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Testimony to Pennsylvania House Commerce & Urban Affairs Committees

Thursday April 7, 2016 10 am

Room G-50 Irvis Office Building

Good Morning and thank you for the opportunity to testify and comment regarding the City Revitalization & Improvement Zone (CRIZ) program.

The Borough of Tamaqua in Schuylkill County was designated as a pilot CRIZ in December 2014. I worked closely with the borough council, the CRIZ Authority and the business community to develop and implement CRIZ in Tamaqua. I do this as a volunteer councilman as Tamaqua is a small community that does not have a full-time or even part time economic development professional.

Tamaqua is demographically similar to many of the coal-region communities in Pennsylvania that have seen the decline of rail, coal and textile industries over the past 80 years. If you look at the census data, you'll see the similar poverty, income levels and employment as other small but densely populated little towns in Pennsylvania's Appalachian counties.

You can drive through our business district and see signs of decades of disinvestment. But you'll also see signs of investment, growth and vitality. For many years, Tamaqua has aggressively pursued opportunities to promote business and job development through programs like the Keystone Opportunity Zone, Keystone Opportunity Expansion Zone, Main Street and now CRIZ.

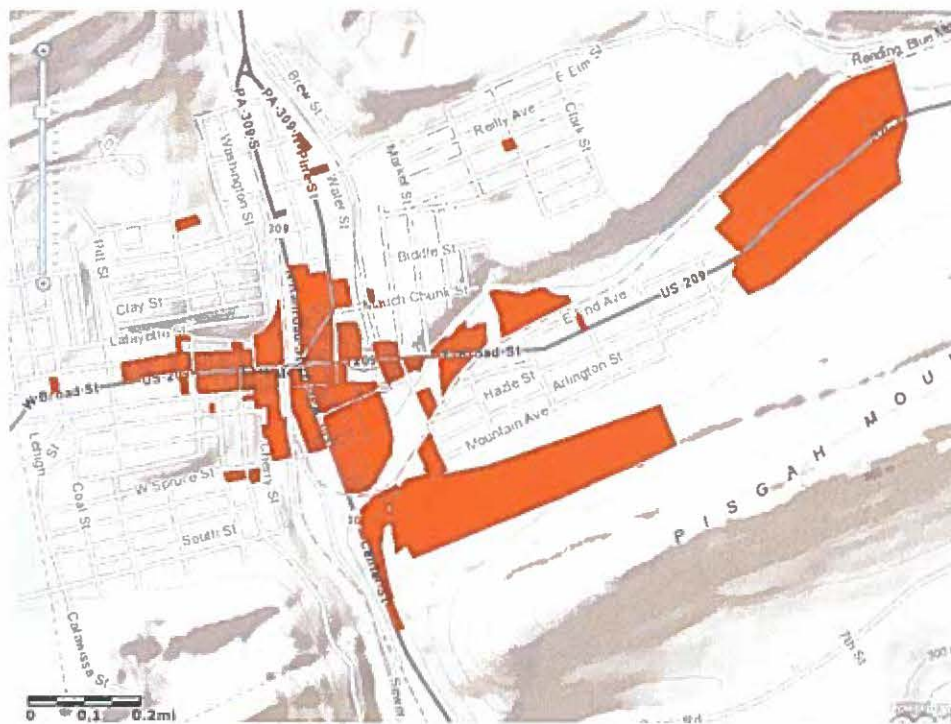
Tamaqua applied for CRIZ designation twice—once in 2013 when we did not receive designation and again in 2014. We received a letter on December 31, 2014 designating Tamaqua as a pilot CRIZ. This designation is one year behind the Bethlehem and Lancaster CRIZ designations.

We are grateful and appreciative that the legislature and the administration created this opportunity to demonstrate how this economic development tool—which was really designed for cities—can also be used in a smaller community that faces big-city problems. We take very seriously the responsibility of being the pilot CRIZ and we hope that our work and experience opens this and other opportunities to smaller communities and helps fellow CRIZ cities.

You've heard this morning how a CRIZ functions—so I won't repeat that. But it is important to note that different communities will use CRIZ in different ways depending

on their unique economic development strategy. You'll see that Tamaqua's CRIZ looks and operates very differently than the Lancaster and Bethlehem zones.

