



**Testimony of John Persinger
CEO, Erie Downtown Development Corporation
House Ways & Means Committee
Oversight Subcommittee Hearing on
“Expanding Housing Access to All Americans”
July 14, 2021**

Thank you, Chairman Pascrell.

Thank you, Ranking Member Kelly.

And thank you to all of the distinguished members of the House Ways and Means Oversight Subcommittee for giving me this opportunity today to share a perspective on the housing market in Erie, Pennsylvania.

Background on the Erie Downtown Development Corporation:

I am the CEO of the Erie Downtown Development Corporation, a non-profit corporation formed in 2017 by private sector community leaders to revitalize downtown Erie, Pennsylvania, and expand housing access, through property development.

The EDDC and our partners are investing over \$100 million to develop twelve projects across three blocks in the heart of downtown Erie, which is one of the poorest zip codes in America—the median income in 16501 is appx. \$10,800.

Our efforts over the next three years will result in the following:

- 478,000 square feet of new and revitalized space;
- Eight historic properties restored;
- 140 new residential units;
- 25 new businesses and more than 250 new jobs;
- Over 200 construction jobs; and a
- Grocery store in a USDA “food desert.”

Background on the Erie Downtown Equity Fund:

None of this work would be possible without the financial support of the Erie Downtown Equity Fund. The community leaders, who formed the EDDC, also raised \$27.5 million for the Erie

Downtown Equity Fund, whose mission is to support the EDDC. The EDDC and the EDEF are modeled after the successful Cincinnati Center City Development Corporation in Cincinnati, Ohio.

We call the Erie Downtown Equity Fund “Transformational Capital” because it serves the following primary purposes:

- (1) Acquisition Capital to enable the EDDC to acquire properties;
- (2) Development Capital to pay for architects, construction managers, and other professionals, in order to develop plans that will attract additional investment;
- (3) Patient Capital to allow for the recovery of a “soft” real estate market;
- (4) First “At-Risk” Capital to attract additional investment; and
- (5) Gap Financing to fill in gaps on project capital stacks.

Background on the Erie, Pennsylvania, Housing Market:

Transformational Capital is so desperately needed in Erie because of the economics of the local real estate market.

In 1960, the City of Erie had a population of about 140,000.

Today, that number is about 95,000.

When we get our census numbers back, that number is anticipated to drop even further.

What this means for Erie is that we have more houses than our population needs.

According to the city’s most recent comprehensive plan, out of approximately 45,000 single family homes in the city, 6,600 are vacant or abandoned.

Another 9,500 homes show moderate to severe distress.

To give you a sense of the weak nature of our real estate market, we are currently redeveloping two properties which overlook our main street and our town square—some of the most valuable real estate in the entire city. The buildings were built between 1858 and 1865 and have not seen any investment in decades. Of the 62,000 total square feet between the two buildings, 50,000 square feet has been vacant for years.

We are spending \$25.5 million on these buildings to create 28 residential units on the upper floors and a food hall and a grocery store on the ground floors.

When we sought bank financing, the appraised value of these properties came back at \$7.7 million, and the bank was only willing to provide financing for up to 90% of the appraised value, leaving us with a gap of \$18.6 million on this project.

This is typical for development projects, particularly housing projects, in Erie, where most properties only appraise for 65% of what it costs to acquire and develop.

This means that there are significant financial gaps to replenish an aging, deteriorating, and overabundant housing stock.

Federal Tax Credit Programs in Erie, Pennsylvania:

I know that the Federal government has created several tax credit programs to fill these gaps.

However, as we have experienced in Erie, these tax credit programs are not an easy solution for the following reasons:

(1) **The Tax Credit Program Is Not Applicable:**

Most of the housing stock in Erie that needs to be refurbished are single family homes for middle class families, who are outside of the affordable housing requirements of certain programs, such as Low Income Housing Tax Credits.

(2) **Difficult to Get Allocations to Small-to-Mid-Sized Cities:**

In the 20 years of the New Market Tax Credit program and with more than \$60 billion allocated, there has only been one New Market deal in the City of Erie—an \$8 million allocation in 2020.

It is not for a lack of trying, either. The EDDC hired a consultant to help us obtain an allocation of New Markets. To date, we have struck out with 35 different Community Development Entities for various reasons, but our geographic location is often cited as a reason why CDEs do not want to invest in our projects.

(3) **Compliance Requirements Make the Tax Credit Programs Cost-Prohibitive:**

To comply with these programs, you must hire lawyers, accountants, consultants, and other professionals, who often require payment, regardless of whether you are successful on receiving the tax credits.

To give you an example, we have spent over \$100,000 in the last two years on historical preservation consulting fees, and we will not close on our first Federal Historic Preservation Tax Credit investment until later this month.

Many community organizations, let alone middle-class families from Erie, Pennsylvania, cannot afford these fees.

In a way, these tax credit programs have been more successful at creating legal, accounting, and consulting jobs in big cities than helping communities like Erie.

Opportunity Zones are Helping the Transformation of Erie:

Where we have found the most success in attracting outside investment to Erie is through the Opportunity Zone legislation. This is because Opportunity Zones are free of all the other challenges presented by tax credit programs.

For example, Opportunity Zone projects are not limited to low-income housing, allowing middle class families to benefit from the investments.

Opportunity Zones do not require us to wait on an allocation of tax credits from the Federal government or a third-party intermediary, making it easier to complete projects.

Opportunity Zones do not require us to hire expensive consultants to help find tax credit buyers, saving additional financial costs on projects that are already experiencing gaps.

All that we needed was investable projects and investors with capital gains.

As Congress considers ways to expand housing access to all Americans, I would encourage Congress to understand the housing challenges in communities like Erie and to critically assess the performance of tax credit programs in these communities.

Thank you, again, for giving me this opportunity, and we would welcome the opportunity for a visit from any of the Members of the Committee.