

COMMONWEALTH OF PENNSYLVANIA  
HOUSE OF REPRESENTATIVES

COMMERCE COMMITTEE  
joint with the  
URBAN AFFAIRS COMMITTEE  
PUBLIC HEARING

STATE CAPITOL  
HARRISBURG, PA

IRVIS OFFICE BUILDING  
ROOM G-50

THURSDAY, APRIL 7, 2016  
10:00 A.M.

CITY REVITALIZATION AND IMPROVEMENT ZONES

PRESENT FROM COMMERCE COMMITTEE:

HONORABLE ADAM HARRIS, MAJORITY CHAIRMAN  
HONORABLE CHRIS DUSH  
HONORABLE KEITH GREINER  
HONORABLE MARCIA HAHN  
HONORABLE JOHN LAWRENCE  
HONORABLE RYAN MACKENZIE  
HONORABLE DUANE MILNE  
HONORABLE GREG ROTHMAN  
HONORABLE JESSE TOPPER  
HONORABLE JEFF WHEELAND  
HONORABLE JARET GIBBONS  
HONORABLE MARK LONGIETTI

PRESENT FROM URBAN AFFAIRS COMMITTEE:

HONORABLE BECKY CORBIN  
HONORABLE HARRY LEWIS, JR.  
HONORABLE CHRIS ROSS  
HONORABLE MARTINA WHITE  
HONORABLE THOMAS CALTAGIRONE, DEMOCRATIC CHAIRMAN  
HONORABLE ED NEILSON

\* \* \* \* \*

*Pennsylvania House of Representatives  
Commonwealth of Pennsylvania*

## ALSO IN ATTENDANCE:

HONORABLE KAREN BOBACK  
HONORABLE PATTY KIM

## COMMERCE COMMITTEE STAFF PRESENT:

JENNIFER WEETER  
MAJORITY EXECUTIVE DIRECTOR  
DAWN WOLFE-GINGRICH  
MAJORITY LEGISLATIVE ADMINISTRATIVE ASSISTANT

BETH HORNE-BEACHY  
DEMOCRATIC EXECUTIVE DIRECTOR  
APRIL ASHE  
DEMOCRATIC LEGISLATIVE ASSISTANT

## URBAN AFFAIRS COMMITTEE STAFF PRESENT:

CHRISTINE GOLDBECK  
MAJORITY EXECUTIVE DIRECTOR

JON CASTELLI  
DEMOCRATIC EXECUTIVE DIRECTOR

I N D E X

TESTIFIERS

\* \* \*

<u>NAME</u>	<u>PAGE</u>
REPRESENTATIVE PATTY KIM PRIME SPONSOR OF H.B. 1430.....	8
REPRESENTATIVE KAREN BOBACK PRIME SPONSOR OF H.B. 614.....	10
REPRESENTATIVE MARK LONGIETTI PRIME SPONSOR OF H.B. 959.....	11
ROBERT DONCHEZ MAYOR, CITY OF BETHLEHEM.....	25
ACCOMPANIED BY: ALICIA MILLER KARNER DIRECTOR, OFFICE OF COMMUNITY & ECONOMIC DEVELOPMENT	
RICK GRAY MAYOR, CITY OF LANCASTER.....	42
RANDY PATTERSON DIRECTOR, OFFICE OF ECONOMIC DEVELOPMENT & NEIGHBORHOOD REVITALIZATION.....	47
MICAH GURSKY COORDINATOR, BOROUGH OF TAMAQUA CRIZ; AND COUNCILMAN, BOROUGH OF TAMAQUA.....	61
JEFF CHAPMAN DIRECTOR, ECONOMIC DEVELOPMENT, PEW CHARITABLE TRUSTS.....	77
JOHN MEEDER BUSINESS OWNER AND DEVELOPER, MEEDER DEVELOPMENT CORPORATION.....	84

SUBMITTED WRITTEN TESTIMONY

\* \* \*

(See submitted written testimony and handouts online.)

## P R O C E E D I N G S

\* \* \*

1  
2           COMMERCE MAJORITY CHAIRMAN HARRIS: Good morning,  
3 everyone. I want to thank everyone for their attendance  
4 today for our joint Commerce and Urban Affairs Committee on  
5 the issue of CRIZ, which is a very interesting economic  
6 development program. I thought it would be worthwhile to  
7 have the Members come and learn a little bit more about it.

8           I think to get started what we'll do is we'll  
9 just have all the Members, starting to the upper left here,  
10 introduce themselves.

11           REPRESENTATIVE TOPPER: Thank you, Mr. Chairman.  
12 My name is Jesse Topper. I represent the 78th District in  
13 Bedford, Fulton, and Franklin Counties.

14           REPRESENTATIVE HAHN: Marcia Hahn, 138th  
15 District, Northampton County. And welcome to our guests  
16 from the Lehigh Valley.

17           REPRESENTATIVE WHEELAND: Jeff Wheeland, 83rd  
18 District. That's in Williamsport, the home of Little  
19 League Baseball. Hopefully, we'll get another Pennsylvania  
20 team in the World Series this year. But thank you all for  
21 coming today.

22           REPRESENTATIVE CORBIN: Becky Corbin, 155th  
23 District in Chester County, and Chairman of the  
24 Subcommittee on First Class Cities and Counties in Urban

1 Affairs Committee.

2 REPRESENTATIVE DUSH: Chris Dush. I'm from  
3 Jefferson, Indiana Counties, the 66th District.

4 REPRESENTATIVE LEWIS: Good morning. I'm Harry  
5 Lewis, Representative from Chester County, 74th District.

6 REPRESENTATIVE GREINER: Good morning, everybody.  
7 I'm Keith Greiner from the 43rd District which is part of  
8 eastern Lancaster County.

9 MR. CASTELLI: Jon Castelli, Executive Director  
10 for the Urban Affairs Committee, Democratic Caucus.

11 MS. HORNE-BEACHY: Beth Horne-Beachy, Executive  
12 Director for the House Commerce Committee Democratic  
13 Caucus.

14 REPRESENTATIVE LONGIETTI: Good morning. Mark  
15 Longietti, I represent the 7th District, which is in Mercer  
16 County.

17 MS. WEETER: Jennifer Weeter, Director of the  
18 Commerce Committee for the Republican Caucus.

19 COMMERCE MAJORITY CHAIRMAN HARRIS:  
20 Representative Adam Harris. I chair the Commerce  
21 Committee. I represent the 82nd District, which is  
22 Mifflin, Juniata, and Franklin Counties.

23 REPRESENTATIVE ROSS: Chris Ross, I'm a  
24 Representative from Chester County, and I'm pinch-hitting  
25 for Chairman Petri of the Urban Affairs Committee. Forgive

1 me. I used to chair both these Committees, so I sometimes  
2 get confused. And unfortunately, he's dealing with a death  
3 in the family so he was not able to be here today, but I  
4 will do my best to fill in for him.

5 MS. GOLDBECK: Christine Goldbeck, Executive  
6 Director of the House Urban Affairs Committee for the  
7 Republican Caucus.

8 URBAN AFFAIRS DEMOCRATIC CHAIRMAN CALTAGIRONE:  
9 Tom Caltagirone, 127th District, City of Reading, Chair of  
10 the Urban Affairs Committee.

11 REPRESENTATIVE MILNE: Good morning. Duane Milne  
12 from Chester County.

13 COMMERCE MAJORITY CHAIRMAN HARRIS: Okay. Thank  
14 you very much. And we appreciate everyone's indulgence,  
15 especially having multiple Chairmen here. I will say, as  
16 Chris had mentioned, he was the former Chair of the  
17 Commerce Committee, and he sits in front of me on the House  
18 Floor. And I will quite honestly say 50 percent of what I  
19 learned about CRIZ I've learned by asking Chris. And at  
20 the risk of embarrassing him, I will say that he is really  
21 an expert in this field and has been a tremendous resource  
22 for me and for many other Members of the House to learn  
23 about this program.

24 And we're excited to have, you know, a lot of the  
25 municipalities and cities here to tell us how this has

1 really been working. And I know there's been some  
2 problems, and maybe we could learn from those lessons if we  
3 do make the decision to do more CRIZs in the future.

4 So to start the hearing, we're actually going to  
5 begin with the legislative panel. We wanted to give some  
6 of our legislatives that had legislation relating to CRIZ  
7 an opportunity to come and talk about their legislation,  
8 how it would affect their legislative districts. So I  
9 think if it's okay we'll just pull you up together. We  
10 have Representative Karen Boback, Representative Patty Kim,  
11 and also Acting Chairman Mark Longietti.

12 We've been joined by Representative John Lawrence  
13 from Chester County. I think we'll go ahead. If it's  
14 okay, we'll just begin with Representative Kim.

15 REPRESENTATIVE KIM: Oh, great.

16 COMMERCE MAJORITY CHAIRMAN HARRIS: All right.

17 REPRESENTATIVE KIM: Good morning, and thank you  
18 for having me here today, Chairmen and Members.

19 My legislation, House Bill 1430, literally  
20 changes three words out of the CRIZ language. House Bill  
21 1430 would change the City Revitalization Improvement Zone  
22 program to remove the prohibition of participation of a  
23 city that has had a receiver appointed under the  
24 municipality's Financial Recovery Act.

25 Now, the CRIZ program provides critical



1 opportunities to third-class cities to spur new growth,  
2 revive downtowns, and create jobs for residents through the  
3 development of vacant, desolate, and underutilized or  
4 abandoned space. Unfortunately, the current law excludes a  
5 city that has had a receiver appointed under Act 47 from  
6 eligibility for CRIZ legislation.

7           The City of Harrisburg was under State  
8 receivership at the time the CRIZ program was established.  
9 However, Harrisburg is no longer under State receivership.  
10 Therefore, I believe it is unfair to restrict this city,  
11 which faces unique challenges as a State capital, from  
12 permanent participation in a program that has the great  
13 potential to stimulate the local economy improve the lives  
14 of the residents and visitors alike.

15           This bill passed out of Urban Affairs last  
16 session, but there was no activity after that. I asked the  
17 Commerce Committee to reconsider this bill to allow  
18 Harrisburg not to be in the CRIZ, you know, program, but  
19 just to have a level playing field to be able to try out  
20 for it. Thank you.

21           COMMERCE MAJORITY CHAIRMAN HARRIS: Excellent.  
22 Thank you very much.

23           And if the Members don't mind, I think we'll just  
24 wait to the end for questions. We'll just let each Member  
25 go.

1 Representative Boback.

2 REPRESENTATIVE BOBACK: Thank you, Mr. Chairman.

3 My bill would add eligibility for a city of the  
4 second class A, Scranton. House Bill 614 will amend the  
5 tax reform code to make a city of the second class, again,  
6 Scranton, eligible to apply for a City Revitalization and  
7 Improvement Zone, the CRIZ. I believe that there's little  
8 difference between Scranton and other similarly sized  
9 cities with regard to the issues and problems they face in  
10 attracting development and economic activity. And it does  
11 not make sense to exclude them from the program. Quite  
12 frankly, I think it was an oversight.

13 Under current law, cities of the third class with  
14 a population of at least 30,000 are eligible if they have  
15 never been in receivership. Likewise, boroughs and  
16 townships with a population of at least 7,000 are eligible  
17 to apply for a pilot zone under this program.

18 In addition to the two CRIZ and one pilot zone  
19 that have already been approved, beginning this year, 2016,  
20 DCED, along with Revenue and the Budget Office, is allowed,  
21 may authorize according to law CRIZs or pilot zones each  
22 year. There's no limit on the total number of zones.

23 To be clear, my legislation would not designate  
24 or set aside a zone for Scranton. It would only make them  
25 eligible to apply for this program. Once again, I think it

1 was an oversight because it's a city of the second class A.

2           There are many aspects of this program that merit  
3 review and discussion, including the overall number of  
4 zones and the criteria for which types of municipalities  
5 may apply. However, to the extent that there will be  
6 additional zones authorized this year, hopefully, and  
7 beyond, I believe that Scranton should not be excluded from  
8 the opportunity to apply. That's all I'm asking for, their  
9 ability to apply.

10           Thank you for the time. Thank you, Mr. Chairman.

11           COMMERCE MAJORITY CHAIRMAN HARRIS: Thank you,  
12 Representative.

13           Representative Longietti?

14           REPRESENTATIVE LONGIETTI: Sure. First, I want  
15 to thank Chairman Harris, Chairman Ross, and Chairman  
16 Caltagirone for scheduling this hearing and for my fellow  
17 colleagues in the Commerce Committee for your attendance.  
18 I do have written comments that you have. I'm not going to  
19 read them, but I'm going to summarize what my bill, House  
20 Bill 959, would do.

21           And it kind of builds on the testimony that we  
22 just heard, so my bill not only allows for Scranton to have  
23 a place at the CRIZ table and Harrisburg as well, but it  
24 would also expand it to other third-class cities. We just  
25 heard that you have to have a population of at least 30,000

1 people in order to qualify for a CRIZ. Well, there's a  
2 whole lot of third-class cities that have populations under  
3 30,000. So my bill would allow those municipalities to  
4 join in in the CRIZ process as well.

5 And really, the genesis of it was, as you will  
6 recall, Allentown was the experiment, right? It was the  
7 pilot program. They called it NIZ. It's been very  
8 successful, I believe. And we had an opportunity at a  
9 policy hearing to be in Allentown a few years ago and meet  
10 with some of the developers that were involved in that  
11 project. And I asked a specific does this concept work for  
12 smaller communities? And they unequivocally answered yes,  
13 it does, that it would work well in smaller towns.

14 And when we look at third-class cities, we know  
15 they all have similar problems, right? They tend to be  
16 older, core communities. They're landlocked. They have an  
17 older housing stock. They don't have a large tax base. A  
18 lot of them have lots of nonprofit tax-exempt property, and  
19 so they all have similar problems that need to be  
20 addressed. And many of them are Act 47 communities, no  
21 surprise there. I'll give you an example, a number of  
22 examples. Farrell in my district, it was the first Act 47  
23 community and still is in the program. Aliquippa,  
24 Clairton, Duquesne, Johnstown, Nanticoke, and New Castle  
25 all under 30,000 people, all in Act 47.

1           And so my legislation would do the additional  
2 thing of giving a priority to Act 47 communities. Remember  
3 that we just had legislation enacted recently that requires  
4 Act 47 communities to exit the program. And not only are  
5 they required to exit the program, we took away a revenue  
6 tool from them. They no longer can have what they call the  
7 commuter tax when they exit the program.

8           So what we didn't do, unfortunately, in requiring  
9 them to exit is we didn't give them any tools to rebuild  
10 their communities. And CRIZ would be a tool for them. It  
11 would be something that would help allow them to rebuild  
12 their tax base. And if we really want them to be  
13 successful and not end up in receivership or under State  
14 control, then we really need to, I believe, focus on tools  
15 like CRIZ and make those available and make those a  
16 priority for Act 47 distressed communities.

