

**DRAFT**  
**COMMUNITY DEVELOPMENT COMMITTEE MEETING**  
**October 22, 2020 - 6:00 PM - Town Hall**

2. 2020 Financial Accountability Incentive Reporting (FAIR) Hearing in connections with the Article 349 Economic Development Incentive Reporting and Evaluation Program.

***NOTE ON REPORTING PERIOD: The FAIR evaluation reports discussed below cover the 2019 reporting period because the program requires reporting on the prior year)***

Chairwoman Van Wirt stated the second agenda item will be for informational purposes tonight, no action will be taken by the committee in connection with the 2020 Financial Accountability Incentive Reporting reports.

Alicia Karner, Director of Community and Economic Development pointed out in addition to the folks that have been with us online for the last 2 hours and 45 minutes, Asher Schiavone in her office has joined us, Tony Hanna and Heather Bambu-Weiss have both been listening to the committee and caller one is probably Eric Evans and/or Mark Sivak. She will begin with going through the 2020 FAIR Hearing document provided by us with a cover table of contents developed by Mr. Vidoni. We will go through every page and she will touch on the high points. On pages one and two which are the Economic Development Tax Incentives and inventory of Non-Tax Incentives she wanted to point out there are no new programs in either category. While this says 2020, certainly it is reflective of 2019 so there were no new programs offered in either category in 2019. We can skip through pages 3, 4, 5, 6, and 7, these are the program summaries. There has been consistency from year to year on the program summaries. Where the real information begins is on page 15 with the Evaluation Report. We always begin with our largest report which is the LERTA Program, the Local Economic Revitalization Tax Assistance. We have the LERTA on the north side which is coterminous with what we consider our boundaries for Northside 2027 as well as the south side which is our largest district that was expanded into five or six phases over the years. Northside LERTA expires in 2023; the south side expires December 31 of 2022. You will see on page 16, we had 24 applications that are active for this year, last year it was 19, so we have seen the addition of 5 new projects and have seen the tax benefit increase as a result of those 5 new projects to about \$1.5 million dollars to the projects that took advantage of the incentive as opposed to \$1.3 million in the 2018 FAIR evaluation report. Ms. Karner informed our total value of investment under Section 3 (b) is \$575 million for these 24 projects and that is an increase from \$423 million in our 2018 number, so it was a pretty significant increase. We were a little concerned because one of our largest beneficiaries of LERTA which created about 1,000 jobs in the city cycled off (out of the LERTA program) so we were afraid our numbers for jobs in Section 3 (e) were going to drop dramatically but we were pleased that these 5 new companies created about 900 new jobs offsetting the 1,000 that still exist in the city, we do not consider them contributing to the LERTA numbers as a result of continuing to receive that benefit. The next incentive is the TIF (Tax Incremental Financing) program on pages 18, 19, and 20. She asked Tony Hanna, Director of the Redevelopment Authority to give an overview of the success of that program for 2019.

Mr. Hanna remarked that caller number one is actually Heather if we need to engage with her. Last year we had some discussion of the sunset of the TIF program and as of November 15, 2020 the Tax Incremental Financing Program will be no more in the City of Bethlehem in the Bethlehem Works Redevelopment area. We are wrapping up the TIF with a few projects this year, some of which you will hear about as part of next year's FAIR Hearing. The only project that we funded, as just sort of incremental funding, the last remaining payment for 510 Flats (multi-family apartment project). That was a \$250,000 dollar installment payment. We paid 510 Flats over 3 years with \$250,000 coming in the first year, \$300,000 the second year, and \$250,000 in 2019 for a total of \$800,000 dollars. He checked on that project and as of this year with the final increment of real estate taxes paid to all 3 taxing bodies, 510 Flats generated almost \$530,000 dollars in real estate taxes against the \$800,000 dollar investment and that is just on a real estate tax standpoint. We talked about the fact that that \$800,000 dollars leveraged about a \$25 million dollar project from the standpoint of capital costs. Just from pure real estate standpoint we were able to harvest about three quarters of the investment we made in TIF (Tax Incremental Financing District) funds on that one project. We are making additional investments this year, in the last year of the TIF on additional major public projects. Mr. Hanna pointed out they are doing catch up on maintenance. We are rebuilding First Street and portions of Founders Way that work started this week. We are doing some other work in the area and did some work on the Hoover Mason Trestle and did some additional plantings. We are doing some improvements to the Visitors Center which the Redevelopment Authority owns. One of the other pieces of good news is that all of the assets in the Tax Incremental Financing District that are owned by the Redevelopment Authority are all paid off, they are debt free. The Visitors Center is debt free, the Levitt Pavilion is debt free, the Hoover Mason Trestle is debt free, and all those assets have no encumbered debt on them so they are all assets that we can continue to hold or transfer to the City of Bethlehem as additional assets but we will continue to maintain. We are talking about ways to transition them to public ownership possibly beyond the Redevelopment Authority. Those are discussions we are having ongoing with the City and certainly Council will hear more about that during budget discussions, more than likely in 2021. Mr. Hanna added as far as this year's TIF, we are wrapping things up and should have all the money expended or committed by November 15, 2020, we are in good shape to see that happen.

