

Remarks

Senator Judith L. Schwank

Joint Senat/House hearing on Cities, Large and Small

June 21, 2013

Good morning Chairman Argall and Gillespie, etc...

I appreciate the opportunity to be here to address the joint committees on a topic that is so critical to the future economic and social health of the entire state, and to discuss in particular my proposal, SB 1033, to establish a pilot program for economic reinvestment in cities.

Before I begin, however, I want to thank the chairs, my colleague and fellow member of the Berks County delegation, Senator Argall, and Representative Gillespie for graciously agreeing to reschedule this hearing to accommodate the scheduling conflict I unfortunately had with the original date. It was not something I could change, and I appreciate that cooperation and consideration.

I'd like to begin by noting that my focus is on cities other than Philadelphia and Pittsburgh. My focus is on the 54 cities of the Second-Class A and Third class in Pennsylvania.

I also will touch only generally and briefly in my remarks on the nature of the challenges that cities face, since I expect other witnesses here today will probably speak to them with more direct and current experience.

With that, let me say that the circumstances facing Reading and other cities across Pennsylvania are always changing, of course, but they have been devolving for several decades.

They are driven by economic and other circumstances often far beyond a city's control: early on, the flight and decline of industries around which they grew -- whether it was railroads, mining, textiles, heavy manufacturing, lumbering, oil, steel and iron or others -- and later, in combination with the evolution of small, isolated towns and villages into municipal suburbs of expatriate city residents and businesses wanting new homes,

offices and facilities, cheaper land costs and easy access provided by the expansion of federal- and state-funded road networks.

The particulars and timing change from city to city, naturally, but the results from Altoona to Reading have been similar – declining property values; crippling taxes; lost jobs, increasing crime rates, declining graduation rates... a miasmatic cornucopia of issues spiraling around each other from city to city across the state.

I think the problem also has been compounded because the nature of our response to these situations has been somewhat generational.

First, people were not too concerned because it was hard to believe that cities really would change from what had been their norm for decades.

Then in the 1970s and '80s it was difficult to raise much concern over cities because the challenges seemed to many people to be limited peculiarly to cities.

Afterwards, as it became obvious that the same issues were arising in the inner-ring and older suburban municipalities, that also took attention away from the situation of cities.

And now today we have the challenge of shaking off decades of inaction and myopic responses that for many people have made this an old story with no obvious or easy solutions.

We cannot simply sweep the problems and risks confronting cities behind the door, and wait to live in reaction to what tomorrow brings.

Cities are not only the past of the Commonwealth, they are and they will be its future.

That is why I have introduced SB 1033, to help give them development tools suited to the economic realities of 2013, not 1913.

There's a saying that "You can never plow a field by turning it over in your mind."

Well, for our cities and the commonwealth as a whole to be strong and healthy, we need to prepare the ground.

My bill would do this.

My proposal is to create a pilot program that would give up to 15 cities the opportunity to build a framework for economic growth through the use of tax-supported bonds, very similar to the opportunity specifically granted to Allentown in 2011 to establish Neighborhood Opportunity Zones, with which it is now in the process of building an arena for professional ice hockey and improving the surrounding neighborhood and riverfront.

As you know, there are 53 third-class cities in Pennsylvania, ranging in population from more than 100,000 in Allentown and Erie, to fewer than a thousand residents in Parker City in Armstrong County. The average population is just over 22,000, and the median population is just over 13,000.

Like Allentown and Erie, many are well-known names, like Reading and Harrisburg. Many others, like Easton, Lancaster and Pottsville, also are government seats and the cultural and business centers of their counties and regions.

But all of them are struggling fiscally, and many are at the edge of survival.

Eleven of the 27 municipalities that have entered Act 47 since its enactment in 1988 are third-class cities.

Let me say that another way: 11 of 53 third-class cities are in Act 47, compared to 13 out of the more than 2,500 other incorporated municipalities in the state.

And of those 13, by the way, one is Scranton, which would be included under SB 1033, and the other is Pittsburgh, so while cities of every class make up only about two percent of incorporated communities in Pennsylvania, they make up almost half of all the Act 47 communities.

And many cities that have not sought Act 47 meet criteria that would allow them to do so. According to a 2005 study by the Pennsylvania Economy League, 39 cities were under significant of financial distress, and every city was at some level of distress.

The PEL study showed that every one of them had declined fiscally since 1970.