17           The other thing that my legislation would do, as  
18 Representative Boback mentioned, the pilot program for  
19 boroughs and townships, right now, that has a 7,000  
20 population cap. There are many boroughs and townships that  
21 are under 7,000, and so I would reduce that to 2,000. And  
22 once again, I know there are at least two Act 47 boroughs  
23 and townships that have less than 7,000 people. So once  
24 again, this would be a priority for them.

25           So I'm excited about the fact that the Committee

1 is interested in looking at the CRIZ legislation. I'm not  
2 going to say that my bill is perfect by any means, but I  
3 think it is a measure that would help a lot of our  
4 distressed communities and smaller communities, and I think  
5 CRIZ is a good fit.

6 Thank you, Mr. Chairman.

7 COMMERCE MAJORITY CHAIRMAN HARRIS: Excellent.  
8 Thank you, Representative Longietti.

9 We did have three other Members submit testimony  
10 about some legislation they have, so I'm going to have my  
11 Executive Director Jen Weeter just give a brief synopsis of  
12 each of their pieces of legislation, and then we will open  
13 up to questions if any of the Members of the Committees  
14 have questions for anyone on the panel.

15 MS. WEETER: Representative Harhart's legislation  
16 does several things. First of all, it's House Bill 1058.  
17 It expands the definition of pilot zone to allow for  
18 contiguous municipalities to work together. It also allows  
19 for industrial and commercial development authorities to  
20 serve as the contracting authority. And finally, it  
21 contains a technical piece to include a section calling for  
22 the local tax authority and how you verify the baseline  
23 tax.

24 Representative Toohil's legislation reduces the  
25 population requirement for third-class cities from 30,000

1 to 25,000 for them to apply. This would then allow for the  
2 Cities of Hazleton, Williamsport, East End, and Lebanon to  
3 be able to apply for a zone.

4 And then finally, House Bill 1869, Representative  
5 Flynn's, would include a city of the second class A,  
6 Scranton, much like Representative Boback's legislation.

7 COMMERCE MAJORITY CHAIRMAN HARRIS: Sorry. Do  
8 any of the Members have any questions for -- I see at least  
9 one, Representative Ross.

10 REPRESENTATIVE LONGIETTI: I thought we were  
11 going to get off the hook.

12 REPRESENTATIVE ROSS: Well, thank you all for  
13 making your presentations here today. And I appreciate the  
14 effort that you've gone in and also the other Members who  
15 have prepared legislation. And really all of your bills  
16 raise a fundamental question, which I had when I first  
17 looked at this program and I saw that a borough, in this  
18 case Tamaqua, third-class cities in other cases were being  
19 chosen and others were interested. And then by your  
20 legislation and the others who've been presented here, we  
21 have townships, we have smaller cities, we have second  
22 class A cities. Do any of you have any reason why any  
23 particular type of municipality should not be allowed to  
24 have a CRIZ?

25 REPRESENTATIVE LONGIETTI: If I may, I think

1 that's an excellent question. And I really think that I  
2 can't say no to that question. I really think that making  
3 them available to a host of municipalities makes sense, and  
4 then let the marketplace figure out whether they work in  
5 those municipalities or not. You know, you're going to  
6 have to -- we all know that developers have to put 20  
7 percent of resources into these CRIZ zones at least. So,  
8 you know, they're going to rise or fall on their merits, I  
9 believe, if you make it available to them.

10 REPRESENTATIVE ROSS: Anybody else?

11 REPRESENTATIVE KIM: My answer would be I don't  
12 think anyone should be excluded, but the ones who are going  
13 to really take advantage of this program to have developers  
14 and the economic development team already have plans  
15 together and are pretty ready to go should rise to the top.  
16 Again, what Mark has said that this is really a great tool  
17 for a lot of municipalities who are struggling, shrinking  
18 tax bases and whatnot, and this would be very beneficial  
19 for them. But I think we should level the playing field  
20 and let the best rise to the top.

21 REPRESENTATIVE BOBACK: And also, if I might add,  
22 surely there are studies as to who succeeds and who has not  
23 succeeded under the original CRIZ program. I'd love to see  
24 that and to see why they did, why they're not using it, are  
25 we losing money on the deal. I mean, I think that all



1 comes into play, Representative Ross, to see the success of  
2 the program.

3 From what I'm told and from what I've read, it  
4 has been successful and it's been limited. And I think  
5 now, if it is -- in truth, looking at numbers, if it's that  
6 successful, then we add to the program.

7 REPRESENTATIVE ROSS: And just one follow-up if I  
8 may with my co-Chair's indulgence, is there any reason to  
9 limit the number of CRIZs?

10 REPRESENTATIVE BOBACK: Why would you limit them  
11 if they're very successful is my question. But of course  
12 it's money to the Commonwealth, so that's first and  
13 foremost in my mind. Are we making money, are we losing  
14 money, are we attracting businesses, are we taking away  
15 blight from major cities, from boroughs, from townships.  
16 That's what I would look at.

17 REPRESENTATIVE ROSS: Well, it's entirely  
18 possible that you may move a business from one part of the  
19 State to another part of the State, so what one  
20 municipality is winning with, another municipality may be  
21 losing with, correct?

22 REPRESENTATIVE BOBACK: And perhaps that should  
23 be a part of the formula.

24 REPRESENTATIVE ROSS: So essentially, none of you  
25 have a particular limit in terms of the number of CRIZs

1 that might be instituted throughout the Commonwealth?

2 REPRESENTATIVE LONGIETTI: My comment, kind of to  
3 piggyback on Representative Boback, it depends, I suppose,  
4 is this revenue-neutral? How does this affect the  
5 Commonwealth's budget? Should there be a limit for that  
6 reason? You know, I think that needs to be taken into  
7 play.

8 I think you also raised the point, are we just  
9 playing a shell game? Are we just moving businesses from  
10 one location to another in Pennsylvania? Obviously, that  
11 would not be our desired purpose. So, you know, I think  
12 the details of the CRIZ program may drive an answer to  
13 those questions.

14 REPRESENTATIVE ROSS: I think it's pretty clear  
15 on the revenue neutrality that it's not revenue-neutral to  
16 the Commonwealth, that we are diverting funds that would  
17 have otherwise come to the Commonwealth. So unless there's  
18 a multiplier effect beyond that that people can calculate,  
19 in the short run at least, we're sacrificing some revenues.

20 REPRESENTATIVE BOBACK: See, and you have the  
21 statistics, but for me it's all about the revenue to the  
22 Commonwealth, period.

23 REPRESENTATIVE KIM: And I also know that the  
24 CRIZ is not going to be a panacea. It's not going to save  
25 a borough or municipality. But let's also compare the

1 costs with a municipality like mine in Act 47, how much  
2 that has cost the Commonwealth also with the State  
3 receivership. I know it wasn't cheap, but if I could  
4 prevent boroughs and municipalities from going to Act 47, I  
5 think there's a savings there.

6 REPRESENTATIVE LONGIETTI: And I would just add,  
7 you know, to clarify my comments that I'm not saying that  
8 it needs to be revenue-neutral. I think we do need to  
9 dedicate some State funds to this program. And if we're  
10 serious about trying to deal with the problems that so many  
11 cities and towns and smaller towns face, particularly as  
12 Representative Kim said with Act 47 communities, we're  
13 going to have to put some resources in.

14 You know, many times, these are core communities.  
15 If your core dies, then the surrounding communities have a  
16 significant detrimental effect, and we just can't allow our  
17 core to die.

18 REPRESENTATIVE ROSS: Thank you.

19 COMMERCE MAJORITY CHAIRMAN HARRIS: Thank you  
20 very much. I just would like to recognize Representative  
21 Mackenzie and Representative Rothman have joined us. And I  
22 believe Representative Milne has a question.

23 REPRESENTATIVE MILNE: Thank you, Mr. Chairman.

24 Representative Longietti, you raised some  
25 interesting observations about Act 47 writ large and then

1 some of the particulars of the ramifications of the  
2 legislation that the Legislature has passed. And I'm  
3 instinctively empathetic to the notion that those kind of  
4 communities probably should get some priority consideration  
5 in this whole process.

6           So I'm just wondering if you could maybe flesh  
7 out a little bit your thinking about how Act 47  
8 municipalities would get treated. Would this be a  
9 methodology where Act 47 municipalities all go to the top  
10 of the list and we work from top to bottom and fill in  
11 until we can and then everybody else would be in some sort  
12 of maybe second category? Or is this maybe extra  
13 preference points across the board for the regular  
14 application process but perhaps preference points, extra  
15 points, whatever you want to call it, like veterans'  
16 preference points analogy for those kind of municipalities  
17 that would compete otherwise in the regular process.

18           REPRESENTATIVE LONGIETTI: The latter seems more  
19 appealing to me than the former. And I am certainly open  
20 to discussions amongst legislators, amongst departments to  
21 consider what makes the most sense. But it seems to me  
22 that a scoring process would probably be in place, and the  
23 idea of giving additional points in that scoring process to  
24 Act 47 communities makes some sense to me.

25           You know, as I said, I mean, we all base things

1 upon our own experience, so as I mentioned, the City of  
2 Farrell is in my legislative district. It's in Act 47.  
3 And from what I see, they're taking the legislation that  
4 was enacted seriously, and they're taking all the right  
5 steps to exit Act 47, but essentially what that means is  
6 they're raising taxes in a community that is a high-crime  
7 area because it's hard for them to afford the police  
8 protection that they need that has lots of challenges.

9           So, you know, you look at that and you say, well,  
10 how do you rebuild your community. If you've got to raise  
11 taxes and make it less attractive to come there and you  
12 have all these other challenges as an Act 47 community,  
13 then what tools are out there? What do you have in your  
14 arsenal to try to make your community an attractive  
15 community to bring people in?

16           So, you know, I think it's important that -- I  
17 think a scoring system makes sense, but I think there has  
18 to be a significant additional score for an Act 47  
19 community like that.

20           REPRESENTATIVE MILNE: And maybe just a follow-  
21 up, I think there may be an embedded question in here  
22 somewhere, but certainly within the continuum of Act 47  
23 municipalities, there is a significant difference between a  
24 major urban area and a small borough. So there's a  
25 tremendous variation of Act 47 cases. How might we take

1 that into our thinking here?

2 REPRESENTATIVE LONGIETTI: Well, you know,  
3 obviously, just because you open the program up doesn't  
4 mean that every community that qualifies is going to be  
5 able to viably have a CRIZ zone. You've got to have, you  
6 know, elements. You've got to have interested developers  
7 who want to put in significant resources of their own to  
8 establish a CRIZ.

9 So, you know, I don't know -- inasmuch as I'm a  
10 strong advocate for reducing these population requirements,  
11 I'm sure it's going to be difficult for some small  
12 communities to be able to attract the development that's  
13 necessary to try to establish a CRIZ. Maybe they join  
14 together with adjacent communities. I know that was part  
15 of one the bills that was mentioned.

16 So, you know, I think that priority status still  
17 needs to be there, but obviously, you're going to have to  
18 be able to attract developers and development --

19 REPRESENTATIVE MILNE: Thank you. And I  
20 appreciate the dialogue you've initiated on this dimension  
21 of the whole question.

22 Thank you, Mr. Chairman.

23 COMMERCE MAJORITY CHAIRMAN HARRIS: Thank you  
24 very much. I'd like to recognize we were joined by  
25 Representative Neilson. I think we have pretty much a full

1 panel now. This has been an excellent turnout. I guess  
2 everyone didn't want to go out and enjoy the beautiful  
3 weather today. But we appreciate everyone being here.

4 Representative Lawrence does have a question as  
5 well.

6 REPRESENTATIVE LAWRENCE: Thank you,  
7 Mr. Chairman.

8 And this question actually might be for staff.  
9 My understanding of the CRIZ program is that the bonds that  
10 are issued are serviced by the increased -- over and above  
11 what would have been the increase in tax revenue both on a  
12 local and what would have come to the State. Am I correct  
13 on that?

14 COMMERCE MAJORITY CHAIRMAN HARRIS: That's not  
15 too far off. I mean --

16 REPRESENTATIVE LAWRENCE: Okay. The basic  
17 understanding.

18 COMMERCE MAJORITY CHAIRMAN HARRIS: That will  
19 work for our purposes here.

20 REPRESENTATIVE LAWRENCE: Okay. Thank you,  
21 Mr. Chairman.

22 My question is what happens if, for whatever  
23 reason, the developer goes bankrupt and the project doesn't  
24 get completed or just there's some sort of disaster? Who  
25 is on the hook for the debt through the servicing of the

1 debt that's incurred?

2 UNIDENTIFIED SPEAKER: Am I being [inaudible]?

3 REPRESENTATIVE LAWRENCE: No, no, no. And if we  
4 can get the answer later, that's fine.

5 UNIDENTIFIED SPEAKER: We can certainly look into  
6 that. My first inclination would be it would ultimately  
7 fall back most likely on the Commonwealth.

8 REPRESENTATIVE LAWRENCE: Okay. Thank you,  
9 Mr. Chairman.

10 COMMERCE MAJORITY CHAIRMAN HARRIS: No --

11 UNIDENTIFIED SPEAKER: We can answer that  
12 question.

13 COMMERCE MAJORITY CHAIRMAN HARRIS: Yes,  
14 gentlemen, why don't you hold that for later? But  
15 basically --

16 REPRESENTATIVE LAWRENCE: I'll hold that for  
17 later. We have some folks in the audience who are very  
18 eager to answer that question.

19 UNIDENTIFIED SPEAKER: Yes. There are  
20 bondholders and you create an authority or have an  
21 authority hold the bonds, and that would be the ultimate  
22 responsible party for the debt.

23 COMMERCE MAJORITY CHAIRMAN HARRIS: All right.  
24 And with that, we will dismiss the panel, and we say thank  
25 you very much for being here and taking a little time to



1 tell us about your legislation. Thank you.

2 Okay. Now, our first testifier from the real  
3 world where this has actually been in place and we're very  
4 excited to hear your experiences and your recommendations  
5 of how this program could be better, we're going to call up  
6 from the City of Bethlehem we have Mayor Robert Donchez and  
7 the Director of the Office of Community and Economic  
8 Development Alicia Miller Karner. Welcome. You may begin  
9 whenever you're ready.

10 MAYOR DONCHEZ: Mr. Chairman, Members of the  
11 Committee, thank you for the invitation. I appreciate it  
12 very much.