Ms. Karner continued with the next program on page 23 and that begins the CRIZ (City Revitalization and Improvement Zone) evaluation report. We had \$580,464 dollars that was distributed to the projects for the 2018 year. You need to keep in mind that what we get in 2019 is actually the increment generated in 2018. It looks to the year before. The project costs exceeded \$46 million dollars and the CRIZ debt was about \$8.2 million at the time of the report. Two buildings were completed, the 13,000 square foot membership-based community workspace for entrepreneurs and other innovative businesses. The other building has plans for a new 4,000 square foot restaurant that was announced in 2019 but yet to be named. We did approve the boutique hotel which is the Wilbur Mansion project and we will have some updates next year as it relates to that project. The current assessments for CRIZ projects are about \$7.2 million dollars and prior to the CRIZ they were about \$117,000 dollars so we have seen tremendous growth. There are 555 new full-time positions that were created as a result of these projects compared to 20 in the 2018 numbers.

Ms. Karner moved onto the Enterprise Zone Loan Program. There has been no activity within the Enterprise Zone Loan Program. The Small Business Loan Fund and Exterior Building Loan Fund had one loan that closed in 2019, it was a \$150,000 loan and that project is underway. It is a restaurant and bar on Fourth Street that was acquired and rehabbed. There are expected to be 8 full-time and 10 part-time jobs and will include those numbers with certainty on the next year's report. The source of that funding is HUD funding so there is typically no local action that is needed for us to be on the approval of our action plan in which these funds are originally invested. On page thirty-two is the Business Infrastructure Development Loan Fund (BID) and we have had no projects under that program. Ms. Karner continued with page 36 and 37 and that is what we typically ask for from the businesses reporting, information on why these programs are important to them. (Pages 35 through 41 of the hearing packet are the program Impact Statements, narratives related to specific economic development and other incentives). We certainly black out exactly who they are for confidentiality reasons because this is a public document but you can see their statements about programs like the Enterprise Zone, LERTA program, and how important those are for them. All but one provided most of the documentation we requested. We had a lot of feedback from the participants of our program this year. She then asked if Mr. Evans or Mr. Sivak are on the line now.

Mr. Evans and Mr. Sivak stated they are both on the line now.

Ms. Karner noted she is up to page 43 of the Tax Expenditure Spreadsheet. She does not know if there are any highlights they would like to point out to the committee members. Those are the documents that you folks, the Administration (Budget and Finance), create for the FAIR report.

Mr. Sivak commented that on page 43 the only thing that stood out to him was at the top for LERTA if you look at the second column where it states Real Estate Tax Paid in LERTA you see for 2019 \$1,071,128 and that is a reduction from the year before in 2018 where it was \$1,256,603. He looked into this and it was due to a few assessment abatements through court order so we had to change the assessment in 2019 plus rebate a certain amount of real estate tax paid in 2018 which is why that amount is less in 2019. But everything else on that list is self-explanatory, it shows nominal increases year over year.

Ms. Karner remarked on pages 47 and 48 is the request for the change list and we had no (material) changes this year and so that is just the memo indicating the lack of changes (methodology compared to how figures were calculated) from the prior year's report.

Chairwoman Van Wirt turned to her committee members for questions.

Mr. Reynolds remarked when he had proposed this FAIR ordinance a few years ago it was partly to create at least some data to show how effective these programs are as well as education about how they work. There has always been a lot of misunderstanding about how some of these economic development incentives and programs work. A lot of people believe that they often include direct payments or things like that and they do not. Once again, he wanted to thank the Administration for putting together the report and thank Mr. Hanna for sticking through this long meeting. His point about measuring how effective these programs are is that

