



Senate Urban Affairs & Housing Committee Hearing

10/16/2013 – 10:15 a.m., Hearing Room #1

Good Morning Chairman Argall, Chairman Brewster and members of the Senate Urban Affairs and Housing Committee. I am Sheri Phillips, Secretary of the Department of General Services, which oversees the Commonwealth's real estate portfolio. It is my pleasure to discuss how the Downtown Location Act has been working since its implementation in 2000. When originally enacted, the law was written with the intent that it was in the "best interest of this Commonwealth to facilitate the revitalization of traditional central and neighborhood business districts within our communities."

Last year, the Department worked closely with the Chairman on the passage of Act 72 of 2012 to amend and improve the law. We applaud Chairman Argall for all the work he has done for maintaining and revitalizing Pennsylvania downtowns and business districts, and we look forward to continuing to work with him and others on this important initiative.

With a workforce of nearly 75,000 employees, state government clearly plays a role in providing economic opportunities to businesses and communities across Pennsylvania. However, much has changed since the Downtown Location Act was passed in March of 2000.

We are now in a time when fiscal restraint and responsibility are paramount. We must make very tough decisions to curb unnecessary costs, while wisely using the taxpayer dollars that we do spend in ways to stimulate the economy and provide economic opportunities for businesses to sustain and create jobs.

After years of lean budgets, state agencies have been forced to evaluate how they can efficiently and cost effectively deliver services to their clients. While the changes did not happen overnight, they have a clear and substantial effect that we believe will continue to impact operational models for years to come. Agencies are relying less on storefronts and bricks-and-mortar and moving toward internet and mobile technology-based solutions. These changes have enabled the Commonwealth to maintain a smaller state workforce, while still carrying on the critical functions of government.

As a result, DGS had to completely rethink how we manage the state's real estate portfolio to satisfy current business paradigms and anticipate changes that will come five to ten years down the road. We had to shift from a mentality of maintaining the status quo to critically reviewing every one of the approximately 500 leases held by the state. Every lease is reviewed to ensure the amount of space is appropriate and sustainable for the entire lease term. This sometimes means asking our fellow agencies tough questions to justify their requests, as well as asking programs to share staff and space, which, until recently, was the exception not the norm.

To put these changes into better perspective, since 2011 we have reduced the number of leases from 520 to 481. By the end of June 2014, we expect that number to be down to

461 leases –an 11.5 percent decrease in just three-and-a-half years. Additionally, we have cut the amount of unneeded leased space by 450,000 square feet for an annual savings of \$7.6 million. That is roughly the equivalent of the North Office Building, the Irvis Building, the Ryan Building and the Northwest Office sitting empty. And we are not done.

While those are some of the challenges we face, one thing that has not been reduced is our commitment to providing economic opportunities when we are able to do so. We remain supportive of the Downtown Location Act to maintain and increase the economic viability of our communities who are experiencing the same economic slowdown being felt across the Commonwealth. We recognize the positive effects this law can have by playing a supporting role to local efforts to revitalize downtown business districts and communities.

Currently, approximately two-thirds of leases that the Department would consider subject to the law are in downtown or business districts, but we also see room for improvement. As new bids for leases are issued, DGS is making sure that downtown and business district locations are a primary consideration.

DGS is also looking to help municipalities in other ways. The Commonwealth is offering a record number of surplus properties for sale. Many of these properties are located in downtowns and older neighborhoods. Sale of these buildings puts tax-exempt properties back on the tax rolls and provides redevelopment and job creation opportunities. In some instances, additional incentives are offered. For instance, most of the current surplus National Guard Armories are being offered with a 20 percent discount in exchange for the buyer accepting an historic covenant to preserve the historic façade of

the property. In Allentown, the Allentown State Hospital is not only a prominent fixture, it is also the last, large undeveloped tract of land within the city limits. We met with local elected officials and their economic development experts to understand their concerns about how the property should be developed. The result? We have created a new evaluated proposal process that takes into consideration, not just price, but also the economic impact, community support, job creation possibilities and overall need for the proposed use. As you can see, the Department is trying to leave a legacy in the community, rather than simply walking away once the property is sold.

After the Downtown Location Act was amended By Act 72 last year, we reached out to the Pennsylvania Downtown Center to revise our guidelines to state agencies and continue to solicit their feedback. While we remain committed to the intent of the law, we believe that future changes should be made through policy updates with input from stakeholders instead of by statute. This will give the Commonwealth the flexibility to make the best financial and operational determinations based on current business conditions and needs. Again, I want to point out how vastly different the world is today compared to 2000.

Senate Bill 830, as currently drafted, is an example of where we think that good intentions have unintended consequences that if enacted into law will be detrimental. One of the proposed changes requires a majority of the twelve guidelines to be found unsatisfactory in order to be exempted from the law. It does not take into account situations where there may be a singular overriding factor that makes locating in a

downtown location prohibitive or disadvantageous. Those situations could range from locating a Community Corrections Center or a parole office in a downtown area, to leasing a building in an area prone to flooding, which could be detrimental to an agency's ability to continue critical operations. Conversely, in small communities, particularly rural counties, it is probable that at least half of the guidelines would not even apply.

DGS has been in discussions with the PA Downtown Center, who will also be testifying today, regarding potential recommendations to the Commonwealth's policy. In particular, one thing we are looking at is the actual definition of a downtown. We look forward to continue working with them and their members as well as the Chairman.

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Thank you for the opportunity to testify today. I am happy to answer any questions.