13 Twenty years ago, steelmaking in Bethlehem ended.  
14 A four-mile long steel plant that traced its roots to a mid-  
15 19th century iron foundry and once employed 30,000 workers  
16 on 1,600 acres, was shut down and closed. With the end of  
17 steelmaking, the City of Bethlehem lost 20 percent of our  
18 tax base. The loss was devastating.

19 Bethlehem's leaders did not sit around and wait  
20 for something to happen. Over the last 20 years, four  
21 different mayors worked aggressively with Federal, State,  
22 and local officials, and the private sector, to resolve  
23 major environmental issues, secure public funding to clean  
24 up the site, and install modern infrastructure that would  
25 attract private developers. These actions have made the

1 redevelopment of the Bethlehem steel plant a national  
2 model.

3           As a result of the Federal, State, and local  
4 support, millions of dollars in private funds have been  
5 invested to turn an old rusting steel mill into a vibrant,  
6 multiuse development that hosts a major campus of  
7 Northampton Community College; the largest outdoor music  
8 festival in the country, Musikfest; one of Pennsylvania's  
9 most successful casinos, Sands Bethlehem; a number of  
10 manufacturing plants like Lehigh Heavy Forge and Curtiss  
11 Wright; and large logistics warehouses for major companies  
12 like Walmart and Primark.

13           The private investment would not have occurred  
14 without significant public funding. Almost every Federal,  
15 State, and local economic development program has been used  
16 to provide the necessary funds to improve the  
17 infrastructure and spur private sector investment. Without  
18 those government funds and the forward-thinking  
19 environmental policies, many of those businesses and  
20 organizations would have located on a suburban greenfield,  
21 and Bethlehem residents would be still looking at a vacant  
22 steel mill.

23           The list of programs used to bring new life to  
24 old steel reads like an alphabet soup of economic  
25 development. Federal EDA grants, CDBG loans, State RACP

1 grants, Opportunity grants, Pennsylvania First Grants, Job  
2 Creation tax credits, and the Keystone Innovation Zone have  
3 been used to spur development and lure companies to the  
4 site.

5           The Business In Our Sites program provided one of  
6 the largest grant and loan packages, enabling Lehigh Valley  
7 Industrial Park, LVIP, to tackle the redevelopment of more  
8 than 1,000 acres. A local TIF and LERTA district was  
9 established, and Northampton County floated an economic  
10 development bond that provided more than \$12 million for a  
11 much-needed access road.

12           Even after significant public sector and private  
13 sector investment, there were still major holes in the  
14 redevelopment of the former Bethlehem steel site.  
15 Bethlehem's 2013 City Revitalization and Improvement Zone  
16 application was designed to provide the necessary  
17 incentives to fill these holes and successfully complete  
18 the reuse of the former Bethlehem steel property.

19           The CRIZ is also a good deal for Pennsylvania.  
20 Unlike most State programs, the CRIZ provides only those  
21 State funds that are equal to the new tax revenue generated  
22 from development. Bethlehem was awarded the CRIZ  
23 designation, along with Lancaster, on December 31st of  
24 2013. In 2014, Tamaqua joined us.

25           I took office in January 2014, and my economic

1 development team began working with the CRIZ developers to  
2 use the program to get projects done, but we immediately  
3 encountered hurdles and problems. Over the past two years,  
4 we have had numerous phone calls and meetings with the  
5 staff of DCED, the Department of Revenue, and the  
6 Governor's Office to get answers. All of these meetings  
7 have been polite and very professional, but the meetings  
8 end with more unanswered questions.

9 Our contracting authority, charged by the law to  
10 oversee Bethlehem's CRIZ, has spent countless hours and a  
11 significant amount of money on legal help to make sense of  
12 the law. Our private developers, all who have extensive  
13 experience on brownfield projects and represent some of the  
14 most successful national and regional real estate  
15 developers, have only completed one small restaurant  
16 project.

17 After all of this work, we have determined that  
18 the law needs significant changes. We can no longer rely  
19 on opinions or guidance from the Department of Revenue or  
20 DCED. We need a change in the legislation if CRIZ is going  
21 to be able to finance significant redevelopment in urban  
22 communities.

23 Specifically, the following changes need to be  
24 made in order for the law to be workable and effective:

25 1) We need to calculate baseline on a parcel-

1 specific basis, eliminating the current cross-  
2 collateralization model which puts the risks  
3 of one development project on the balance  
4 sheet of another.

5 2) We need to establish precise and detailed  
6 definitions for CRIZ eligible taxes in the law  
7 to reduce confusion, misinterpretation, and  
8 misunderstanding. Clarity on which taxes are  
9 subject to the baseline calculation in the law  
10 and which taxes are not is needed so that a  
11 developer can calculate how much funding they  
12 will have from the CRIZ to finance  
13 construction and improvements.

14 3) Presently, the law is very specific that no  
15 CRIZ funds may be used for professional  
16 services, administrative costs, or compliance.  
17 This needs to be changed, and the law needs to  
18 reflect standard operating procedures for all  
19 other authorities. CRIZ funds should be  
20 allowed to be used to pay for the normal and  
21 reasonable costs of compliance and  
22 professional services.

23 4) We are also seeking legislative clarity of the  
24 duties and functions of the contracting  
25 authority and what is the eligible use of bond

1           proceeds is needed to insure that funds are  
2           spent appropriately.

3           5) Legal certainty is needed so that lenders can  
4           know that sections of the law cannot change  
5           once financing has been established.

6           6) We need the flexibility to decertify parcels  
7           that continue to see long periods of  
8           inactivity so that projects that are further  
9           along in the development can benefit from the  
10          CRIZ.

11

12           These changes must also be done in a way that  
13          expands the development in the Commonwealth and does not  
14          merely relocate companies and businesses from one area of  
15          the Commonwealth to another.

16           We are sensitive to the concerns voiced by the  
17          Department of Revenue, the present administration, and  
18          legislators. They do not want to see Pennsylvania  
19          businesses move from outside the CRIZ into the CRIZ solely  
20          to take advantage of the subsidy. And neither do we. We  
21          want new job growth for the citizens of Pennsylvania, but  
22          the current law is so problematic that I fear no  
23          development can occur.

24           And allow me to add, expanding the eligibility  
25          criteria for municipalities will do nothing to further

1 development in those cities and boroughs as long as these  
2 issues remain unresolved. Those cities seeking CRIZ  
3 designation will find themselves struggling to attract  
4 development if we don't make this legislation more  
5 workable.

6 State economic development help is vital to make  
7 brownfield redevelopment a reality. The CRIZ can be an  
8 excellent tool, but right now the CRIZ doesn't work.  
9 Important changes are needed in order to make sure that the  
10 CRIZ can help cities like Bethlehem and Lancaster and  
11 boroughs like Tamaqua.

12 Thank you, Mr. Chairman. Thank you, Members of  
13 the Committee.

14 COMMERCE MAJORITY CHAIRMAN HARRIS: Excellent.  
15 Thank you, Mayor.

16 Alicia, do you have anything to add or are you  
17 just more here for questions.

18 MS. KARNER: I don't have any prepared comments,  
19 but I'm happy to help answer questions.

20 COMMERCE MAJORITY CHAIRMAN HARRIS: Okay. Thank  
21 you.

22 Chairman Ross has a few questions.

23 REPRESENTATIVE ROSS: Thanks.

24 And I want to compliment you on your efforts to  
25 rebuild Bethlehem. I think that's a really outstanding

1 effort that you all have made so far. And I know that  
2 you're trying to complete that job and really get the city  
3 back into a strong condition --

4 MAYOR DONCHEZ: Thank you.

5 REPRESENTATIVE ROSS: -- as soon as possible, and  
6 I'm all for it.

7 And I also wanted to make it plain to the other  
8 Members here that your excellent lobbyist, our former  
9 colleague Mr. Uliana is sitting back there quietly  
10 pretending like he has nothing to do with all of this, as  
11 spent a lot of time working on all of these details with  
12 myself and others, I know with Chairman Harris and our  
13 staffs and so forth, working through in great detail to try  
14 and make the terms under which you're trying to operate a  
15 little bit more clear and a little more workable for you.

16 I did want to take this opportunity to address  
17 what may have raised a few eyebrows from my comment earlier  
18 where I mentioned that it was pretty clear that there was a  
19 net loss of revenue to the Commonwealth. And I know that  
20 you have stated in here that CRIZ is designed to really  
21 only soak up those new tax revenues that are coming into  
22 the zone, but you very kindly also mentioned to me in the  
23 beginning on your first page that "Without the government  
24 funds and forward-looking environmental policies, many of  
25 these businesses and organizations would have located on a



1 suburban greenfield."

2           So just to clarify my point, we have no way of  
3 knowing when someone does business and creates an expansion  
4 or puts a new business or an expanding business into a  
5 CRIZ, that if they had not done that, they would not have  
6 gone somewhere else in the Commonwealth. Some perhaps are  
7 new. I won't deny that that's possible. But it's  
8 reasonable to assume that many of them are looking in  
9 multiple choices and choose the CRIZ because the terms  
10 there are better than they would be in another  
11 municipality.

12           And my earlier questions are to point here  
13 because when we consider economic development programs, we  
14 need to be thinking carefully about why we're doing it.  
15 Each individual municipality has great reason to want one  
16 of these zones because they can use it for a development  
17 tool and induce people to come there. But it does also  
18 raise an important question about whether or not we are  
19 taking things from other municipalities.

20           Now, we have distressed municipalities, Act 47  
21 municipalities. I'm very aware of that from having worked  
22 on that problem, too. So there are times when we want to  
23 provide a little extra benefit because those municipalities  
24 might otherwise have some less-attractive features about  
25 them. So we may be leveling the playing field.

1           But when this program was created, I had serious  
2 questions as to why some and not others. And I don't think  
3 that we have, from a policy point of view, clarified that  
4 to this day. And I don't think we had a clear picture when  
5 we created this program as to why some and not others. I  
6 have some theories as to why some and not others, but we  
7 won't go there. So I did want that to be made clear.

8           I also want to really emphasize and focus even  
9 internally within a city that when you have a particular  
10 business in a CRIZ zone, which is not your complete  
11 municipality; it's a section of your municipality -- and  
12 you have a competing business that is outside the CRIZ  
13 zone, the firm that it is in the CRIZ zone has very  
14 favorable terms to borrow under, and they have very  
15 favorable terms under which they pay them back because they  
16 are paying monies that would otherwise be collected and  
17 paid anyway.

18           The competing company, not having that  
19 opportunity, has to go to a bank, pay all their regular  
20 taxes, and then turn around and pay the bank on top of  
21 that. So Company A in the CRIZ has an economic advantage  
22 over Company B in your same municipality outside of the  
23 CRIZ.

24           So when we do this, we need to be very thoughtful  
25 about fairness. And your individual comments otherwise I

1 certainly have taken into consideration, and if we continue  
2 down this zone and work and you already are in it so we  
3 have to work with you to try and make it work well for you,  
4 but I did want to mention those other issues, which I think  
5 are very important.

6 And I think generally that we rushed into this  
7 program without having really sorted out our philosophy,  
8 our thinking, and how it will develop over time.

9 Thanks.

10 COMMERCE MAJORITY CHAIRMAN HARRIS: Thank you  
11 very much.

12 And I would like to recognize Representative  
13 White is here. She's joined us.

14 And Representative Mackenzie has a question.

15 REPRESENTATIVE MACKENZIE: Thank you,  
16 Mr. Chairman. And welcome, Mayor Donchez. Thank you for  
17 joining us today. And welcome to everyone else from the  
18 Lehigh Valley who's here in the audience as well.

19 I do just have two specific questions on some of  
20 the changes that you mentioned. The first point you  
21 mentioned is about the parcel-specific basis versus the  
22 current cross-collateralization model. I can see benefits  
23 to both possibly, so I'd love just for a little further  
24 explanation on your thoughts there.

25 MS. KARNER: So right now, the zone is the whole

1 130-acre designation, and the Commonwealth doesn't  
2 differentiate between each parcel or each project even, so  
3 what comes from what project. If a developer constructs a  
4 building and brings in tenants that are existing PA  
5 companies and they operate and start to underperform,  
6 meaning they don't hit the baseline -- after a year of  
7 existence in the CRIZ, they have to have established a  
8 baseline if they're an existing company. If they  
9 underperform, the Commonwealth doesn't differentiate  
10 between, you know, Company B that is a new company to  
11 Pennsylvania that's generating increment that's positive.  
12 It will take the increment from Company B -- that's a  
13 company that's successful -- to repay or to compensate for  
14 the loss of the company that is underperforming.

15           And so when you're talking about different  
16 developers doing different projects, that means they're all  
17 relying on the success of each other, which creates  
18 problems not just when calculating baseline and generating  
19 increment, but it creates problems for financing and banks  
20 are unwilling to lend under the existing model.

21           REPRESENTATIVE MACKENZIE: Okay. So your concern  
22 is more on the downside risk. Is there a potential benefit  
23 in that cross-collateralization model for the upside? I  
24 mean, is it more beneficial once projects start developing  
25 and occurring that then they can use those revenues for

1 other projects?

2 MS. KARNER: There is the theory that that's  
3 possible if we have a user that hits it out of the park  
4 essentially and that we're able to support other  
5 development.

6 Right now, we've been able to attract one  
7 business, so we are not proven when it comes to the success  
8 of the businesses. This was a new business and it is  
9 generating last year. We did receive approximately \$18,000  
10 in revenue, which is significantly less, as I'm sure you  
11 can appreciate, than what we had expected the CRIZ to  
12 generate for the City of Bethlehem.

13 And so when we're talking numbers that are that  
14 small, I don't think that it is likely that we'll see the  
15 positives of a comprehensive zone based on the success of  
16 multiple companies supporting, you know, other businesses  
17 for a long time.

18 So relying on that parcel-by-parcel model, we  
19 believe it will accelerate development and make the CRIZ  
20 more successful, particularly in the near term.

21 REPRESENTATIVE MACKENZIE: Okay. And then my  
22 second question is just on the second point here, confusion  
23 around specific taxes that are eligible. Which ones are  
24 most commonly --

25 MS. KARNER: Liquor, the liquor tax --

1 REPRESENTATIVE MACKENZIE: Okay.

2 MS. KARNER: -- for instance. I mean, there have  
3 been policy decisions when we talk to the Department of  
4 Revenue. There are determinations on how they're going to  
5 treat certain taxes, but because it's not specific to the  
6 legislation, there's concern that with a different  
7 administration, we'll get a different policy decision.

8 REPRESENTATIVE MACKENZIE: Great.

9 MS. KARNER: Hotel tax is excluded. There's a  
10 number of taxes that are not included or there's questions  
11 on how they're being calculated.

