
12 you. It has been moved and properly
13 seconded that the amendment to Bill No.
14 180600 be approved.

15 All those in favor of the
16 motion will signify by saying aye.

17 (Aye.)

18 COUNCILWOMAN BLACKWELL: Those
19 opposed, nay.

20 (No response.)

21 COUNCILWOMAN BLACKWELL: The
22 motion carries, and Bill No. 180600 has
23 been amended.

24 The Chair again recognizes
25 Councilmember Greenlee for a motion for

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2 Bill No. 180600, as amended.

3 COUNCILMAN GREENLEE: Thank
4 you, Madam Chair. I move that Bill No.
5 180600, as amended, be reported from this
6 Committee with a favorable recommendation
7 and further move that the rules of
8 Council be suspended to permit first
9 reading of the bill at our next session
10 of Council.

11 (Duly seconded.)

12 COUNCILWOMAN BLACKWELL: It has
13 been moved and properly seconded that
14 Bill No. 180600, as amended, be reported
15 from this Committee with a favorable
16 recommendation and further moved that the
17 rules of Council be suspended so as to
18 permit first reading of this bill at the
19 next session of Council.

20 All those in favor of the
21 motion will signify by saying aye.

22 (Aye.)

23 COUNCILWOMAN BLACKWELL: Those
24 opposed, nay.

25 (No response.)

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2 COUNCILWOMAN BLACKWELL: The
3 ayes have it and the motion carries, and
4 Bill No. 180600, as amended, will be
5 reported out of this Committee with a
6 favorable recommendation and with a
7 request that the rules of Council be
8 suspended so as to permit first reading
9 at our next session of Council.

10 The Chair again recognizes
11 Councilman Greenlee for a motion on
12 180603.

13 COUNCILMAN GREENLEE: Thank
14 you, Madam Chair. I move that Bill No.
15 180603 be reported from this Committee
16 with a favorable recommendation and move
17 that the rules of Council be suspended to
18 allow for first reading of the bill at
19 our next session of Council.

20 (Duly seconded.)

21 COUNCILWOMAN BLACKWELL: It has
22 been moved and properly seconded that
23 Bill No. 180603 be reported from this
24 Committee with a favorable recommendation
25 and further moved that the rules of

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2 Council be suspended so as to permit
3 first reading of this bill at our next
4 session of Council.

5 All those in favor of the
6 motion will signify by saying aye.

7 (Aye.)

8 COUNCILWOMAN BLACKWELL: Those
9 opposed, nay.

10 (No response.)

11 COUNCILWOMAN BLACKWELL: The
12 ayes have it, the motion carries, and
13 Bill No. 180603 will be reported from
14 this Committee with a favorable
15 recommendation and also a request for a
16 suspension of the rules so as to permit
17 first reading at our next session of
18 Council.

19 That completes our work for
20 this Committee this morning. Let me
21 thank all my colleagues for being here,
22 all members of this Committee and all of
23 you who have come or who have testified.

24 This hearing is adjourned.

25 (Committee on Finance concluded)

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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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