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he does think we need to start with a brief mention about the TIF which is coming to an end which has existed for 20 years. Without the TIF the City of Bethlehem would be in a worse position than we are. It was before any of us were on City Council and it was before he believes Mr. Hanna or Mr. Spirk were working at the city at that point. The TIF has been remarkably successful, without the TIF, there is no Casino and with no Casino who knows what the city would have had to do and how we would have been able to pay our basic bills. Mr. Reynolds understands that this has just chugged along for these 20 years; we have seen a lot of great things happen over at that site between ArtsQuest, Steel Stacks, and all the infrastructure improvements. He does think that as we enter the budget season and for the first time we are looking at those full tax payments next year that we need to take a moment and talk about how successful it has been for the jobs and the financial well-being for the City of Bethlehem. (Note: prior to termination of the TIF, certain tax revenues generated in the zone are directed into the TIF entity, for use on qualified projects, rather than to the participating taxing jurisdictions). Mr. Reynolds wanted to mention that before we did anything else because he thinks if we did not have the TIF and the TIF had not been pushed by the city leaders at the time all of our lives would be much more difficult right now. Who knows where we would be. He had a few questions for Ms. Karner about the CRIZ. His questions would be about the tax increment generated going forward. He know we have had some questions about how that money will be spent, who will make that decision, or what kind of projects can that money be spent on. He also knows that up to this point we have not had a lot of increment to have to make a decision by but there are a few projects that appear to be in the pipeline that would be producing significant increment in the next several years. As we take a look at some of these large decisions that we have throughout the city it would be helpful to understand that process about how those funds will be created and when the Authority will be looking at receiving those larger chunks of money.

Ms. Karner explained right now the legislation creating the CRIZ program is fairly restrictive indicating the increment may be used on CRIZ projects, construction, and acquisition, renovation to existing structures, new construction and so forth. It can be used for infrastructure off site, meaning outside of the actual CRIZ designated parcels. Infrastructure can be incorporated and paid for debt incurred or funds granted to for payment of those improvements. Whether that be off site 10 blocks away or half a mile away or the street in front of the project but there is currently a tie to each project that is required to make it eligible for a CRIZ increment, for the grants or for the payment of debt service. There is an active campaign to broaden that so that cities like Bethlehem can use increment for additional benefit. We have some large projects including the hotel expansion project for Wind Creek casino. She noted that Wind Creek has been very supportive and very active in helping us to change the legislation to allow for more flexibility in the use of that increment. Ms. Karner noted she cannot tell you exactly today when that change will occur. We are optimistic that it will still be this year which will then allow us to develop a process around the way that those funds can be distributed. We are envisioning and advocating for the Authority to be able to determine what is considered a project associated with the CRIZ or and improvement necessary for the use of CRIZ funds. The Authority being the Bethlehem Revitalization and Improvement Authority (BRIA) who has long been supportive or responsive to the direction to the direction of the Administration, the Authority has no staff and are a group of 5 volunteers and are very much taking into consideration the expertise of the Department of Community and Economic Development and Public Works and others when deciding where to invest in projects. Ms. Karner expects that to continue. The project we are

most invested with in increment is the New Street Streetscape Project, the reconstruction of the stretch of New Street from the Fahy Bridge to Farrington Square. That is something that the developer that has CRIZ designation at the Gateway/Greenway has been supportive of us using increment to make improvements that he too is obligated to make as a result of the public improvements incorporated in that project. That is the most notable right now.

Mr. Reynolds remarked when a project produces increment he wondered if that project owner needs to sign off on what that increment goes for or can it be used in association with any project as long as it is a CRIZ project.

Ms. Karner explained that is negotiated with each of the development projects with the developer and the bank is a part of that conversation. The bank certainly needs to understand the CRIZ increment (in order to finance a CRIZ development project) and communicates the amount of increment they need to be able to loan the funds to the project. We cannot say we are only going to give 30% of the tax increment that your project generates because the bank would laugh at us and say well we cannot finance the project.

Mr. Reynolds noted the bank needs to know how much of the increment the city is going to give back to the property owner.

Ms. Karner noted it is really an analysis of what is necessary to support the debt associated with the development of the project.

Mr. Reynolds remarked that makes sense if he was the bank as well. He noted that Ms. Karner had referenced the idea of the hotel down there and that is going to be a significant increment generator because of the size and scope of the project. When does it look like that project would start? He does understand we are dealing with estimates but is it usually a year or two or three years out that you would start to see significant increment being created or is it year one.

Ms. Karner explained with year one and year two typically there is significant increment. When she says year one and year two, let's say construction of a project begins in March of any given year and lasts a year and a half, so say March of 2017 and then the rest of 2018. We see the 2017 increment in November of 2018; we see the 2018 increment in November of 2019 so there is that long delay when the Authority (BRIA) receives the increment. We see a big boost as a result of construction. When you have a \$100 million dollar hotel construction there are a lot of materials being produced, a lot of folks working on that job and a lot of increment taxes that are paid associated with a project like that but also with any construction project. We will see this big amount and then in the first year of operation because these are all new businesses, that is the theory that any tax increment we get is from a new business, it usually takes a little bit of time as with any new business to ramp up and see peak operations. When we look at our projections it is usually 3 to 5 years if it is a single restaurant business, something along those lines and then it stabilizes.