12 REPRESENTATIVE MACKENZIE: Okay. Great. Thank  
13 you, Mr. Chairman.

14 COMMERCE MAJORITY CHAIRMAN HARRIS: Thank you,  
15 Representative Mackenzie.

16 Representative Topper?

17 REPRESENTATIVE TOPPER: Thank you, Mr. Chairman.

18 As someone who represents an entire county that  
19 has less than 15,000 people, obviously I'm not too familiar  
20 with the City Revitalization and Improvement Zone program.

21 So I have a question, though, and Chairman Ross  
22 kind of started to go there a little bit with his comments.  
23 Mr. Mayor, on page 2 of your testimony, you said that  
24 "Unlike most State grant programs, the CRIZ provides only  
25 those State funds that are equal to the new tax revenue

1 generated from the development." Is that projected  
2 revenue? Because I'm assuming the money and you're getting  
3 involved in the program before these taxes can be generated  
4 locally. Should the word projected be in there or is it  
5 literally you're only going to get as much as you raise?

6 MS. KARNER: You literally are only getting as  
7 much as you raise. So there is a lag time. After the  
8 close of the 2014 year, for instances, businesses have  
9 months to report. The Commonwealth has months to evaluate  
10 the reports, and we see the funds sometime in November. So  
11 11 months after the close of a year, of a calendar year, a  
12 fiscal year, we're able to receive the actual --

13 REPRESENTATIVE TOPPER: Okay.

14 MS. KARNER: -- revenue that's generated.

15 REPRESENTATIVE TOPPER: And if there's not any,  
16 then the State is not going to provide that money, is that  
17 correct?

18 MS. KARNER: Exactly.

19 REPRESENTATIVE TOPPER: Okay. Thank you very  
20 much, Mr. Chairman.

21 COMMERCE MAJORITY CHAIRMAN HARRIS: It's  
22 important to note that the businesses need to report. I  
23 think our next testifiers from Lancaster will probably  
24 expand on that, what can be a problematic issue. But next  
25 up, Representative Dush has a question.

1                   REPRESENTATIVE DUSH: Thank you, Mr. Chairman.

2                   Representative Mackenzie addressed part of my  
3 initial question and your point #1 on cross  
4 collateralization, but it brought up another question. The  
5 success of the business when you were describing that, you  
6 said about an existing business moving into the CRIZ. Is  
7 it evaluated based on just the success of new revenue  
8 produced out of that site or is it a percentage increase of  
9 the entire company?

10                  MS. KARNER: So what happens is that the portion  
11 that locates in the CRIZ, if it's an existing PA company,  
12 must operate for a full calendar year. So even if they  
13 move in midyear, they have to operate for a full calendar  
14 year before establishing the baseline for that portion of  
15 the company or that company if it's the whole company  
16 that's moving in.

17                  So that is not compared to the revenue generated  
18 in a prior location within the Commonwealth, and it is  
19 based solely on the revenue generated within the CRIZ.

20                  REPRESENTATIVE DUSH: Okay. And I think  
21 Representative Topper's question also answered my second  
22 one, but I just want to verify that. In paragraph 3 you  
23 had said about "The funds may not be used for professional  
24 services, administrative costs, or compliance." What I was  
25 concerned with is are you talking about services that were



1 provided ahead of time and then you subsequently get  
2 reimbursed?

3 MS. KARNER: The law obligates the authority  
4 managing the CRIZ to comply with a number of deadlines  
5 within the law. And so both Bethlehem and I'm sure  
6 Lancaster will tell you, too, we've spent \$100,000 or more  
7 in solicitor fees in trying to understand the legislation  
8 and hiring a compliance consultant to work with the  
9 businesses to submit the appropriate forms. And aside from  
10 auditing reimbursement out of the CRIZ, there is an  
11 opportunity to recoup those costs directly from CRIZ  
12 dollars.

13 REPRESENTATIVE DUSH: So it's basically the  
14 authority that absorbs all that cost?

15 MS. KARNER: The authority absorbs all that cost,  
16 yes.

17 REPRESENTATIVE DUSH: Thank you.

18 COMMERCE MAJORITY CHAIRMAN HARRIS: Thank you.  
19 And I'd just like to note we were joined by a gentleman who  
20 yesterday was a rank-and-file member but became a chairman  
21 yesterday. Representative Gibbons, congratulations.

22 Seeing no other questions, we just want to say  
23 thank you very much for your participation.

24 MAYOR DONCHEZ: Thank you.

25 COMMERCE MAJORITY CHAIRMAN HARRIS: We like your

1 very concrete suggestions, and we will keep them in mind as  
2 we move forward.

3           MAYOR DONCHEZ: Thank you, Mr. Chairman. Thank  
4 you.

5           MS. KARNER: Thank you.

6           COMMERCE MAJORITY CHAIRMAN HARRIS: Next up from  
7 the City of Lancaster, we have Mayor Rick Gray and Randy  
8 Patterson, the Director of the Office of Economic  
9 Development and Neighborhood Revitalization.

10           MAYOR GRAY: Good morning. I'm going to talk a  
11 little bit from 1,000 feet up and Randy's going to get down  
12 in the weeds for you.

13           This is viewed by many as an economic development  
14 tool. Quite frankly, I view it as a property tax relief  
15 tool. Currently -- and I hope I don't offend anybody --  
16 when developers come into our office, I tell people that  
17 developers shake hands this way. What can you give us? We  
18 have an older community. We have many warehouses in the  
19 city. The cost of redoing and rebuilding and utilizing  
20 those properties is far more than you would spend doing  
21 greenfield development where you take the top six inches of  
22 topsoil off and just build a new building.

23           We have old buildings. I live downtown. I live  
24 in a house that was built in 1820, not uncommon in the  
25 city. We at one time had 100 tobacco warehouses.

1           So when a developer comes in and wants to do some  
2 business in Lancaster and they're there, generally, they're  
3 not looking at greenfields. They want to be in Lancaster.  
4 They want to do something there.

5           How can assist? And well, there's these other  
6 programs that we talked about, but generally, what we end  
7 up doing is giving property tax abatement. Now, that's in  
8 a city that has about probably a third of the property  
9 already exempt from property taxes. It's the only tax  
10 really that we can raise, and raise it we have and continue  
11 to do.

12           So when we give the developer that property tax  
13 abatement, the police still want to be paid, the  
14 firefighters still want to be paid, our schools have to be  
15 run, our public works people have to be there. Who make  
16 that up? Who makes the property tax relief that we give to  
17 many developers? Who makes it up? Well, the taxpayers  
18 make it up. So their taxes go up. It's a tradeoff and we  
19 understand that.

20           When, for example, let's say they're developing a  
21 hotel, and I'll just pick a hotel out, building a new  
22 hotel. People will say to us, well, you know, you must be  
23 doing pretty well because there's these new buildings and  
24 new things moving on. First of all, there's property tax  
25 relief that has given on most of that; and second of all,

1 if you're going to economically develop your way into  
2 financial security, it's way down the road before those  
3 properties are reassessed and become producing revenue  
4 equivalent to what you need.

5           So if the new hotel is built, who gets the  
6 revenue? Income tax, business tax -- we don't have a  
7 business tax in the City of Lancaster -- liquor tax, hotel  
8 tax. We, by reducing or giving breaks on our property tax,  
9 end up producing revenue for the Commonwealth.

10           The philosophy behind the CRIZ is that the  
11 additional tax -- now, this is not the NIZ, and very often,  
12 the NIZ is in Allentown. The additional tax that's  
13 produced, because of the development in the CRIZ district,  
14 goes to the Commonwealth. The idea behind the CRIZ was  
15 we'd get that back. That's it. And we could continue with  
16 property taxes on that property. We could let the property  
17 taxes go up and there'd be revenue for the city. We did it  
18 in a way that we thought was fairly revenue-neutral. If  
19 the development wasn't done, the taxes that the State would  
20 get, they wouldn't get. There wouldn't be taxes. That was  
21 the idea behind the CRIZ.

22           Now, as far as moving people in from outside, the  
23 NIZ, which Allentown has, from what I understand you could  
24 move from a township Macungie Township, and move into the  
25 NIZ district, and the NIZ district would get the benefit of

1 those new employees and whatnot, not the case in a CRIZ  
2 district. If you move from Manheim Township, which borders  
3 on the city, into the city, we might get a small increment  
4 if there's additional people hired, but in NIZ, you produce  
5 new taxes, State taxes. We don't get it.

6 So again, a business from outside the city in the  
7 Commonwealth moves into the city, moves into the CRIZ  
8 district, we don't get that money, and we shouldn't.  
9 Representative Ross is correct. You don't want to just  
10 encourage people to move around.

11 One of the ideas, as I listened, there was a  
12 question -- I'm sorry, with my bifocals -- Representative,  
13 you had about who guarantees the bonds and whatnot. Our  
14 CRIZ district has taken a position we don't issue bonds,  
15 that we'll work with the developer, we'll see what we can  
16 provide that's difficult. And Randy will tell you some of  
17 the problems we're having because banks have trouble  
18 dealing with this. But we'll provide the revenue you  
19 produce to you to pay your own loans off. We're not going  
20 to guarantee your loans.

21 We issued bonds for the hotel/convention center  
22 update and for another nonprofit that's working in the  
23 city, and what was it, \$5 million, I think, \$5 million.  
24 That's all the bonds we're issuing. The idea would be you  
25 produce the revenue, you get the benefit once it goes

1 through the State and comes back to the city in the CRIZ  
2 district. If you don't produce the revenue, it doesn't  
3 come back. You don't get anything as a developer. So  
4 you're the one that takes the risk, not us. And that was  
5 the way that we were doing it.

6           One other thing, as I listened here, you know, if  
7 you look at the cities or the communities that are dealing  
8 with this -- and I don't know about Tamaqua -- we have by  
9 far the highest property taxes in the County of Lancaster.  
10 We have the highest property taxes. Our school taxes are  
11 about double our city taxes, and our city tax is around 12  
12 mills. And then you add county taxes on top of it. We  
13 can't continue to ask people simply because they own  
14 property -- it's a futile assumption that you have money  
15 because you own property. We can't continue to ask them to  
16 pay police, fire, public works, schools by property taxes.  
17 There's got to be some relief. This is part of that  
18 relief.

19           This just gives us an opportunity to do some  
20 things, let the property taxes go up. And on the other  
21 hand, take funds that are produced because of this program  
22 and put them back in to encourage developers to pay the  
23 extra cost that they would normally pay in a city.

24           On that, that's just sort of the idea behind --  
25 don't confuse the CRIZ with a NIZ, though. So often I hear

1 people say, well, that's costing us a lot of money. We got  
2 \$2,800 last year. Randy didn't get a salary increase  
3 because of that \$2,800. That's what we got from the CRIZ  
4 last year, and Randy will tell you some of the more  
5 specific problems we have.

6 MR. PATTERSON: I provided you with written  
7 testimony as well. I'm not going to read that either. I  
8 just wanted to highlight a couple things. And the beauty  
9 of the CRIZ program is that each community can establish  
10 the program to most benefit that community. In the City of  
11 Lancaster our CRIZ is also 130 acres, but we have 732  
12 businesses, existing businesses within those 130 acres.

13 Our program is really designed to address the  
14 underutilized and underdeveloped properties that exist  
15 within those 130 acres, some that have sat vacant for years  
16 and some for decades. The CRIZ provides that opportunity.

17 We are looking actually to level the playing  
18 field. Lease breaks in most major urban cities today of  
19 third-class cities do not cover the cost of construction.  
20 So financing for developers in an urban center is  
21 challenging. The CRIZ program provides an opportunity to  
22 help offset that. We're not looking to provide lease  
23 breaks to businesses moving in. We're actually trying to  
24 build our lease market within the City of Lancaster, and  
25 when we've talked to our developers, we're mentioning that

1 this is to assist you in providing financing to cover those  
2 gaps between construction costs and lease rate revenue that  
3 you're going to get.

4           The financing challenges are the same, though, as  
5 Bethlehem's. Bethlehem's financing challenges are no  
6 different than ours. A developer cannot get private sector  
7 financing today knowing that a lot of a business over here  
8 is going to affect his ability to receive the increment  
9 that he actually created. And I will give you one example  
10 for the City of Lancaster. In our baseline year, 732  
11 companies, we had about 50 percent reported. We had one  
12 company that had a seven-figure revenue figure. In 2014,  
13 the first reporting year, they had a '15 figure revenue.  
14 All the other businesses within that CRIZ are now making up  
15 that difference.

16           That was not the intention of revenue neutrality  
17 to the cross-collateralization point. The intention was  
18 business by business, that the State would continue to  
19 receive the revenue that business generated up to the  
20 baseline year we would have available to us afterwards.

21           As the Mayor said, our financing model is not to  
22 do bonds. Our financing model is the developer is  
23 responsible for getting their own private financing based  
24 on the model of that business, just like any other project  
25 being underwritten in the private sector. They get what



1 they make. If they don't make it, they don't get  
2 additional revenue from us. They have to make that up  
3 someplace else.

4           The Mayor mentioned \$2,870. So 732 businesses,  
5 our calculation method of revenue neutral is business by  
6 business. According to our calculation, the city would  
7 have received about \$1.5 million last year. That would  
8 have been enough to generate the revenue, the increments  
9 expected to be created by the developments that were  
10 occurring. Instead, we had \$2,800. Twenty-eight hundred  
11 dollars is not a successful CRIZ program. Our expected  
12 revenue stream was somewhere between \$750,000 and \$1.5  
13 million annually from the 732 businesses.

14           And then as new businesses were developed or new  
15 projects developed -- you'll hear from one of our  
16 developers today -- we expected that number to go up, but  
17 those dollars are being passed through to the developer to  
18 pay their debt service. It's not being retained by us.  
19 And as the Mayor said, the only bond we did issue was for  
20 our neighborhood nonprofit economic development project,  
21 and the city is guaranteeing that bond, not the State.

22           I think the recommendations from Bethlehem are  
23 our recommendations as well. There are a couple others  
24 that we put in in our proposal that we've talked to  
25 Bethlehem about as well, and that's infrastructure

1 improvements. Sometimes infrastructure improvements are  
2 located outside of the CRIZ, but they're dependent to have  
3 a project developed within the CRIZ. Currently, today, you  
4 can't use CRIZ revenue to help finance that improved  
5 infrastructure.

6 Our biggest one for you would be to say not to  
7 require us to have 130 acres at the outset. The way the  
8 current program was established when you apply, you must  
9 apply for 130 acres. If you apply for less, that's your  
10 acreage for the balance of your program. So if you only  
11 apply for 50 acres, that's all you have for the remainder  
12 of the program year.

13 Our preference would be to allow us to build as  
14 projects come online. So we have 130 acres over the life  
15 of the program, but a community could apply with only 50  
16 acres at some point in time and then add. That would also  
17 reduce the number of 732 businesses that we have to have  
18 report every year.