Tamaqua's CRIZ consists 297 parcels of land totaling 128.48 acres—just below the 130 acre cap. Within those acres in 2014 there were 198 businesses. Here is a map that shows this zone—as you can see, Tamaqua's CRIZ includes almost our entire downtown business district, much of our large-tract highway commercial land and a large part of our 900 parcel local historic district. For many years, Tamaqua has explicitly worked to redevelop our traditional downtown and productively re-use the amazing architectural inventory we inherited from our forefathers. The zone also includes property that has been devastated by acid mine drainage that our community would like to repurpose to create jobs.



Tamaqua CRIZ Zone – Dec 31, 2014

But I have to tell you that in my town the most common reaction to the CRIZ has been “Wow! I can’t believe there are that many businesses in Tamaqua!”

There is even more surprise when they find out that the total reported CRIZ taxes coming out of those 128 acres in 2014 was \$2,010,119.50.

Keep in mind, of the 198 businesses in the zone, we only received reports from 120—or a little over 60%. Although we were hoping for a much higher response rate, Tamaqua's CRIZ got a 60% reporting rate without having any paid staff working on CRIZ. Kevin Steigerwalt, our Borough Manager, Christine Zamudio in our Borough

office and I worked together with the business community—in particular the Tamaqua Area Chamber of Commerce—to talk about the CRIZ and why it is important to report.

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

For all the cities and legislators chomping at the bit to become a CRIZ, remember that it takes courage to stick up for the PA Department of Revenue when they send these not-so-fun letters saying your businesses will get a \$1,000 penalty if they don't complete the CRIZ report each year. Get ready for the calls—because they will come—asking “What is this CRIZ and why am I getting a \$1,000 penalty?”

Tamaqua tried to get ahead of this by sending letters to our CRIZ business telling them about the possibility or certainly of the penalty and encouraging them to do their CRIZ report because it helps the community not just because it helps you avoid a \$1,000 fine.”

Even though we are a year behind them, Tamaqua's CRIZ is experiencing some of the same issues as Lancaster and Bethlehem. The most important issue is the possibility that the tax increment will be negative and there may be little or no funding in the CRIZ program to finance the improvements. Our businesses have found it impossible to use the CRIZ to finance their projects because there is a real possibility that the taxes year over year may be less. That uncertainty makes it impossible to finance based on total anticipated CRIZ increment. No bank or authority can finance based on an increment that may not be there.

In Tamaqua, we've had some smaller development in our CRIZ choose to forgo the possibility of CRIZ funding because the project is too small to make the application and development agreement process worthwhile. These developments are still proceeding, just without CRIZ. We have also had a developer choose to forgo CRIZ because of the prevailing wage reporting requirements. With the uncertainty of CRIZ revenues, it was not worthwhile adding the extra requirements to a smaller project. We actually have several developments that are occurring that will not use CRIZ financing, but will certainly add to the incremental new CRIZ taxes.

I agree with Lancaster's recommendation that a baseline be set for each property – or for some other mechanism be in place to set a hard floor on the increment. The idea that the tax increment would go negative is a major deterrent to financing. Of course, I think Lancaster and Bethlehem would agree that the most powerful change would be to create a more NIZ-like scenario where all or part of the baseline can be used to finance

improvements in the zone. Changing the way the increment is calculated would greatly help our CRIZ businesses count on CRIZ funding when it comes time to put together a financing package.

I am confident that the Tamaqua CRIZ will create investments that add jobs and tax base to our community. Unlike the NIZ, it will not happen “overnight” and I would encourage any new CRIZ communities to take the long view on this 30 year program. What is happening in Allentown’s NIZ will not happen with the current CRIZ structure.

What people like about the CRIZ in Tamaqua is that there is a chance of getting some of the locally generated taxes to come back to the community. What is not particularly liked is the uncertainty that there will be a net gain in CRIZ taxes. Tamaqua would not expect to be able to use the entire \$2,000,000 annual baseline to finance developments as though we were a NIZ. Although, if we could, there is not a doubt in my mind that we would see the same type of rapid investment in downtown Tamaqua.

