

Testimony of R. Eric Menzer

Senate Urban Affairs and Housing Committee

June 11, 2009

Good morning members of the Committee. I appreciate the opportunity to testify before you today.

My name is Eric Menzer. I am Senior Vice President of Wagman Construction in York, and I manage the Codo development group, a private downtown real estate development limited partnership in York. I work in the private sector as a developer, investor, and builder of real estate projects in cities and downtowns in Central Pennsylvania. Prior to this position, I served as Director of Economic Development for the City of York. I currently serve on the board of Directors of the Pennsylvania Downtown Center, and as Chairman of 10,000 Friends of Pennsylvania.

I speak to you today, therefore, as a critical component of any program to revitalize any community – that is, the person who puts private money and time at-risk on the ground in our cities and older communities. But, I do so with a deep understanding of the public and not-for-profit aspects of those revitalization efforts.

While I could talk about dozens of points on community revitalization, given the time constraints I want to briefly talk about a new perspective I have on this as a result of one recent and one on-going experience.

The recent experience is with a 35-unit, market-rate apartment project in downtown York known as Codo 241 that we developed and opened on March 1. It is a \$12 million investment into a distressed 3rd-class city. It renovated an existing, vacant building and built an addition on a vacant lot. It is the first significant new apartment development in downtown York in 20 years.

The on-going experience is with the Lancaster Press building here in the City of Lancaster where we are part of a partnership to turn that hulking, vacant, blighted 90,000 square foot building into 40-50 market-rate condominiums and apartments with a supporting, adjacent parking garage. It will be, at a minimum, a \$16 million investment. The City of Lancaster currently owns the building and we are working closely with them under the terms of a development agreement.

While it has become widely accepted that the Commonwealth has a role to play in financing economic development in cities, these projects epitomize a new thinking about how best to do so.

Obviously, our older communities were once the center of commerce and trade in their regions. They were home to industrial complexes intertwined with downtowns full of office buildings and stores, and neighborhoods full of rowhouses for workers.

Through the 1970's and 80's most of our downtowns were rebuilt around office and public facility uses that were eligible for conventional state business financing assistance, or Redevelopment Capital financing. And while some of these efforts were fairly successful in a limited sense, they often created sterile downtowns that were empty after workers went home at 5:00. And, it made these downtowns very vulnerable to reductions in the size of corporate-headquarters, banks, utilities, and the other companies who used to dominate the downtown office scene.

And in our neighborhoods, in the absence of comprehensive redevelopment financing, officials typically used the only tool they had for redevelopment, which was financing aimed at producing affordable housing. While this produced some renovated buildings, it also concentrated affordable housing and the associated poverty, which we now clearly understand has its own long-term consequences.

As our national economy has evolved, our thinking about cities has evolved, as well. As professionals, we have come to understand that a vibrant region needs a vibrant core city, and that a vibrant city needs to be a fully-functioning, 24/7, economically-balanced place with a mix of sizes and types of businesses, land uses and income levels. We know now that quality cities are attractors for so-called "knowledge workers" that are increasingly important to keeping companies growing in Pennsylvania. And we know now that the elusive factor called "quality of life" in a city is what often attracts great, talented people to a region.

Yet, we still have a state economic development finance program that focuses almost exclusively on job-creation and affordable housing production as the two measures of success. While both of these are important components of an economic development strategy, there are many others.

One immediate need that has become clear to me is the need to support the creation of more market-rate residential projects in our cities. Our cities desperately need middle and upper-income residents if they are to stabilize and thrive economically. Why is it that we will brag about spending state economic development money on what we call "high-paying jobs" but not on encouraging "high-taxpaying real estate" or "high-spending residents for our cities?"

At Codo 241, we were able to work with DCED staff to use two state loans totaling \$1.3 million to assist in making the project marginally workable financially. But doing so required unbelievable paperwork gymnastics by DCED staff to get a project they all acknowledged as a poster child for good economic development to fit into very narrow programs that could only be applied to commercial projects.

Here in Lancaster, we are struggling to fill a financial hole in the Lancaster Press project and facing a similar problem. The city and state both support the project. They recognize the tax-base that can be created and spending power that can be concentrated and benefit the area if a building full of middle and upper-income residents is developed. In fact, the city has taken a number of steps including creating a TIF district that will support the project. DCED is hard-pressed to follow suit.

The irony is, there has never been a better time to be attracting residents with real choices back into our cities. It is clear both from research and experience that retiring baby-boomers can often be attracted into quality urban environments, and that the Generation Y consumers entering the housing market are strongly predisposed to living in walkable, urban environments. As fuel costs rise and the next generation of consumers desire different housing choices, we have at least a 15-year window of opportunity to make some very serious and substantive changes in who lives and pays taxes in our cities.

Governor Ridge's initiative to combine the old Department of Community Affairs and Department of Commerce into DCED in the mid-90's was a laudable recognition of the multi-faceted nature of community revitalization. Subsequent efforts by Governor Rendell to create the Building PA program, venture capital funds and other programs accessible to developers in cooperation with local economic development officials is philosophically exactly the right approach. However, the imposition of the cumbersome Commonwealth Financing Authority approval process, and the restrictions on those programs described above, have frustrated many good projects.

In my recent experience, DCED's programs are still too constrained by the old paradigms of funding affordable housing and job creation as the two major measures of success. New definitions of what constitutes worthwhile economic development in our cities are needed, starting with a serious initiative to encourage and support attracting residents into our cities and older communities who have choices about where they want to live.

The reality is, those public, non-profit and for-profit organizations that are responsible for redeveloping vacant and blighted buildings and land in our cities will follow the money. If the economic development dollars available are restricted to non-profit users, commercial businesses or affordable housing, that's what we will get. And there is nothing wrong with those as far as they go. The problem is when those are not the things that are in the long-term best interest of our communities. By precluding residential projects aimed at middle and upper-income residents who create valuable real estate and have disposable income to support our city economies, we are missing a critical component of any city's successful future and missing a golden opportunity to take advantage of where the housing market is headed in this country.

Thank you.