19 So the issue of compliance spending, we spend a  
20 great deal of money to provide technical assistance to  
21 those small businesses to do those annual reports to the  
22 State.

23 I think questions would be appropriate from here.  
24 I think, again, reading the testimony, you could see the  
25 rest of our issues.

1                   COMMERCE MAJORITY CHAIRMAN HARRIS: Excellent.  
2                   That is very helpful because that was my first question is  
3                   knowing what you know now, would you have done the CRIZ  
4                   that large? But as you said, you had to do the CRIZ at the  
5                   130 acres. You captured a lot of businesses that were  
6                   already in the zone. And for a very busy businessperson,  
7                   it's probably hard for them to understand that, well, this  
8                   is probably going to be development around me but I have to  
9                   take time out of my day to do this reporting to make the  
10                  whole thing work. I think that's very --

11                  MAYOR GRAY: My wife's an artist, and her studio  
12                  is in the CRIZ district. We all know how constituents can  
13                  be. How would you like to get up in the morning and hear  
14                  I've got to fill out another one of your blank forms today?  
15                  And believe me, she doesn't impact the CRIZ.

16                  COMMERCE MAJORITY CHAIRMAN HARRIS: And that  
17                  certainly is a unique challenge, but hopefully, as the  
18                  business owners learn about it -- and I wish you the best  
19                  for that. I don't know that I have any recommendations --

20                  MAYOR GRAY: Well, it's made it for 43 years.

21                  COMMERCE MAJORITY CHAIRMAN HARRIS: I've only  
22                  been married 3-1/2 years so I --

23                  MAYOR GRAY: Forty-three years --

24                  COMMERCE MAJORITY CHAIRMAN HARRIS: -- haven't  
25                  got it figured out.

1                   MAYOR GRAY:  -- we've made it, so --

2                   COMMERCE MAJORITY CHAIRMAN HARRIS:  Chairman  
3                   Ross.

4                   REPRESENTATIVE ROSS:  Thank you.  And just for  
5                   the Members, because they may not know this, the CRIZs  
6                   don't require all the parcels to be contiguous.  You are  
7                   able to pull parcels out if you choose to.  So I just want  
8                   to make that point.

9                   And, Mayor, it's good to see you again, first of  
10                  all.  My hat's off to you for the work that you do in  
11                  Lancaster, and you've made a lot of progress with your  
12                  staff --

13                  MAYOR GRAY:  Well, thank you.

14                  REPRESENTATIVE ROSS:  -- and it's --

15                  MAYOR GRAY:  Thank you for shopping in Lancaster,  
16                  too.

17                  REPRESENTATIVE ROSS:  I still do that sometimes,  
18                  too.

19                  And I did want to clarify again because you  
20                  brought it up again so I'm going to clarify it again, what  
21                  you say about the revenue neutrality of this program from  
22                  the State's point of view does assume that those expansions  
23                  and those new businesses that locate in the CRIZ would not  
24                  have gone someplace else in the Commonwealth and then paid  
25                  those taxes through for us to use in the general fund.  And

1 certainly, while we are interested in seeing you help, we  
2 also are short of money right now, too, as you well know,  
3 and we're being beaten up regularly on the idea of how are  
4 we going to match up our revenues to our expenditures. And  
5 you saw how well we had that debate last year.

6           That having been said, I still agree, again, from  
7 my experience with distressed municipalities and other  
8 municipalities that aren't distressed and are trying not to  
9 become distressed, that there are some legitimate reasons  
10 to favor some of our municipalities. I do think we've got  
11 to have a criteria and we've got to be clear and everybody  
12 in the General Assembly and the population of Pennsylvania  
13 ought to know why we are locating these zones someplace and  
14 not in others. So that is one thing that I feel pretty  
15 strongly about.

16           The other point that I was going to make, I  
17 guess, was the issue about whether, if you had your  
18 druthers, you would have chosen not to have occupied  
19 buildings in your CRIZ that are currently being used. And  
20 it sounds like, although I get the bit about  
21 underutilization, that your life would have certainly been  
22 made a lot easier if you had dealt with vacant brownfield  
23 sites and so forth exclusively and could build up from  
24 that.

25           But I also want to mention as an example for the

1 Members, I think your idea of having the developer have  
2 some skin in the game and also be responsible for the  
3 start-off of these projects is a good thing. All  
4 developers come in with the best of intentions and have  
5 bright ideas that how great it's all going to be, and  
6 having been in business myself, some of my wonderful ideas  
7 didn't turn out.

8           And so if it is on the authority and the  
9 authority loses that money and becomes impaired, that's not  
10 a great thing. If you reduce your exposure and share the  
11 risk with the guy who's actually doing the project, I think  
12 that's very sound and good policy.

13           MAYOR GRAY: Well, we don't share the risk. He  
14 takes the risk --

15           REPRESENTATIVE ROSS: That's --

16           MAYOR GRAY: -- or she takes the risk really --

17           REPRESENTATIVE ROSS: You put a little energy  
18 into it at least.

19           MAYOR GRAY: The other thing, there has been some  
20 talk from time to time about a cap. We expected three-  
21 quarters to a million-and-a-quarter. You know, to have a  
22 predictability that you can do that --

23           REPRESENTATIVE ROSS: Right.

24           MAYOR GRAY: -- you know, if you're concerned --

25           REPRESENTATIVE ROSS: Yes.

1           MAYOR GRAY: -- that would be one way to do it.

2           REPRESENTATIVE ROSS: We do not have the  
3 Department of Revenue or the Department of Community and  
4 Economic Development testifying here today, but I know  
5 they're interested.

6           COMMERCE MAJORITY CHAIRMAN HARRIS: Just to  
7 clarify, they were invited. Yes.

8           MR. PATTERSON: If I could add one thing to  
9 Representative Ross's comment, the State can actually  
10 obtain new revenue within the CRIZ. So if we have a  
11 successful development, we only pass through the revenue  
12 required to pay the debt service. So if they are  
13 generating revenue that exceeds that, depending on their  
14 ability to generate private sector financing and equity,  
15 there is the potential over the long run for revenue to  
16 also be provided to the State.

17           REPRESENTATIVE ROSS: I admire your optimism --

18           MR. PATTERSON: Thank you.

19           REPRESENTATIVE ROSS: -- based on your prior  
20 experience.

21           COMMERCE MAJORITY CHAIRMAN HARRIS: Thank you.

22           MR. PATTERSON: Economic developer.

23           COMMERCE MAJORITY CHAIRMAN HARRIS:

24 Representative Rothman.

25           REPRESENTATIVE ROTHMAN: Thank you, Mayor.

1           Just a couple of questions in clarification, you  
2 mentioned the hotel tax going to the State. Does Lancaster  
3 County not collect the hotel tax? How is it done  
4 differently in Lancaster than it is in Cumberland?

5           MAYOR GRAY: The county does have a hotel tax.  
6 Hotel tax is appropriated to tourism development. The  
7 hotel tax we're speaking of is only the State hotel tax.  
8 If you look in the November DCED document, it was listed as  
9 an attributable tax, and then that policy was changed. And  
10 that's why you hear from us asking for that to be added  
11 back in. And you'll hear from one project developer on our  
12 side who was anticipating that hotel tax revenue. So it's  
13 just the State hotel tax that's --

14           REPRESENTATIVE ROTHMAN: How much is the State  
15 hotel tax?

16           MAYOR GRAY: Six percent hotel occupancy tax.

17           REPRESENTATIVE ROTHMAN: One percent?

18           MAYOR GRAY: Six percent.

19           REPRESENTATIVE ROTHMAN: Six percent. And how  
20 much is the Lancaster County hotel tax?

21           MAYOR GRAY: Five percent.

22           REPRESENTATIVE ROTHMAN: And that money --

23           MAYOR GRAY: Yes. It's distributed --

24           REPRESENTATIVE ROTHMAN: -- goes to the county --

25           MAYOR GRAY: -- between the tourism development



1 entity and used to pay bonds on the convention center and  
2 hotel project.

3 REPRESENTATIVE ROTHMAN: So does any go back to  
4 the City of Lancaster?

5 MAYOR GRAY: It does not.

6 REPRESENTATIVE ROTHMAN: Okay. Earned income  
7 tax, does the city have an earned income tax?

8 MAYOR GRAY: So I'm glad you mentioned that. We  
9 have two revenue streams under the CRIZ program for  
10 Lancaster. We have the local services tax, the \$52 tax,  
11 and we have the earned income tax. In our case, in every  
12 case it's only for those employees who live in the city and  
13 work in the CRIZ. So it's not a general earned income tax  
14 that's available to us.

15 I wanted to mention that because the \$2,870 we  
16 got from the State, the city's local increment was \$126,000  
17 from two revenue streams as opposed to \$2,800 from seven  
18 State revenue streams. And that goes to the issue of cross  
19 collateralization.

20 REPRESENTATIVE ROTHMAN: And then just a point,  
21 and correct me if I'm wrong, but the Lancaster School  
22 District is within the City of Lancaster?

23 MAYOR GRAY: Penn Lancaster Township.

24 REPRESENTATIVE ROTHMAN: Penn Lancaster Township.  
25 So what percentage?

1           MR. PATTERSON: We don't receive any of that  
2 percentage because they cross municipal boundaries.

3           REPRESENTATIVE ROTHMAN: But according to the  
4 most recent budget number I saw, the State of Pennsylvania,  
5 Lancaster School District receives about \$58 million from  
6 the State of Pennsylvania?

7           MAYOR GRAY: I can't answer that question.

8           REPRESENTATIVE ROTHMAN: Well, so I just take  
9 exception to the comment that the city is subsidizing the  
10 State revenue sources when the State's receiving maybe  
11 \$126,000. Yet we're contributing \$58 million to your  
12 school districts.

13           MAYOR GRAY: Well, first of all, the school  
14 district and the city are two completely separate entities,  
15 and the school district covers a broader area --

16           REPRESENTATIVE ROTHMAN: Mayor, you mentioned the  
17 school mill tax being 12 mills.

18           MAYOR GRAY: That's right.

19           REPRESENTATIVE ROTHMAN: What would it be if you  
20 didn't receive the \$58 million from --

21           MAYOR GRAY: No, no, the city tax is 12 mills.  
22 The school tax is in the 20s.

23           MR. PATTERSON: Twenty-five.

24           MAYOR GRAY: Twenty-five. So what I'm saying is  
25 they very often agree to reduce property taxes with us on

1 projects if they do a TIF or something along those lines or  
2 LERTA covers the entire city.

3 The tax revenue that's produced by development  
4 does not inure to the city. It doesn't inure to the school  
5 district either.

6 REPRESENTATIVE ROTHMAN: And that specific  
7 property, but the properties around it, I mean, the idea of  
8 economic development is it lifts all the property values,  
9 which then would benefit the city --

10 MAYOR GRAY: Well --

11 REPRESENTATIVE ROTHMAN: -- and it creates jobs,  
12 which then --

13 MAYOR GRAY: Yes.

14 REPRESENTATIVE ROTHMAN: -- with the income tax,  
15 which the city --

16 MAYOR GRAY: One Democratic candidate wants the  
17 single payer, too, and then 20 or 30 years from now when  
18 that might get realistic, it doesn't -- one development, we  
19 don't see property taxes go up. How often are the  
20 reassessments? We see our property values going down, and  
21 in the CRIZ district, too, as larger property owners  
22 continue to appeal and contest valuations. So, you know,  
23 if you're counting on that to fund local government, it  
24 doesn't happen. It doesn't. I can tell you I've been  
25 Mayor for 11 years, and the only way we've increased tax

1 revenue is by increasing taxes really. Wouldn't you say  
2 that's fair, Randy?

3 MR. PATTERSON: So property values haven't gone  
4 up after these projects are done.

5 MAYOR GRAY: It might have gone up if you'd done  
6 a pre-assessment --

7 MR. PATTERSON: Well, no, there's a common-level  
8 ratio that's supposed to take into --

9 MAYOR GRAY: We could tell you --

10 MR. PATTERSON: -- account --

11 MAYOR GRAY: -- in the analysis of our budget  
12 this year, if we would not have had assessment appeals, we  
13 would have seen about a 5 percent increase in assessed  
14 values within the City of Lancaster. We actually only saw  
15 a 1.4 percent increase because of assessment appeals that  
16 are occurring now as a result of the length of time --

17 REPRESENTATIVE ROTHMAN: Last year?

18 MAYOR GRAY: Last year.

19 REPRESENTATIVE ROTHMAN: But how about in the  
20 last 11 years?

21 MAYOR GRAY: If you track that from the time  
22 we're in office, we would see the same thing.

23 REPRESENTATIVE ROTHMAN: Thank you.

24 COMMERCE MAJORITY CHAIRMAN HARRIS: All right.

25 Seeing no other questions, we'll just say thank you very

1 much for your testimony.

2 MAYOR GRAY: Thank you.

3 COMMERCE MAJORITY CHAIRMAN HARRIS: We wish you  
4 the best and look forward working with you in the future.

5 MAYOR GRAY: Thank you very much.

6 COMMERCE MAJORITY CHAIRMAN HARRIS: Okay. Next  
7 up, we have the Borough of Tamaqua. Micah Gursky is the  
8 Tamaqua CRIZ Coordinator and Tamaqua Borough Councilman.  
9 Welcome. The microphone is yours.

10 MR. GURSKY: Thank you, and good morning. I want  
11 to thank you for the opportunity to testify and comment  
12 regarding the City Revitalization and Improvement Zone.

13 The Borough of Tamaqua in Schuylkill County was  
14 designated as a pilot CRIZ in December of 2014. I worked  
15 closely with the Tamaqua Borough Council, the CRIZ  
16 Authority, the business community to develop and implement  
17 the CRIZ in Tamaqua. I do this as a volunteer councilman  
18 as Tamaqua is a small community that does not have full-  
19 time or even part-time economic development professionals.

20 Tamaqua is demographically similar to a lot of  
21 the coal-region communities in Pennsylvania that have seen  
22 a decline in coal, rail, textile industries over the past  
23 80 years. I'm not going to go into a lot of detail about  
24 the history. I'm sure you're all familiar with it.

25 If you look at the census data, you'll see that

1 we have similar poverty levels, income levels, and  
2 unemployment as other small but densely populated little  
3 towns in Pennsylvania's Appalachian counties. You can  
4 drive through our business district and see signs of  
5 decades of disinvestment and decay, but you'll also see  
6 signs of growth and vitality and revitalization.