And to just amplify the need for action to help cities a step further, five of the 11 third-class cities that have entered Act 47 – including Reading, Harrisburg and most recently Altoona – have done so just since 2006.

It is critical to give them reasonable, real opportunities to improve their economies.

I believe that SB 1033 is such an opportunity, and after I explain how it will operate, I'll be happy to answer whatever questions you have.

SB 1033, as I have mentioned, is modeled on the Neighborhood Improvement Zone now being successfully used in Allentown. I would also note that the Allentown NIZ is itself modeled on a previous program operated through the Department of Community and Economic Development.

That program, the Infrastructure Improvements and Facilities Improvement Program (IFIP), has been successfully used in such projects as at Cabella's in Perry Township and the Navy Yard in Philadelphia.

Basically, what SB 1033 would do is allow a municipal authority in cities chosen based on objective scoring criteria to designate a "city opportunity zone" or zones, of up to 100 acres

total within the city, and to issue bonds to assist financially in the development and improvement of the zone and existing businesses within it.

The bond indebtedness would be paid by local and state tax revenues raised within the zone, which would be paid every quarter into a special account in the Department of Revenue for the zone. After the bonds, which can be for a term of up to 20 years, is paid off, future tax revenues would return to the appropriate taxing entity.

The bond funds would be available to use for a wide range of improvements, including industrial, commercial, exhibition, hospitality, conference, retail, community, office, recreational or mixed-use purposes, and could also include a park.

To qualify, a business seeking to develop a zone would need certification by the Department of Revenue that it is conducts business within the zone or will relocate there through property

that it owns or leases, and meet other criteria regarding job creation.

Significantly, the business must commit at least \$2.5 million in private investments to the project, because this is not intended to be a speculative, “cross our fingers and hope” program, but one that actually will assist real opportunities to be fulfilled.

The taxes that would be transferred to cover the bond payments would include corporate net income and capital stock and franchise taxes, and personal income, earned income and business privilege taxes for the businesses, their employees and their contractors, as well as all the sales and use taxes from operations conducted in the zone and from the sale of alcohol.

In short, the intent is that, with the exception of property taxes, any and all taxes due to the state or the city as a result of activities in the zone would be used to support the bonds.

These provisions with regard to financing are similar to other legislation currently offered in the Senate by Senator Smucker, SB 947, as some of you might already be familiar.

The key differences between SB 1033 and Senator Smucker's plan is that every city in the Commonwealth other than Philadelphia and Pittsburgh is eligible for consideration as a pilot, participation will be decided on objective criteria that demonstrate the appropriateness of the inclusion of the city, and mine is a pilot that may be expanded beyond the original 15 cities if, as we hope, it is beneficial to cities. DCED would be required to report annually to the General Assembly on the program, and make any recommendations to it that will improve it.

Senator Smucker's is limited by its definition to cities of a certain size which has little, if any, bearing on the appropriateness of a project to strengthening cities.

This definition would exclude, as an example, Allentown, Erie, Reading and Bethlehem, as well as every Act 47 city but Altoona and Harrisburg.

Every city would be eligible to participate under my proposal, but selection would be dependent on how they score under criteria to objectively determine the importance of establishing a zone and permit the transfer of tax revenue for development purposes.

The criteria would score an application on the fiscal need of the city, the significance of the city, and the viability and impact of having a zone.

I want to be clear that I have great respect for Senator Smucker, and for his initiative to take advantage of the opportunity illustrated by what is happening in Allentown to help Lancaster.

However, frankly, I believe it is too real an opportunity to be arbitrarily limited by size.

For the sake of the Commonwealth as well as the cities and their residents, the apparent promise of this funding approach needs to be made available to a range of cities to be used and tested now.

And so, the final distinguishing feature I would mention about SB 1033 is with regard to the cities sizes.

Four slots would be reserved for cities above 60,000 in population, four for those between 20,000 to 60,000, and four for those of 20,000 and smaller.

In addition, there would be three “wild card” slots, which could be filled by a city of any size that has a project that meets the scoring grid established by DCED if the slots in its size class have been filled.

I believe this will provide an opportunity for cities of every size, along with the opportunity to gauge whether there is any opportunity or obstacle based on size difference that should be taken into consideration in making this opportunity more broadly available.

With that, I will conclude my testimony, and I'll be happy to take your questions.