



Testimony of Beth McConnell
Policy Director, Philadelphia Association of Community Development Corporations
On Bills No. 180347 and 180351
Before the Committee on Finance, City Council of Philadelphia
June 6, 2018

Good morning and thank you for the opportunity to testify. My name is Beth McConnell, and I'm the Policy Director at the Philadelphia Association of Community Development Corporations (PACDC). PACDC supports Bills No. 180347 and 180351, but urges Council to make a few important amendments before they are adopted. To highlight our top two requests, we urge Council to amend Bill 180351 to create a 100% rebate for affordable homes, and amend 180347 to ensure that at least 50% of the funds benefit households under 30% AMI. Without these two amendments, Council will create policy that taxes projects that serve the lowest income Philadelphians to subsidize their higher income neighbors.

With those changes, the Construction Impact Tax being proposed in Bill 180351 would be a great example of equitable development policy. It proposes to leverage the city's building boom by capturing revenue from new construction or major rehabilitation for affordable homes. By passing this bill, Council will send a message that it sees that the right way to grow a city is to grow it equitably, and to use policy to attack inequality and segregation.

The Construction Impact Tax and the affordable homes it will fund would be a first start in returning something to low- and moderate-income Philadelphians that have subsidized the building of high-end, market rate homes and apartments. Since 2000, developers and buyers of new construction have benefitted from the 10-Year Tax Abatement, which exempts from property taxes any improvements that are part of new construction or significant rehab for a decade. A company that recently built a multi-million dollar apartment building in Center City that rents to the upper end of the market pays \$1.6 million a year *less* in property taxes, and the buyer of a \$500,000 newly built home or condo avoids about \$5,000 per year in taxes, thanks to the abatement. The Construction Impact Tax would reflect a very small credit back to low- and moderate-income Philadelphians, equivalent to roughly one year's value of the abatement. By setting it up as a tax that gets deposited into the Housing Trust Fund, we can ensure those funds get targeted to the affordable housing needs of income restricted Philadelphians, some of whom are getting priced out of their neighborhoods due to rising home prices and rents.

By using some of the funds to re-start affordable home ownership production, as well as boost home-buyer assistance with down payments and closing costs, we can help moderate income Philadelphians secure an opportunity to build wealth that will have generational benefits. Funds for affordable rental production can help us access other sources of federal funds like 4% Low Income Housing Tax Credits (LIHTC) that we currently can't take full advantage of.

We urge Council to consider a few important changes:

- 1. Include a 100% Rebate for Affordable Homes Rebate.** The amendments to Bill No. 180351 exclude all properties that would qualify for a non-profit tax exemption, which would benefit large institutional development projects that may not benefit low-income Philadelphians at all. Most new affordable homes—even if they serve very low-income and formerly homeless households—would not qualify for those exemptions because they are developed with federal tax credits that require the creation of a Limited Liability Corporation (LLC) in order to access the funds, or they are for-sale homes to individuals. An additional tax on those projects will require more public subsidy at a time when funding is scarce or simply not available.

To address this inequity, the legislation must be amended to create a 100% rebate for affordable housing developments that meet the following criteria: for ownership projects, are sold to households at 80% AMI or below; for rental projects, are rented to households at 60% AMI or below (as averaged by all units in the development).

- 2. Target half of the funds in the Construction Impact Sub-Fund in Bill No 180347 for Philadelphians below 30% AMI.** More than 70,000 Philadelphia renter households below 30% AMI are paying an unsustainably high percentage of their incomes on rent. This leads to tremendous housing insecurity, as one missed day of work or unexpected expense can lead to a loss of housing. New research shows that loss of housing actually contributes to job loss, creating a cycle of instability for our most vulnerable residents. These lowest income renter households are those most likely to have difficulty staying in their neighborhoods of choice as rents rise. The need for more affordable homes for the lowest income population is too overwhelming to not dedicate at least 50% of the revenues from any new funding source to their housing needs.
- 3. Require long-term affordability for projects subsidized by the Construction Impact Tax Sub-Fund: at least 15 years for home ownership, 50 years for rental.** Philadelphia lost more than 23,000 affordable homes from 2000 – 2014, in part due to expiring affordability requirements. This trend will continue in the coming years, placing tenants of affordable rental homes in strengthening neighborhoods at risk of displacement. Non-profit developers that access other sources of subsidy are typically already subject to long-term affordability requirements, and if the Construction Impact Sub-Fund becomes available to for-profit developers, they should also be subject to long-term affordability controls. A 50-year affordability term for rental projects is consistent with the language in the Mixed Income Housing legislation, Bill No 17068, now pending in Council. Owners of subsidized affordable homes should maintain some ability to generate family wealth from the growing equity in their homes, after some period of commitment to the community. A shorter term of 15 years of affordability for ownership would ensure subsidized properties are not being “flipped” quickly simply for profit.

4. Amend the language in Bill No. 180351 to allow for more flexibility of use.

Philadelphia's affordable housing needs are varied and include the need for more production of rental and for-sale homes, preservation or repair of existing affordable developments and homes, and homelessness prevention. Bill No. 180351 only makes funds available for production, down payment and closing cost assistance, and debt service on lending for either of those two purposes, unless funding for other programs (such as preservation, homelessness) is reduced or eliminated.

As drafted, this would prevent the City from using any of the Construction Impact Tax funds to preserve existing affordable developments that are at risk of loss to the inventory due to expiring affordability controls. Philadelphia should do all it can to preserve those units to avoid placing even more strain on the need for costly new production. While under your leadership, programs like Basic Systems Repair, Adaptive Modification, and Weatherization Assistance received an infusion of new resources to eliminate existing waiting lists, we know the need is far greater than existing waiting lists. By allowing for more flexible use of the funds, the Administration can work in partnership with Council to assess the needs on a year-by-year basis, and budget according to address future needs that we can't predict today.

PACDC thanks Council President Clarke, Councilman Squilla, and Councilwoman Sanchez for your leadership in introducing these bills, as well as continuing the dialogue around the Mixed Income Housing bill. Your commitment to using affordable housing as a way to create a more equitable Philadelphia is commendable.

Contact:

Beth McConnell

bmccconnell@pacdc.org

@BAMinPhilly

Cell: 267 918 7207