7           For many years, Tamaqua has aggressively pursued  
8 opportunities to promote businesses and job development  
9 through programs like the Keystone Opportunity Zone, the  
10 Keystone Opportunity Expansion Zone, Main Street, and now  
11 CRIZ. Tamaqua applied for the CRIZ designation twice:  
12 once in 2013 and we did not receive designation, and then  
13 again in 2014. We received a letter on December 31, 2014,  
14 designating Tamaqua as a pilot CRIZ. This designation is  
15 one year behind the Bethlehem and Lancaster CRIZ  
16 designations.

17           We are grateful and very appreciative that the  
18 Legislature and the administration created this opportunity  
19 to demonstrate how the economic development tool, which was  
20 really designed for cities, can also be used for smaller  
21 community that face big-city problems. We take very  
22 seriously the responsibility of being the pilot CRIZ, and  
23 we hope that our work and experience opens this and other  
24 opportunities to smaller communities and helps the fellow  
25 CRIZ cities.

1           You've heard this morning how a CRIZ functions so  
2 I won't repeat a lot of that. But it is important to note  
3 that different communities will use CRIZ in different ways  
4 depending on their unique economic development strategy.  
5 You'll see that Tamaqua's CRIZ looks and operates very  
6 differently than the Lancaster and Bethlehem zones.  
7 Tamaqua's CRIZ consists 297 parcels of land totaling 128.48  
8 acres. This is just below the 130-acre cap. Within those  
9 acres in 2014 there were 198 businesses.

10           There is a map included that shows the zone, and  
11 as you can see, Tamaqua's CRIZ includes almost our entire  
12 downtown business district, much of our large-tract highway  
13 commercial land, and a large part of our 900-parcel local  
14 historic district.

15           For many years, Tamaqua has explicitly worked to  
16 redevelop our traditional downtown and productively reuse  
17 the amazing architectural inventory we inherited from our  
18 forefathers. The zone also includes property that has been  
19 devastated by acid mine drainage that our community would  
20 like to repurpose to create jobs.

21           But I have to tell you that in my town the most  
22 common reaction to the CRIZ has been, wow, I can't believe  
23 there's actually that many businesses in Tamaqua. There is  
24 even more surprise when they find out that the total  
25 reported CRIZ taxes coming out of those 120 acres in 2014

1 was \$2,010,119.50. Keep in mind, of the 198 businesses in  
2 the zone, we only received reports from 120, or a little  
3 over 60 percent.

4           Although we were hoping for a much higher  
5 response rate, Tamaqua's CRIZ got a 60 percent reporting  
6 rate without having any paid staff working on the CRIZ.  
7 Kevin Steigerwalt, our Borough Manager; and Christine  
8 Zamudio in our borough office and I worked together with  
9 the business community -- in particular the Tamaqua Area  
10 Chamber of Commerce -- to talk about the CRIZ and to talk  
11 about why it's important to report.

12           We expect that response rate to increase this  
13 year as the businesses who did not submit their tax  
14 information just this week received a letter from the  
15 Department of Revenue stating that a \$1,000 fine has been  
16 assessed to their business for failing to report in 2015.  
17 The letter will further state that the penalty will be  
18 waived if the business submits the 2016 report.

19           For all the cities and legislators that are  
20 chomping at the bit to become a CRIZ, remember that it  
21 takes courage to stick up for the Department of Revenue  
22 when they send those not-so-nice letters to your businesses  
23 and they get a letter saying that a \$1,000 penalty will be  
24 assessed if they don't complete the report each year.

25           Get ready for the calls because they will come.



1 I get them at my home. And I they ask what is this CRIZ  
2 and why am I getting a \$1,000 penalty? Tamaqua tried to  
3 get ahead of this by sending letters to our CRIZ businesses  
4 telling them about the possibility or actually the  
5 certainty of the penalty and encouraging them to do their  
6 CRIZ report because it helps the community not just because  
7 it helps them avoid a \$1,000 fine.

8 Even though we are a year behind, Tamaqua's CRIZ  
9 has experienced some of the same issues as Lancaster and  
10 Bethlehem. The most important issue, as you've heard this  
11 morning, is the possibility that the tax increment will  
12 actually be negative, and there may be little or no funding  
13 in the CRIZ program to finance the improvements.

14 Our businesses have found it impossible to use  
15 the CRIZ to finance their projects alone because there is a  
16 real possibility that the taxes year over year may be less.  
17 That uncertainty makes it impossible to finance based on  
18 the total anticipated CRIZ increment. No bank or authority  
19 can finance based on an increment that may not be there.

20 In Tamaqua, we've had some smaller developments  
21 in our CRIZ choose to forgo the possibility of CRIZ funding  
22 because the project is too small to make the application  
23 and the development agreement process worthwhile. These  
24 developments are still proceeding, which is a good thing.  
25 They're just proceeding without CRIZ. We also had a

1 developer choose to forgo CRIZ because of the prevailing  
2 wage reporting requirements.

3           With the uncertainty of CRIZ revenues, it was not  
4 worthwhile adding the extra requirement to a smaller  
5 project. We actually have several developments that are  
6 occurring that will not use CRIZ financing but will  
7 certainly add to the incremental new taxes in CRIZ.

8           I agree with Lancaster's recommendation and  
9 Bethlehem's recommendation that a baseline be set for each  
10 property or some other mechanism be in place to set a hard  
11 floor on the increment. The idea that the tax increment  
12 would go negative is a major deterrent to financing. Of  
13 course, I think Lancaster and Bethlehem would agree that  
14 the most powerful change would be to create a more NIZ-like  
15 scenario where all or part of the baseline can be used to  
16 finance the improvements in the zone. Changing the way the  
17 increment is calculated would greatly help our CRIZ  
18 businesses count on the CRIZ funding when it comes time to  
19 put together a financing package.

20           I am confident that the Tamaqua CRIZ will create  
21 investments that add jobs and tax base to our community.  
22 But unlike the NIZ, it will not happen overnight, and I  
23 would encourage any new CRIZ communities to take the long  
24 view on this 30-year program. What is happening in  
25 Allentown's NIZ will not happen with the current CRIZ

1 structure.

2           What people like about the CRIZ in Tamaqua is  
3 that there is a chance of getting some of the locally  
4 generated taxes to come back to our community. What is not  
5 particularly liked is the uncertainty whether there will be  
6 a net gain in CRIZ taxes. Tamaqua could not expect to be  
7 able to use the entire \$2 million annual baseline to  
8 finance developments as though we were a NIZ, although if  
9 we could, there is no doubt in my mind that we would see  
10 the same type of rapid investment in downtown Tamaqua.

11           Personally, I like the CRIZ program philosophy  
12 because it helps keep locally generated taxes local. For  
13 the conservative, it's a "mother hen" program where whoever  
14 helps make the bread helps eat the bread. And it only  
15 works if businesses actually succeed in hiring more people,  
16 paying more wages, earning more, and making more sales.  
17 There's only money in the CRIZ pot if the CRIZ businesses  
18 are paying more taxes.

19           Over the next 28 years of the Tamaqua CRIZ  
20 program, I'm looking forward to businesses actually rooting  
21 for each other to do better so the funds can finance more  
22 developments in the CRIZ.

23           I would like to comment a little bit about the  
24 administration of the CRIZ in Tamaqua. As you know,  
25 there's no funding for administration, for the operation of

1 the Authority, or even solicitor fees. In Tamaqua, we did  
2 not add administrative overhead to run our CRIZ other than  
3 a small retainer to the CRIZ authority solicitor. There is  
4 no incremental new staff to administer our program. We  
5 rely on volunteers and some existing borough staff. We are  
6 very pleased that, given our limited outlay of expenses,  
7 Tamaqua's CRIZ had a 60 percent reporting rate in year one.

8 Our CRIZ developments will be relatively small--  
9 we won't be building any arenas--compared to some of the  
10 other CRIZ and NIZ developments, but we're still excited  
11 for them. A small parking area to benefit a neighborhood  
12 store, a new medical office, a new retail store, and  
13 repurposing that acid mine drainage site for commercial  
14 development may not sound like a lot, but in a small  
15 community like Tamaqua, it will make a big impact. If  
16 there are changes to how the CRIZ baseline is calculated,  
17 it will open the possibility of a lot more reinvestment of  
18 those tax dollars.

19 From an administrative perspective, I do have to  
20 comment that the Pennsylvania Department of Revenue staff  
21 that work with Tamaqua on our CRIZ are excellent. I do  
22 this as a volunteer, and our Borough Manager and Borough  
23 staff are not economic development practitioners. We work  
24 hard, and we know our local businesses, but whenever we  
25 have a question, the Department of Revenue and DCED staff

1 have been very helpful.

2           Oh, we still do all of the administrative work,  
3 and it is a lot of work, but it helps to have a responsive  
4 and professional CRIZ representative when we have questions  
5 about our list of businesses or our baseline calculations.  
6 As the CRIZ expands to include more cities, I hope that  
7 staff support from the departments continue.

8           I would like to conclude that, as expected, at  
9 this point we have noticed few differences between  
10 implementing CRIZ in a small community compared to a city.  
11 The paperwork, the legwork, the outreach, the support and  
12 establishment and operation of the CRIZ authority are all  
13 the same. The preparation of the business list and the  
14 calculation of the local baselines are all the same. The  
15 only significant difference is that, as a small community  
16 with a likewise small budget, we don't have the ability to  
17 assign this work to economic development staff or  
18 consultants.

19           I would be remiss if I did not thank my  
20 counterparts in Bethlehem and Lancaster who have helped  
21 Tamaqua by sharing the results of their hard work. We have  
22 certainly benefited from being able to model the forms, the  
23 actions, the programs that Lancaster and Bethlehem have  
24 used. Tamaqua had the benefit of being one year behind and  
25 being the third CRIZ through the door, and the help we

1 received by modeling Lancaster and Bethlehem is greatly  
2 appreciated.

3           As with any program, there is a learning curve  
4 and a need to make changes that achieve the goal of the  
5 program. I listed some suggested changes, and I'll go  
6 through them quickly.

7           I recommend that we allow an existing municipal  
8 authority to be used instead of the requirement to  
9 establish a new CRIZ Authority. In Tamaqua we have a  
10 borough authority that was established under the  
11 Municipality Authorities Act that has brought economic  
12 development powers. We would have preferred to not have to  
13 establish a whole new municipal entity. We're a small  
14 town, but we have enough municipal entities.

15           And so we actually just reused the same municipal  
16 authority members and had to create a separate legal  
17 entity. So I don't see any reason why we couldn't reuse a  
18 municipal authority that has those powers.

19           Change the local match from a requirement that it  
20 be private funds to non-State funds to allow for municipal  
21 projects where the match is municipal funding.

22           Number three, set the increment baseline at \$1  
23 million, which incidentally happens to be 50 percent of the  
24 Tamaqua's baseline. That's where I came up with that  
25 number. And then anything above that baseline could be

1 used to finance CRIZ projects. This limits the State's  
2 exposure to revenue loss but allows the CRIZ zones to be  
3 more like a NIZ in that there is some certainty that there  
4 would be an increment.

5 The next is to reduce the penalty for not filing  
6 the CRIZ documentation from \$1,000 to \$500 and/or allow  
7 those non-filing penalties to be used by the local  
8 authority for administration of the CRIZ. Five hundred  
9 dollars will get the attention of a business in Tamaqua  
10 just as much as \$1,000 will.

11 Number five, include in the CRIZ all liquor sales  
12 taxes, malt beverage tax, and the 6 percent sales tax on  
13 liquor that businesses in the CRIZ buy for resale in the  
14 CRIZ, regardless of where they buy them. Just to elaborate  
15 on that a little bit, if you have a restaurant that buys  
16 from a distributor or a bar that buys from a distributor  
17 that's outside the CRIZ, when they do their reporting, they  
18 have to separate out where they bought the liquor. It's  
19 not so much of a revenue-generating issue as it'll make it  
20 a little bit easier for those businesses to report all of  
21 their liquor purchases that they have in the zone.

22 And then finally, allow the rollover of any  
23 excess CRIZ funds, which I guess I'm being optimistic that  
24 there would be excess CRIZ funds, but it certainly would  
25 help with some of the issues that you've heard about today

1 and certainly that we anticipate with just trying to smooth  
2 the predictability of the available CRIZ financing each  
3 year.

4           So I want to thank you again for the opportunity  
5 to discuss the CRIZ project and recommend changes, and I'd  
6 be happy to answer any questions that you might have.

7           COMMERCE MAJORITY CHAIRMAN HARRIS: Thank you  
8 very much. You certainly are sort of a unique experiment  
9 in this process, and it's good to have you here and kind of  
10 get an update on how things are going.

11           Chairman Ross?

12           REPRESENTATIVE ROSS: And again, thank you for  
13 the energy you've put into this. Having spent a little  
14 time with these programs, this is not simple stuff. And I  
15 was a township supervisor myself, and the amount of care  
16 and detail you've gone into to get prepared to actually  
17 handle this and the time associated with setting up the  
18 zone, setting up the administration, organizing the  
19 authority -- and by the way, I'm quite comfortable with the  
20 idea of using an existing authority as long as you amend  
21 your articles of incorporation to properly adjust for the  
22 additional responsibilities and meet the other legal  
23 requirements that might go into that. But I see no problem  
24 with that.

25           And I'm also comfortable with the idea of the



1 issue of trying to break the parcels down separately.  
2 Based on the concerns that Lancaster has had with their  
3 program, do you have any second thoughts about using  
4 existing occupied parcels in the CRIZ instead of relying on  
5 this from a simplicity point of view, from a clarity point  
6 of view on currently vacant or unoccupied, unused parcels?

7 MR. GURSKY: No. The way the CRIZ is structured  
8 now --

9 REPRESENTATIVE ROSS: I know how it's structured,  
10 but I'm just -- you know, you've heard what trouble they  
11 have and you're already having that trouble, too.

12 MR. GURSKY: We are having that trouble, but it's  
13 a 30-year program, and I think over the course of that 30  
14 years, being able to cross collateralize will long term be  
15 a benefit. Certainly for those trying to get a project  
16 done right now, it's more difficult. But we've had a lot  
17 of -- we've had several developments happen that don't use  
18 CRIZ financing that will add to the increment.

19 But with the way the CRIZ is structured now, I  
20 would make the zone the same way. Obviously, if it was a  
21 change where it was parcel by parcel, then yes, we would  
22 have done the CRIZ map differently.

23 REPRESENTATIVE ROSS: And language is important.  
24 And for the Members of the Committee, I want to make sure  
25 everybody understands what you're talking about when you're

1 talking about using the baseline.

2 The baseline are taxes that were currently  
3 flowing into the Commonwealth's treasury before the CRIZ  
4 was created. So if we take some of those Commonwealth  
5 funds and redirect them back to you, that is comparable to  
6 creating a new grant program. So it, again, reduces the  
7 amount of money in the general fund and purposefully sends  
8 it to your municipality.

