



Using Tax Incentives to Spur Development: What Can Locals Do?

Friday, June 19, 2015: 8:00 am to 11:00 am

NOTES

- *A Regional Overview*

Dr. Peter Angelides, Principal, Econsult Solutions, Inc. and University of Pennsylvania faculty

A municipality can't have a tax incentive without first collecting a tax. The biggest tax that local governments collect is the property tax. Tax payers generally have to pay to three entities: local government, County government, and the school district.

Property owners are often deterred from making improvements to their property because they will have to pay higher property taxes as a result. Pennsylvania's Local Economic Revitalization Tax Assistance Act (LERTA) allows municipalities to designate zones where property owners can get tax abatements on new construction or on property improvements for up to 10 years. Often the tax abatement is tiered so that the property owner receives a 90% abatement the first year, an 80% abatement the second year, and so on.

Are tax incentives a good idea? Some projects would not have been built without an incentive. In other cases a nicer, bigger, better project may result. Tax incentives basically put investment on sale. They lower the cost of development and a municipality will get more investment as a result.

Tax Increment Financing (TIF) is a variation on an abatement. The money that the municipality forgoes in taxes is used to pay back the debt service on a bond. TIF is not as powerful as a tax abatement.

New Jersey has lots of state tax incentives, some of which are used in places like Camden for projects like the 76ers training facility and the corporate headquarters for Subaru and Lockheed Martin. While this may be a benefit for an individual municipality like Camden, on a regional level, the jobs are simply moving from one part of the region to the other.

- *A County Perspective*

Pete Krauss, Executive Director, Bucks County Industrial Development Authority

Bucks County's population was growing, but it was losing people in the 17-25 year old age bracket. A policy goal was to recapture these young adults and convince them to stay. One way to do this was to make downtowns more vibrant. LERTA is designed for communities in distress, with decaying infrastructure, environmental degradation, abandoned land, and a shrinking tax base. Sellersville borough was an example of such a community. US Gauge formerly had 1200 employees in town. They were acquired by another company, which shuttered the site because of environmental degradation. Bucks County used the Business in Our Sites program to acquire the property for \$1 million. They remediated the 44 acre site and installed infrastructure. A company that wants to build a 30,000 square foot facility on the site could save \$213,000 in taxes with a flat 100% five-year LERTA. LERTA can bring down financing costs so that you can bring investment and new energy to downtowns.

- *Local Success Stories*

Greg Prowant, Township Manager, Caln Township

Thorndale is Caln Township's downtown. Many of the 275 businesses are found in strip commercial style buildings built in the 1980s and 1990s. Some properties were vacant or in poor condition. The Township uses LERTA as a way for people to invest in older structures. They sold it to the school district by promising that each parcel would pay at least as much as the parcel paid in taxes before LERTA went into effect. Caln's LERTA zone is the C-1 and L-1 zoning districts (mostly along Lincoln Highway). So far, three properties have used the program: Popeye's, Del Toyota, and Coatsville Kia. One project—an 85,000 square foot office building for Softmart—is currently in process. One of the program benefits is that it rewards new construction or investing in aging infrastructure and brings new attention to Caln's retail center.

James Maley, Jr. Esq., Mayor, Borough of Collingswood and Principal, Maley and Associates P.C.

In 1989, Sutton Towers—4 towers with 250 units each—were \$1 million behind on their taxes. The town realized that it was costing them money to do nothing—they had to pay police to continually go to the property; there were lots of code enforcement complaints. The township bought the property and structured a long term ground lease that included Payments In Lieu of Taxes (PILOTs). They held lots of meetings in the community prior to going through with this plan. In 2006, Collingswood sold the property and was able to make a \$4 million profit, which the community distributed back to residents in 4 payments of \$150 each. The town began working on other redevelopment projects. It bought a derelict property at 756 Haddon Avenue and entered into 10 year PILOT and a lease purchase agreement with Kitchen & Associates, who could purchase the building for whatever debt service was left on the property within the first ten years. Collingswood also purchased a lumber yard in the center of town, which is now being redeveloped into condos, where the condo owners pay 5 year PILOTs without an abatement, which made the project financially feasible. Glassboro, NJ has had similar successes with ground leases.

Doug Wilhelm, Code Enforcement Officer, Quakertown Borough

Quakertown Borough, a one square mile community with approximately 10,000 residents, has started an aggressive redevelopment program. They started by identifying underutilized/underdeveloped properties in the town. They created a binder of these properties—and with owner permission—began showing it to developers. They identified several zones, including their downtown center and industrial area, that would be most appropriate for LERTA abatements. The community decided on three types of terms: one for mixed use properties, another for single use properties, and a third for residential projects.

An old mill building located a half a block south of Broad Street—the commercial street in Quakertown—was developed by Jerry Gorsky into three suites. Suite 1 is now home to Synergis, an IT company that brought 118 employees from a suburban location to downtown Quakertown. Many of the employees now bike to work and walk to restaurants to grab lunch, so additional restaurants and luncheonettes have opened up downtown. Two theaters are also in the process of being renovated: one into a store, commercial space, and 6 loft apartments, and the other into a brew pub with a banquet facility.

The borough has tried to streamline the LERTA process as much as possible. The application is only one page long and can be submitted with the building permit.

Additional coverage of the event: http://www.theintell.com/business/quakertown-bucks-officials-join-discussion-on-tax-incentives/article_98e54923-6204-5206-a30e-7c4981974255.html