Mr. Reynolds noted he has a question that is not about one of our programs. A few years ago when the Federal Government passed their tax in December of 2017, it created the Federal

Opportunity Zone. He asked if we know of anybody has taken advantage of that in the City of Bethlehem.

Ms. Karner noted there was the public announcement of the Brinker Lofts Project at 4<sup>th</sup> and Adams, the Lehigh University Service Building that has been redevelopment into residential space. It is a great adaptive reuse project. That was a project that saw opportunity fund dollars from PNC Bank, she noted that PNC created a half a billion dollar fund to deploy across the country and invest in projects just like that. We talked to quite a few folks who have wanted to get more information or get funds who were looking to invest but beyond that project she is not aware of any other opportunity zone that has a project that has closed to date.

Mr. Reynolds asked if Ms. Karner could talk about the type of projects, he noted that Brinker Lofts are beautiful, but can she talk about any other types of projects and are they similar to the Brinker Lofts.

Ms. Karner explained most of the conversations they had early on were from folks trying to figure the program out. It was a range of projects, anything from residential projects similar to Brinker or much larger projects. This is an incentive to do wonderful things in low income communities. She cannot say with certainty why we have not seen more projects. But it is everything from even non-profits wanting to know if there was a way to take advantage of it. There was a lot of exploration but nothing that has come close to resulting in an opportunity zone financing.

Ms. Crampsie Smith remarked looking at page 16 with the LERTA it says a number of projects planned, started, and completed at 24 active applications, she wondered how many are completed or are in process or are pending.

Ms. Karner informed they have to apply at the point of pulling the building permit so pretty early in the process. She can run through the new projects that include 315 Columbia, which is The Factory that is a completed project, to her knowledge. 306 South New is the Gateway/Greenway that is completed; it is not fully occupied but completed. There was 210 Spillman and that is completed. She noted that 1779 Commerce is done, 1920 might still have some things to do and 124-128 West Union which is on the north side is completed and 1125 Easton Road she is uncertain of.

Chairwoman Van Wirt thanked Ms. Karner for all the work in putting this together. This is a very valuable ordinance and she certainly learned a lot last year. She has two questions, one about the CRIZ and one about the TIF. She mentioned the process of using CRIZ increment that is not being used on a project, like Martin Tower, which is an enormous amount of CRIZ land and the land use planning document that was approved did not involve things that were eligible to receive CRIZ benefits. It is mostly housing and medical stuff, there is some but not a lot. What is the process for taking that CRIZ acreage off of Martin Tower land and using it somewhere else, does it have to have a developers sanction and if the answer is yes, is there any movement underway to have that changed?

Ms. Karner stated the answer is yes for now. There hadn't been any provision in the legislation, she thinks it was 2015 where there were changes to the act that require the owner of the property in which the CRIZ designation is on to file an affidavit in support of moving that off of the CRIZ acreage onto some other place. They do not have to approve where it goes, they just have to approve the removal. If she remembers correctly, it has been a while since she has looked at this; it was 7 years from the date of the act that the Authority could move to remove designation. They would have to hold a public hearing and have to certainly notify the entities and then publicly advertise and then hold a public meeting or hearing, she forgets the choice of words, and conduct a public conversation about the removal of that designation. Then an application is filed to the Commonwealth and in either case, whether it is with cooperation of the owner or without and application is filed with the Commonwealth who has to approve the decertification of CRIZ acreage and then approve any changes or relocating of designation to another parcel.

Chairwoman Van Wirt queried when that clock first got set with Martin Tower.

Ms. Karner believes it was 2015 that those changes occurred. She will say that at least prior to the pandemic we were having regular, maybe every other month conversations with the ownership about the continued development, the progress of cleanup, whether or not there would be land development plans or subdivision plans or anything happening. Certainly during the pandemic most of the non-essential communications we were having stopped with the outside community. We were really focused on what was going on in here and with the city and keeping our heads above water. So we have not resumed those regular meetings with that developer but it was a conversation that occurred many times between the Mayor and the developer about excess acreage, what amount of acreage you think you have, what is your timing making requests for the city to be able to re-designate or designate some of that acreage to other places.

Chairwoman Van Wirt asked if it is 38 acres.

Ms. Karner noted it is more than that; it is closer to 44 acres.

