



CITY OF BETHLEHEM

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Comments from Robert J. Donchez, Mayor
House Commerce and Urban Affairs Committees
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Twenty years ago, steel making in Bethlehem ended. A four-mile long steel plant, that traced its roots to a mid-19th century iron foundry and once employed 30,000 workers on 1600 acres, was shut down and closed. With the end of steel making, the City of Bethlehem lost 20% of our tax base.

That loss was devastating.

Bethlehem's leaders did not sit around and wait for something to happen. Over the last twenty years, four different mayors worked aggressively with federal, state and local officials, and the private sector, to resolve major environmental issues, secure public funding to cleanup the site and install modern infrastructure that would attract private developers. These actions have made the redevelopment of the former Bethlehem Steel Plant a national model.

As a result of the federal, state and local support, millions of dollars in private funds have been invested to turn an old rusting steel mill into a vibrant, multi-use development that hosts a major campus of Northampton Community College; the largest outdoor music festival in the country: Musikfest; one of Pennsylvania's most successful casinos: Sands Bethlehem; a number of manufacturing plants, like Lehigh Heavy Forge and Curtiss Wright; and large logistics warehouses for major companies like Walmart and Primark.

The private investment would not have occurred without significant public funding. Almost every federal, state and local economic development program has been used to provide the necessary funds to improve the infrastructure and spur private sector investment. Without those government funds and forward thinking environmental policies, many of those businesses and organizations would have located on a suburban greenfield and Bethlehem residents would still be looking at a vacant steel mill.

The list of programs used to bring new life to old steel reads like an alphabet soup of economic development. Federal EDA funds, CDBG loans, state RACP grants, Opportunity grants, Pennsylvania First Grants, Job Creation tax credits, and the Keystone Innovation Zone have been used to spur development and lure companies to the site.

The Business In Our Sites program provided one of their largest grant and loan packages, enabling LVIP to tackle the redevelopment of more than 1,000 acres. A local TIF and LERTA district was established and Northampton County floated an economic development bond that provided more than \$12 Million for a much needed access road.

Even after significant public sector and private sector investment there were still major holes in the redevelopment of the former Bethlehem Steel land.

Bethlehem's 2013 City Revitalization and Improvement Zone application was designed to provide the necessary incentives to fill these holes and successfully complete the reuse of all the former Bethlehem Steel land.

The CRIZ is also a good deal for Pennsylvania. Unlike most state grant programs, the CRIZ provides only those state funds that are equal to the new tax revenue generated from the development.

Bethlehem was awarded the CRIZ designation, along with Lancaster on December 31st of 2013. In 2014, Tamaqua joined us.

I took office in January 2014, and my economic development team began working with the CRIZ developers to use the program to get projects done, but we immediately encountered hurdles and problems.

Over the past two years, we have had numerous phone calls and meetings with staff at DCED, Department of Revenue and the Governor's Office to get answers. All of these meetings have been polite and very professional, but the meetings end with more unanswered questions.

Our contracting authority, charged by the law to oversee the Bethlehem CRIZ, has spent countless hours and a significant amount of money on legal help to make sense of the law.

Our private developers, all who have extensive experience on brownfields projects, and represent some of the most successful national and regional real estate developers, have only completed one small restaurant project.

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

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

- 1.) We need to calculate baseline on a parcel specific basis, eliminating the current cross collateralization model which puts the risks of one development project on the balance sheet of another.
- 2.) We need to establish precise and detailed definitions for CRIZ eligible taxes in the law to reduce confusion, misinterpretation and misunderstanding. Clarity on which taxes are subject to the baseline calculation in the law and which taxes are not is needed so that a developer can calculate how much funding they will have from the CRIZ to finance construction and improvements.
- 3.) Presently, the law is very specific that no CRIZ funds may be used for professional services, administrative costs or compliance. This needs to be changed and the law needs to reflect standard operating procedure for all other authorities. CRIZ funds should be allowed to be used to pay the normal and reasonable costs of compliance and professional services.
- 4.) We are also seeking legislative clarity of the duties and functions of the contracting authority and what is the eligible use of bond proceeds is needed to insure that funds are spent appropriately.
- 5.) Legal certainty is needed so that lenders can know that sections of the law cannot change once financing has been established.
- 6.) We need the flexibility to decertify parcels that continue to see long periods of inactivity so that projects that are further along in the development process can benefit from the CRIZ.

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

We are sensitive to the concerns voiced by the Department of Revenue, the present Administration and legislators. They do not want to see Pennsylvania businesses move from outside the CRIZ into the CRIZ solely to take advantage of the subsidy and neither do we – we want new job growth for the citizens of Pennsylvania. But the current law is so problematic that I fear no development can occur. And allow me to add, expanding the eligibility criteria for municipalities will do nothing to further development in those cities and boroughs as long as these issues remain unresolved. Those cities seeking CRIZ designation will find themselves struggling to attract development if we don't make this legislation more workable.

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

Thank you.

Mayor Robert J. Donchez