Testimony
Of
Mayor J. Richard Gray,
City of Lancaster

And

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Joint Hearing of the House Commerce and Urban Affairs Committees
on the
City Revitalization and Improvement Zone Program

Thursday, April 7, 2016

**Testimony of Mayor J. Richard Gray, City of Lancaster**:

Economic development at the local level usually involves forgoing property taxes so as to attract developers. The need for these taxes doesn't decrease; there are still police, fire, schools and public works that must be provided. Yet property tax abatement is often necessary in order to attract developers to older communities; where costs are greater to develop existing structures, and property taxes are usually the highest in the County.

The thinking behind this is that the taxes lost through abatement for development, will be recouped by the improvements in the property. One admonition I have for those who believe that they are going to "economically develop" Pennsylvania's urban areas out of their current economic woes; you better have a long-view horizon because the benefits of such development are way down the road. In the short term, any increase in tax revenues generated by economic development is not going to inure to local governments.

For example, if a new hotel is being built with property tax abatements, its construction does not mean more tax revenue for the City. Since Lancaster doesn't have a gross business tax, the only increase in tax revenue the City will receive is the $52 per year Local Services Tax paid by new employees; this – and the hope that some of the employees will be city residents who pay local earned income tax.

On the other hand, this same hotel project, will produce new tax revenue for the state. Income, sales, liquor, hotel and other tax revenues paid to the State are a

direct result of the forbearance of local property taxes that made the project possible. So, while the local municipality loses local property tax revenues, the Commonwealth receives a boost in state tax revenues. Thus, the argument can be made that local municipalities are subsidizing the State by providing tax incentives that allow the hotel to be built in the first place. This is not the "property tax reform" for which most of us have called.

So what is an equitable and realistic alternative? We believe that the answer is the City Revitalization and Improvement Zone (CRIZ). The CRIZ allows economic development at the local level to be financed on a very limited basis by measuring the increase in state revenues generated by local economic development and returning those increases back to the local municipal CRIZ Authority. These revenues are then used by the local CRIZ Authority to assist in financing the cost of the development. The tax revenues reinvested locally **would not exist but for** the local development. In other words, if the private investors had not done the development, no new tax revenue would be generated for the State. Thus, for the State, a CRIZ-financed project is revenue neutral. For local municipalities, CRIZ financing provides an incentive to the developer to undertake the project, without requiring the municipality to forgive the property taxes generated by the development. This is a win-win for State and Local government as well as for developers. All agree that tax reform is long overdue in Pennsylvania. In the interim, the CRIZ is a tool for incentivizing development without sacrificing tax revenues.

Some "tweaks" to the CRIZ program need to be made, but without it many cities will only see local economic development occur on the backs of property tax payers, -- residential and commercial. Such burdens discourage redevelopment and impede economic growth and job creation in our cities.