9 We had the testimony earlier that people are not  
10 quite sure why this shouldn't be used in any municipality,  
11 and again, I'll pretend I'm the Department of Revenue right  
12 now. They may have some significant concerns if we have  
13 several thousand CRIZs, particularly if they were taking  
14 the baseline, i.e., the money that is currently flowing  
15 into the treasury and redirecting it, it could become a  
16 rather devastating hit on the treasury.

17 And if we don't, as people have suggested -- if  
18 we have caps instead, we limit the amount that we're using  
19 in this kind of a program, then we have the question of why  
20 this place and not that place. And again, I don't think  
21 I've yet heard a real criteria that anybody is using as to  
22 why Tamaqua and not one of your neighboring communities  
23 that might have some of the same problems that you have and  
24 some of the same challenges.

25 But thank you very much for the work you're doing

1 on this.

2 MR. GURSKY: And I would agree with that. It's  
3 been very revealing. There's no way for Tamaqua to know  
4 how much taxes we're sending to Harrisburg, and I'd be  
5 remiss if I came here and didn't ask for our businesses to  
6 get their taxes back.

7 COMMERCE MAJORITY CHAIRMAN HARRIS: Thank you.  
8 Representative Topper?

9 REPRESENTATIVE TOPPER: Thank you, Mr. Chairman.  
10 Thank you for appearing. I know working on  
11 borough council is not the easiest thing in the world to  
12 do.

13 But some of your recommended changes, the one  
14 that caught my eye was number two. You said, "Change the  
15 local match from a requirement that it be private funds to  
16 non-State funds to allow municipal projects where the match  
17 is municipal funding." Do you mean a project done by, for  
18 instance, the borough or done within the borough? Could  
19 you explain that --

20 MR. GURSKY: Sure. If the project was going to  
21 be financed by the borough for a municipal parking lot, for  
22 example, and I'm not an attorney, but the way I read the  
23 statute, it says that there has to be a 1:5 local match.  
24 So that means for every \$6 in the project, \$1 has to be  
25 local. But I think it specifically says "private match."

1 And so I take that to mean not municipal money.

2 REPRESENTATIVE TOPPER: Right.

3 MR. GURSKY: So --

4 REPRESENTATIVE TOPPER: Well, and I would think  
5 that kind of the design of the program was for the private  
6 funds to be used. You know, matching tax dollars with  
7 other tax dollars, I don't know that that was the vision  
8 whenever the program was created. But thank you.

9 COMMERCE MAJORITY CHAIRMAN HARRIS: And Christine  
10 has a question.

11 MS. GOLDBECK: Micah, one of the legislative  
12 proposals -- I believe it's Representative Julie Harhart's  
13 -- proposes to expand CRIZ by allowing the multi-municipal  
14 approach. And I'm just curious, you being not as big as  
15 Lancaster and as big as Bethlehem, how do you view that  
16 proposal in terms of being able to open up to Coaldale or  
17 other neighbors of yours to expand that out?

18 MR. GURSKY: I don't see a problem with it. It  
19 adds to the level of complexity because now you'll have an  
20 inter-municipal authority. You're going to be dealing with  
21 two municipal governments. But there's no difference  
22 between an inter-municipal authority and a single  
23 municipality authority as far as implementing the program.  
24 It just adds that level of complexity of trying to create  
25 your CRIZ zone and implement it. I don't see any reason

1 why it would adversely impact how you would use the  
2 program.

3 But, you know, which municipalities get in and  
4 which don't, Representative Ross, you know, I don't have a  
5 recommendation on how you select those.

6 COMMERCE MAJORITY CHAIRMAN HARRIS: Excellent.  
7 Seeing no other questions, we just want to say thank you  
8 for your testimony, and we look forward to working with you  
9 in the future.

10 Okay. Coming up next from the Pew Charitable  
11 Trusts, we have Jeff Chapman, Director of Economic  
12 Development. Jeff, the microphone is yours.

13 MR. CHAPMAN: Thank you for the opportunity to  
14 come up here on this beautiful day and speak with you.

15 I direct a project at the Pew Charitable Trusts.  
16 We work with State policymakers such as yourself to help  
17 set up processes and policies that allow you to have better  
18 evidence as you go about making decisions on economic  
19 development incentives.

20 I'm going to talk about sort of four broad tools  
21 that could be helpful in answering some of the questions  
22 that have been arising this morning. The first one is the  
23 importance of setting clear goals and metrics for your  
24 programs. The second one is putting in place regular and  
25 rigorous evaluation, then using that evidence to drive

1 improvements in policy. And then finally, thinking about  
2 CRIZ in the context of Pennsylvania full incentive and  
3 economic development portfolio.

4           So when I think about goals, I always think about  
5 a quote from the Nebraska legislative auditor who, she was  
6 reviewing their major economic development incentives  
7 there, and she said by the standards, meaning by the goals  
8 that are in legislation by what's spelled out -- "by these  
9 standards, any activity could be deemed a success and any  
10 cost would be acceptable." And I think that's a situation  
11 that a lot of lawmakers find themselves in where the goals  
12 of the programs are not very clearly spelled out.

13           The CRIZ law states that zones "will provide  
14 economic development and job creation within a city." As  
15 somebody who has economic development in my title, I can  
16 tell you that's a very vague term and can mean lots of  
17 different things. And as we've been talking about this  
18 morning, job creation in a city is not something that I  
19 think you're fully satisfied that you have an answer about  
20 what that means. Does it count if the jobs came from a  
21 neighboring city or from another city in Pennsylvania?  
22 Those types of questions, I think, are worth asking.

23           And you've heard a lot of really interesting  
24 proposals from the cities and borough this morning about  
25 how to improve the program. And I think having some

1 clarity around those goals would help you evaluate those.  
2 In particular, this idea of revenue neutrality keeps coming  
3 up or what does this do to local and State budgets. And  
4 that's not part of that goal. That's not part of, you  
5 know, sort of the official thinking around the program.  
6 And I think sort of clarifying that before going forward  
7 would be very helpful.

8           So generally, setting effective metrics includes  
9 asking and answering much more specific questions. So just  
10 as an example, is it important that new jobs would go to  
11 the existing residents of the zone or the city? Maryland  
12 asked this question in their enterprise zone, and they  
13 found that while there were new businesses moving into  
14 these zones and they were hiring new workers, people in the  
15 zones didn't have the education and the skills to take  
16 those new jobs and so they weren't able to benefit from  
17 that.

18           So the evaluation recommended thinking through  
19 ways of coordinating the program with the State workforce  
20 training programs in order to try to make sure that the  
21 program more closely benefits the targeted population.  
22 That may or may not be a goal of the CRIZ, but those are  
23 the types of things I think are worth thinking about.

24           The second thing is evaluation. The CRIZ law, to  
25 its credit, requires both auditing and reporting. These

1 are essential components of ensuring that you have a well-  
2 run and efficient program, but they don't provide you  
3 information on what your return on investment is and how  
4 you can increase that or improve that.

5           So putting in place regular and rigorous studies  
6 on the outcomes of CRIZ, according to the goals that you  
7 establish, will give you the information you need to shape  
8 the policy in ways that will obtain the best possible  
9 results for taxpayers and the economy.

10           Evaluating these types of programs can be  
11 extremely difficult, but there's a lot of new work coming  
12 out of States that are answering some of these questions.  
13 For example, a recent report from Indiana of their TIF  
14 program addressed some of the same questions I think you  
15 even struggled with in evaluating the CRIZ program. And  
16 they came up with a very interesting result. They found  
17 that their TIF program was succeeding on one possible goal  
18 -- increasing property values in the area -- but that it  
19 wasn't creating jobs. And so the next step for the  
20 evaluators and for lawmakers in Indiana is to think about  
21 how can the program be improved so it can be more  
22 successful at job creation.

23           I'm sure the last thing you want is another set  
24 of reports that nobody pays attention to, so we always  
25 recommend explicitly linking evaluations of economic



1 development incentives to the policymaking process.

2 Usually, this is done by requiring that a key committee  
3 will hold a hearing when a new evaluation report comes out.

4           The most effective evaluations aren't just thumbs  
5 up or thumbs down; the program worked, the program didn't;  
6 get rid of it, keep it, but they actually offer concrete  
7 opportunities for improvement. For example, a review of  
8 Louisiana's Enterprise Zone program found that because of  
9 the way the program was structured, many of the jobs  
10 created in the zones were likely coming at the expense of  
11 existing Louisiana jobs, negating a lot of the positive  
12 benefit they thought they were getting. So they were able  
13 to amend the program in very concrete ways to direct more  
14 of the incentives to those sectors in which the net benefit  
15 for the State and local area would be the greatest. So  
16 that type of evaluation I think will be very helpful as you  
17 consider expanding or amending CRIZ.

18           But just looking at CRIZ by itself is of limited  
19 use because Pennsylvania has a number of programs with  
20 complementary and sometimes conflicting goals. Some of  
21 those have been mentioned here this morning. When you  
22 consider each program just by itself, I think you can miss  
23 out on a lot of opportunities. When you consider them as a  
24 portfolio, you can assure that the lessons learned in one  
25 program will be applied in others and that money is

1 invested in the most effective effort.

2           Since 2012, 17 States plus D.C. have passed laws  
3 that will require regular evaluation of their economic  
4 development incentives or to improve existing processes.  
5 This is an idea that Pennsylvania may want to consider, and  
6 we'd be happy to help provide you with more information on  
7 best practices that we found in our research and our  
8 technical assistance with State lawmakers across the  
9 country. Thank you.

10           COMMERCE MAJORITY CHAIRMAN HARRIS: Thank you  
11 very much.

12           Chairman Ross?

13           REPRESENTATIVE ROSS: I see a couple of pieces of  
14 paper in front of you if you wouldn't mind, since we don't  
15 have a stenographer with us today, if you wouldn't mind --

16           MR. CHAPMAN: Sure.

17           REPRESENTATIVE ROSS: -- providing copies to the  
18 Committee. That would be helpful.

19           And just as an aside, when I became Chairman of  
20 the Commerce Committee previously, previous Chairman, one  
21 of the things we did is we sat down and counted up all of  
22 the economic development programs that we could identify in  
23 Pennsylvania, and we got up to about 110.

24           MR. CHAPMAN: Right.

25           REPRESENTATIVE ROSS: And you won't be shocked to

1 hear that a fair number of them were somewhat duplicative.  
2 And I used to refer to it as kind of like going through the  
3 Grand Canyon or something where you saw the KC layer and  
4 then you would go up and see the Thornburg layer, and then  
5 you would work your way up through to the various different  
6 administrations and each layer was laid on top of the  
7 previous layer and they pile up rather dramatically. And a  
8 number of our Governors have actually tried to suggest that  
9 we go about trying to rationalize and synthesize and shed  
10 some that are excessive.

11           Several of the testifiers today have mentioned  
12 that they've used the TIF and they've used the KOZ and the  
13 KOEZ and all the various different things. And even with a  
14 relatively small place like Tamaqua to have six or seven or  
15 eight different of these programs all in and operating and  
16 working in a relatively small geographic area tends to  
17 boggle the mind at some level.

18           But I think the criteria that you've suggested is  
19 useful and, you know, some of the things that I've been  
20 thinking about, I think, are along those lines, too. So  
21 hopefully, we can take that into consideration as we move  
22 forward. And thank you for coming today.

23           MR. CHAPMAN: Thanks. And Pennsylvania is  
24 certainly not alone in that situation. I think all States  
25 are facing that.

1           One of the things we recommend is that States  
2 don't try to tackle the entire thing at once. It's too  
3 much, right? A lot of States have put in place a process  
4 where every three to five years all the programs will get  
5 evaluated, and I think that can be very helpful.

6           REPRESENTATIVE ROSS: I was all for tackling at  
7 once.

8           COMMERCE MAJORITY CHAIRMAN HARRIS: That is the  
9 aggressive nature of Chairman Ross.

10           Seeing no other questions, I just want to say  
11 thank you very much for your testimony --

12           MR. CHAPMAN: Yes.

13           COMMERCE MAJORITY CHAIRMAN HARRIS: -- and for  
14 being here today.

15           And last on our list of testifiers today is  
16 Mr. John Meeder, business owner and developer at Meeder  
17 Development Corporation. Welcome.

18           MR. CHAPMAN: Good morning, Mr. Chairman and  
19 Committee Members.

20           My name is John Meeder of Meeder Development  
21 Corporation from Lancaster City. My company has been  
22 developing real estate in Lancaster City and County for 30  
23 years. I'm here today to talk about the possible impact of  
24 CRIZ in Lancaster and what needs to happen to CRIZ to make  
25 a major difference in Lancaster and other PA cities for

1 years to come.

2 Right now, there are three major changes that  
3 need to be addressed to make CRIZ a force for development:

4 1) Insure the inclusion of the hotel occupancy  
5 tax in the legislation.

6 2) Fix the annual increment calculation against  
7 the baseline.

8 3) Make sure CRIZ revenue can be underwritten as  
9 a dependable cash stream for banks and  
10 investors.

11

12 The program is currently ineffective in aiding  
13 any development, and here's a developer's perspective on  
14 the program.

15 Background: You know, there's been a resurgence  
16 of interest in Lancaster and other small cities in PA.

17 There are advantages to being in the city that has a  
18 vibrant economy and is attractive to businesses, to  
19 residents, and tourists. Lancaster, as well as other  
20 third-class cities in Pennsylvania have taken an enormous  
21 hit over the past 60 years with many of them losing up to  
22 45 percent of the population and a comparable amount of  
23 business and manufacturing. Pennsylvania did not have a  
24 Katrina. We had a slow, consistent decline tied directly  
25 to this loss.

1           In order to encourage businesses to locate in  
2 downtown Lancaster, I must find solutions to the costs of  
3 upper level development, code compliance, functional  
4 obsolescence, lack of convenient parking, and high real  
5 estate taxes. These factors cause potential tenants and  
6 businesses to turn and walk away from urban opportunities.  
7 It's just easier to move to the suburbs or develop in a  
8 cornfield.

9           A developer or business must utilize every tool  
10 available to get to occupancy costs competitive with  
11 suburban properties. Urban development typically does not  
12 happen without subsidy. The majority of my projects in  
13 Lancaster have had anywhere between 7 and 13 sources of  
14 funds. CRIZ can be a major funding help in funding  
15 development.

16           The occupancy tax and the Hotel Lancaster: In  
17 2013, the former Brunswick Hotel was an eyesore and an  
18 embarrassment to Lancaster City. It was a public nuisance  
19 and also was the scene of police calls and a fatal shooting  
20 just prior to our taking over the hotel. The hotel had  
21 fallen on hard times with no incentive for anyone to invest  
22 in the property. To make matters worse, the property had  
23 absentee ownership and very poor management. My partners  
24 and I decided to see what could be done with the property  
25 after reviewing the opportunity of CRIZ financing.