Chairwoman Van Wirt remarked that clock of 7 years ends next year.

Ms. Karner would suspect it would be 2022. Actually, forgive her; she believes it is 8 years because she knew it would be after Mayor Donchez would be out of office, so it would be 2023.

Chairwoman Van Wirt remarked if there are developers out there that want a larger increment that is a huge financial benefit to the city and she would like to see it used.

Ms. Karner remarked we did a few years ago issue an RFP and knew we would be de-certifying a few parcels including those associated with the New Street Parking Garage. We did de-certify Walnut and that was a conversation and the Long Street lot. So there is a little bit of acreage. We do continue to entertain conversations. At the end of the day there is a lot that goes along with financing CRIZ, it is not this massive incentive we have seen in other communities and so there are a few factors at play including wanting to ensure that when you use that

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designation you are hitting a grand slam, not just a double. We do not see a ton of projects, even on those properties that have CRIZ designation; they are slowly making their way through the process.

Chairwoman Van Wirt then asked about the TIF. She has scrutinized the Parking Authority finances as her role as the liaison and one of the things she noticed this year was that the Bethlehem Redevelopment Authority (RDA) gave the Parking Authority \$500,000 dollars. That certainly came in handy in the time of COVID due to all the financial hits they took. She asked if Mr. Hanna could explain what that transfer was about and why.

Mr. Hanna stated we had an internal committee, Mr. Evans, Ms. Karner, Mr. Sivak Ms. Bambu, the Mayor from time to time, Mr. Alkhal and others took a look at a whole laundry list of projects. We had laid out a laundry list of potential TIF projects in this closeout year. One of the things we reviewed was some way to possibly assist the Parking Authority with some TIF assistance since we had about \$1.5 million dollars of unallocated dollars to spend on various projects. Because of COVID and because of some of the constraints that were placed on the Parking Authority's financing we looked at that and gave it a high priority. We looked at trying to transfer about a half a million dollars of TIF dollars to basically pay for legitimate TIF use. Obviously one of the highest priorities of TIF funding, if you look at any of the TIF documentation going back to the original TIF documents, and by the way he was with the City of Bethlehem in 1999 when the TIF was created. But regardless, when we created the TIF in 1999 and then the original documentation in 2000, parking was always listed as a high priority. Even when we redid the documents in 2010 which Mr. Spirk was a part of, we also listed parking as a high priority. Mr. Hanna stated one of the ways we thought we could help them was to basically help them defray the cost of the \$2 million plus dollars they spent for the purchase of 3<sup>rd</sup> and Polk so that is how the dollars came in. We basically used it as a way to pay down some of the debt they had for the purchase of 3<sup>rd</sup> and Polk and that is exactly what the Parking Authority did. Not only did the internal committee review it and assign it as a high priority but then our Redevelopment Authority Board reviewed it and agreed with the committee's recommendation and so that is how the \$500,000 dollars made its way to the Authority.

Chairwoman Van Wirt asked what are the constraints placed on the use of those funds.

Mr. Hanna stated nothing other than it has to be consistent with the qualified use of those dollars and we had those reviewed by Bond Counsel at Ballard Spahr. He felt that the \$500,000 dollars "investment" in the parking garage was certainly consistent with the million dollars that we had already had invested. If you recall the Redevelopment Authority was the original developer of the Polk Street Garage. So we had already invested close to a million dollars in design which was then transferred to the Parking Authority and allowed them to continue working on the Polk Street Garage. That garage had already been invested in by the Authority and we used TIF funds for that. We felt that \$500,000 dollar additional investment to defray the cost was not only a legitimate expense; it was certainly an eligible expense under the TIF guidelines.

Chairwoman Van Wirt thanked him for the explanation but she disagrees. When she thinks of TIF funds she thinks 50% of it belongs to school kids, and 50% of it belongs to the citizens

of Bethlehem. When she thinks of ways to use extra TIF funds putting it into a lot on a corner that is not even going to get built into a parking garage at this point, she knows hindsight is 20/20. To her she wishes a parking lot had not been necessarily put as the highest priority use of those funds. But she does appreciate his answer and the clarity that he brought to it. Chairwoman Van Wirt also echoes what Mr. Reynolds said in terms of the value of the TIF in general to Bethlehem it has been of great value. Her questions are only because she feels compelled by being on City Council to ask the tough questions and make sure we are using the money that is available in the best way possible. This was not under Council's purview but one of the reasons we have the FAIR report is so we can ask these questions. She thanked Ms. Karner for this information. These reports will be posted on the City website for the public.

Chairwoman Van Wirt adjourned the meeting at 9:13 pm.