Personally, I like the CRIZ program philosophy because it helps keep locally generated taxes local. For the conservatives, it’s a “Mother Hen” program where whoever helps make the bread helps eat the bread. And it only works if businesses succeed in hiring more people, paying more wages, earning more and making more sales. There’s only money in the CRIZ pot if businesses are paying more taxes.

Over the next 28 years of the Tamaqua CRIZ program, I am looking forward to our businesses rooting for each other to do better so the funds can finance more developments in the CRIZ.

I would like to comment about the administration of the CRIZ in Tamaqua. As you may know, there is no funding in CRIZ for administration, for the operation of the Authority or even for solicitor fees. In Tamaqua, we did not add administrative overhead to run our CRIZ---other than a small retainer for the CRIZ authority solicitor, there is no incremental new staff to administer our program. We rely on volunteers and some existing borough staff. We are very pleased that given our limited outlay of expenses, Tamaqua’s CRIZ had a 60% reporting rate in year #1.

Our CRIZ developments will be relatively small compared to some of the other CRIZ and NIZ developments—but we are excited for them. A small parking area to benefit a neighborhood store, new medical offices, a new retail store and repurposing an acid mine drainage site for commercial development may not sound like a lot, but in a small community like Tamaqua it will make a big impact. If there are changes to how the CRIZ baseline is calculated, it will open the possibility of a lot more re-investment of those tax dollars.

From an administrative perspective, I have to comment that the PA Department of Revenue staff that work with Tamaqua on our CRIZ are excellent. I do this as a volunteer and our Borough Manager and Borough office staff are not economic development practitioners. We work hard and we know our local businesses but whenever we have a question, the Revenue and DCED staff have been very helpful. Oh, we still do all of the administrative work—and it is a lot of work---but it helps to have a responsive and professional CRIZ representative when we have questions about our list of businesses or our baseline calculations. As the CRIZ expands to include new cities, I hope that staff support from the departments continue.

I would like to conclude that, as we expected, at this point we have noticed few differences between implementing CRIZ in a small community compared to a City. The paperwork, the legwork, the outreach, the reporting and the establishment & operation of a CRIZ authority are all the same. The preparation of the Business List and the calculation of the local baseline are all the same. The only significant difference is that, as a small community with a likewise small budget, we do not have the ability to assign this work to economic development staff or consultants.

I would be remiss if I did not thank my counterparts in Bethlehem and Lancaster who helped Tamaqua by sharing the results of their hard work. We have benefited from being able to model the forms, actions and programs of Lancaster and Bethlehem. Tamaqua had the benefit of being 1 year behind and being the 3rd through the CRIZ door and the help we received from modeling Lancaster and Bethlehem is greatly appreciated. As with any program, there is learning curve and a need to make changes that achieve the goal of the program.

Here are some of my recommended changes:

1. I would recommend that an existing municipal authority that was established with broad economic development powers be allowed to be the CRIZ Authority. We had to establish a separate legal authority and hire a separate solicitor when, in my opinion, the existing Borough Authority could easily have handled that function. Tamaqua named the same members of our Borough Authority and the same solicitor to this "new" CRIZ authority.
2. Change the local match from a requirement that it be "private" funds to "non-state funds" to allow for municipal projects where the match is municipal funding.
3. Set increment baseline at \$1 million regardless of what the true baseline is and anything above that increment baseline could be used to finance CRIZ projects. This limits the state's exposure to revenue loss but allows the CRIZ zones to be more like a NIZ in that there is some certainty that there would be an increment.

4. Reduce the penalty for not filing the CRIZ documentation to \$500 and/or allow the non-filing penalties to be used by the local CRIZ authority for the administration of the CRIZ.
5. Include in the CRIZ taxes all Liquor Sales Tax, Malt Beverage Tax and 6% Sales Tax CRIZ businesses purchase for re-sale in the zone regardless of where it was purchased.
6. Allow for the roll-over of any "excess" CRIZ funds to the next calendar year to hedge against the possibility that the CRIZ taxes could be less year over year.

Thank you for the opportunity to discuss the CRIZ project and recommend changes.