1           The hotel property was a centerpiece of Lancaster  
2 City's initial application to the State to receive the CRIZ  
3 program designation. The CRIZ program offered the  
4 opportunity to have the newly generated taxes underwrite a  
5 portion of the debt and lessen the risk to undertake the  
6 project.

7           We moved forward with the project with the  
8 approval of the Lancaster CRIZ Authority, and the CRIZ  
9 Authority had our projections reviewed by the Department of  
10 Revenue. With the support of the Community First Fund and  
11 with those approvals in place, we settled on the property  
12 in December of 2014.

13           We have struggled for the past two years, and we  
14 are in limbo with regard to the project and the program,  
15 and here's what we face, the challenges for the Hotel  
16 Lancaster CRIZ project:

17           The Department of Revenue has ruled that the  
18 hotel occupancy tax is not a sales-and-use tax and  
19 therefore cannot be transmitted to the city as CRIZ  
20 funding, even though the Official DCED Guidelines included  
21 the hotel tax as a CRIZ attributable tax. Without this  
22 inclusion, our project will flounder as a partially  
23 developed hotel and will have a limited contribution to the  
24 city.

25           Number two, banks do not recognize CRIZ revenue

1 as a dependable source for debt repayment based on the  
2 current increment calculation used by the Department of  
3 Revenue. The potential: The Hotel Lancaster development  
4 is an important component to the success of downtown  
5 Lancaster. The additional rooms are needed to provide  
6 support for the \$170 million investment already made in the  
7 Lancaster County Convention Center.

8 More importantly, a second vibrant downtown hotel  
9 supports downtown retail, restaurants, and businesses.  
10 After full development of the hotel, the Hotel Lancaster  
11 will generate over \$10 million of annual spending to  
12 support the hotel and downtown restaurants and retail.

13 The plan for the hotel is to invest approximately  
14 \$24 million to renovate the facility to become a  
15 hospitality anchor for Lancaster City. If CRIZ is viewed  
16 as a dependable source of revenue for debt repayment, this  
17 project can proceed. CRIZ is necessary for the full  
18 development of this project.

19 The baseline increment calculation risk: Any  
20 project wanting to use CRIZ is faced with the fact that  
21 even if you go through all the process and do everything  
22 asked of them, the CRIZ benefit may not flow to the project  
23 to cover development costs. This fact is due to the  
24 current method of how the annual increment is calculated by  
25 the Department of Revenue. The effect of DOR's methods



1 results in the inability to get financing.

2           Here are facts as we now know: Negative tax  
3 revenue from other businesses in the CRIZ zone can reduce  
4 or eliminate CRIZ revenue that is earned by our project.  
5 The current interpretation of calculating the tax increment  
6 eliminates any predictable CRIZ payment to the district or  
7 to the project. We need to have the CRIZ amended or  
8 corrective legislation retroactive to January 1, 2015, to  
9 restore the integrity of the program and to help with the  
10 future underwriting of development projects.

11           And number four, there is no confidence that CRIZ  
12 funds will flow because of a very discouraging history so  
13 far and because of the Department of Revenue's  
14 interpretation of how the increment is calculated.

15           Banks and investor underwriting (CRIZ flow  
16 dependability): The Hotel Lancaster requires full  
17 development, and the CRIZ is needed to supplement the  
18 conventional financing. Banks and investors rely on the  
19 project projections to see if the pro forma is reasonable  
20 and can justify the loan. Unfortunately, developers must  
21 obtain their own financing for CRIZ, utilizing the  
22 projected annual CRIZ funding to repay the initial  
23 borrowing. The banks can use the project projections for  
24 underwriting, but the bank will also need to underwrite the  
25 reliability of the CRIZ payments. If there are external

1 circumstances that could negatively impact that payment,  
2 the loan does not get funded, and the development does not  
3 happen. This is the crux of the problem with financing  
4 problems with CRIZ revenue.

5 Meeder Development also has attempted to use  
6 CRIZ on other projects and currently has another \$26  
7 million development planned for Lancaster City. However,  
8 it is futile to attempt any project that requires CRIZ  
9 assistance until there is a legislative amendment curing  
10 the deficits of the program. A CRIZ-dependent project  
11 simply is not viable without legislative action.

12 And in summary, you know, when the program was  
13 first introduced, I saw it as way to facilitate major  
14 development in Lancaster and in other cities in  
15 Pennsylvania. It has the potential. Even with the many  
16 things that you need to work around with the program, it is  
17 still extremely valuable for Lancaster and will facilitate  
18 significant development over the next several years if put  
19 right by the Legislature. This development will ultimately  
20 provide additional long-term revenue to the State.

21 This testimony states the problems with the  
22 program, and now I urge you to take action to make CRIZ  
23 work the way it was intended.

24 Thank you.

25 COMMERCE MAJORITY CHAIRMAN HARRIS: Excellent.

1 Thank you very much.

2 Chairman Ross?

3 REPRESENTATIVE ROSS: Thank you. And I'm  
4 familiar with the building, I believe, that you were  
5 talking about here, and my hat's off to you for taking that  
6 project on. Downtown is a pretty critical spot in the  
7 middle of town and really would make a difference if it was  
8 vibrant and operating properly.

9 MR. MEEDER: Thank you.

10 REPRESENTATIVE ROSS: And we've talked about  
11 parcelization fairly extensively already so I think we  
12 probably don't need to go over that part of your  
13 recommendations.

14 One thing that occurred to me as you were  
15 talking, the hotel occupancy tax walks like a sales-and-use  
16 tax and quacks like a sales-and-use tax, and one fairly  
17 elegant solution I was thinking about was to simply go into  
18 the code and rename it and instruct the Department of  
19 Revenue to consider it as a sales-and-use tax. So just a  
20 thought.

21 But otherwise, thank you for your work, and we'll  
22 see if can't help you somehow.

23 MR. MEEDER: Thank you very much.

24 COMMERCE MAJORITY CHAIRMAN HARRIS:  
25 Representative Topper.

1           REPRESENTATIVE TOPPER: Thank you, Mr. Chairman.

2           I guess it shows how little I know about this  
3 issue that I've asked probably more questions in this  
4 hearing than I've asked in my entire time in the  
5 Legislature in these kind of hearings. But it's a subject  
6 that I'm not real familiar with. I'm trying to familiarize  
7 myself with it.

8           You said that one of the things in your proposals  
9 to fix it would be make sure CRIZ revenue can be  
10 underwritten as a dependable cash stream for banks and  
11 investors --

12           MR. MEEDER: Right.

13           REPRESENTATIVE TOPPER: -- which it can't be, and  
14 then later, the reason I assume is because it's not a  
15 dependable -- I mean, I'm trying to get my mind wrapped  
16 around if you're not getting the money up front, I mean,  
17 how can it ever be a real dependable cash stream for banks  
18 to look at?

19           MR. MEEDER: Thank you very much for that  
20 question. We've been wrestling with that. We had to  
21 wrestle with that one.

22           You know, the way that Lancaster put it together  
23 -- and I understand where they are -- it'd be great if we  
24 could come in and say, hey, we have a great project, can  
25 you help fund our project with CRIZ revenues, float a bond

1 for us? Well, that's not the way it happens in Lancaster.  
2 They did one that they felt they needed to do for the  
3 convention center, but they're letting us up to our  
4 devices, which means that, okay, so we set out our  
5 projections, and within those projections, our revenue  
6 projections that generate taxes, okay? So you almost have  
7 dual projections going on here. One relates to the revenue  
8 and one relates to the tax revenue.

9           Okay. So we make that model and we say, okay,  
10 well, based on this model, we take that to our bank and we  
11 say, hey, based on this model, can you give me money up  
12 front based on this cash flow of CRIZ revenue? We've got  
13 the project revenue. I know we have conventional  
14 financing. But we also have a CRIZ element to our  
15 financing that they will underwrite based on that revenue.  
16 And, you know, with all the fun stuff that goes on with it,  
17 the fact that you have to wait for 11 months in the first  
18 place to get it, you know, so you have to figure out a way  
19 to escrow or bridge for that and create an even stream.  
20 You know, banks don't like to get just one payment a year.  
21 You know, they like to get it every month.

22           So there's a lot of complications and figuring  
23 out how the heck you're going to get this done. But yes,  
24 it's a very valid question. And the CRIZ revenue, that's  
25 what we're struggling with. There's no assurance right

1 now.

2 REPRESENTATIVE TOPPER: Because if the design was  
3 that whatever we get in taxes, that is the revenue that  
4 you'll get from CRIZ. I mean, it goes back to the first  
5 question I asked, which is are we looking at projected  
6 taxes, projected revenues --

7 MR. MEEDER: We have to -- yes.

8 REPRESENTATIVE TOPPER: -- or are we looking at  
9 actual? And if we're looking at actual, I just don't see  
10 how that money could ever come in --

11 MR. MEEDER: Okay.

12 REPRESENTATIVE TOPPER: -- up front.

13 MR. MEEDER: Somebody is taking a risk here. The  
14 developer is taking a risk and the banks are taking a risk  
15 based on the consistency or the potential, the projections  
16 of that revenue. And then those revenues have to come in  
17 order to satisfy, so they're taking the risk on this thing.  
18 It's paid on the actual but you project it.

19 You know, the same could be true with a hotel.  
20 You can say, hey, we're going to do 60 percent, 65 percent  
21 occupancy and we're going to have a room rate of \$120, you  
22 know, a night and all that kind of stuff, but if nobody  
23 shows up, then the bank is SOL, you know. Nobody gets  
24 paid. The developer is out, the bank is out of luck,  
25 everybody is out of luck. The same is true with the CRIZ

1 revenue. You make the projections based on what your  
2 business is going to do, okay, and it's supposed to  
3 generate a tax, and that's what you rely on to fund, you  
4 know, the CRIZ loan, for a lack of a better term. Does  
5 that help at all?

6 REPRESENTATIVE TOPPER: It does. And the other  
7 group that would be out of luck would be the taxpayers  
8 because -- what I'm saying is if we changed it to where we  
9 were giving the money up front, as we do in other programs,  
10 that would be my concern would be that if things don't go  
11 well, if those projections -- because sometimes projections  
12 aren't met, that would be my main concern if that were --

13 MR. MEEDER: Yes.

14 REPRESENTATIVE TOPPER: -- to happen.

15 MR. MEEDER: But that is not the case. You're  
16 not giving the money up front.

17 REPRESENTATIVE TOPPER: Right.

18 MR. MEEDER: The bank and the private sector is  
19 taking the risk at least on the way that we have to work it  
20 in Lancaster.

21 REPRESENTATIVE TOPPER: All right. I consider  
22 myself properly education now, Mr. Chairman. Thank you.

23 COMMERCE MAJORITY CHAIRMAN HARRIS:

24 Representative Greiner?

25 REPRESENTATIVE GREINER: I'm glad my colleague

1 feels like he's properly educated because there's a lot  
2 thrown at this today. And I will say it was all very  
3 informative. I want to thank all the testifiers.

4 A couple things just stood out. I think I said  
5 early on I happen to just live east of the city, and, you  
6 know, it's kind of funny. I live out in Amish country, but  
7 a lot of what goes on down in the city affects me out in  
8 the suburbs. And I want to thank you for your efforts and  
9 certainly Mayor Gray's energy and Randy Patterson. I mean,  
10 they do an outstanding job. I do want to say that.

11 Two things: Chairman Ross, I think, hit on  
12 something. The hotel occupancy tax, to go into a project  
13 knowing that you think that's going to be part of, you  
14 know, the whole thing and then it's not, I mean, that needs  
15 to be addressed. Probably one thing that I get frustrated  
16 about State Government, having worked in private industry  
17 as a CPA for over 20 years is we don't seem to keep our  
18 word at all times, and I think that does need to be fixed  
19 in some fashion. I will share that. I just wanted to say  
20 that.

21 And then secondly, it is somewhat unique to  
22 Lancaster is that, as I said, where I come from -- and  
23 there was just a polling done in Lancaster about ag  
24 preservation, and I think it's like 95 percent of us  
25 support ag preservation, over 70 are going to pay



1 additional taxes to borrow money to preserve farms. I  
2 thought your testimony hit on something that I think could  
3 be unique to us, and it'd be nice if we can get, you know,  
4 this project -- you might have the ability to go out to  
5 East Lampeter Township and build a project while you're  
6 spending time trying to help the city out. And we have a  
7 gem in the city, and I think we're working real hard. I  
8 think, you know, it's been a special area. There's no  
9 question about it.

10           And all I'm saying is I think through all this  
11 and we're trying to figure out the cost and what needs to  
12 be done and is the State losing money, I do think there are  
13 some issues we need to address here. But the reality is,  
14 for us, people cherish the quality of life in Lancaster and  
15 the farmland we're at and to have a vibrant city with a lot  
16 of old warehouses and old homes. And if we can be able to  
17 come up with a solution that can do just that, that's why  
18 Lancaster is closing in as the fifth-largest county in  
19 Pennsylvania population-wise.

20           So just those couple things. I mean, I just  
21 wanted to kind of opine a little bit, but I do think it's a  
22 project that I think we need to continue to look at. And  
23 hopefully, we can get our hands around this and wish you  
24 continued success. And hopefully, we can come up with a  
25 solution with some of these ideas.

1           And like I said, all the testifiers, I thought,  
2 you know, to hear Tamaqua, too, like I said, I know that  
3 they have their challenges up in the coal regions, too. So  
4 thank you very much.

5           MR. MEEDEER: You're welcome. Thank you.

6           COMMERCE MAJORITY CHAIRMAN HARRIS: And thank you  
7 for your testimony.

8           And just in conclusion, I'd like to thank all the  
9 testifiers. It's one thing to read about these programs on  
10 paper. It's another thing to actually come in and hear  
11 from the people that are trying to do this.

12           I hope the Members of both Committees found it  
13 very informative. I know I learned a lot in the last two  
14 hours about this program. It's new to me being new to this  
15 Committee, and I need to learn as much as I can because I  
16 will be flying on my own when my colleague to the left  
17 retires in half-a-year, unless we can miraculously talk him  
18 into running for yet another two-year term, which we  
19 already pulled that rabbit out of the hat once.

20           But I want to thank you all. I think it's been  
21 very informative. And we're going to now conclude the  
22 joint hearing. Thank you.

23

24

(The hearing concluded at 12:05 p.m.)

1                   I hereby certify that the foregoing proceedings  
2 are a true and accurate transcription produced from audio  
3 on the said proceedings and that this is a correct  
4 transcript of the same.

5

6

7

Christy Snyder

8

Transcriptionist

9

Diaz Transcription Services