

If opportunity knocks, Johnstown should answer

Tax-free Keystone zones could propel city out of its high unemployment, population loss

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Gov. Tom Ridge has proposed the creation of Keystone Opportunity Zones as the most recent initiative to assist distressed urban and rural communities with the primary goal of economic revitalization.

A Pennsylvania Keystone Opportunity Zone (KOZ) is defined as a geographic area designated by local governments and approved by the state as virtually tax-free. The KOZ would be given priority consideration under various existing state economic development assistance programs.

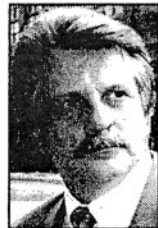
In my 20 years' experience with the Johnstown Redevelopment Authority, I have seen a variety of program initiatives offered by the state with the same objectives. But what intrigues me most about KOZ is its long-term commitment by the state to allow incentives to continue for a 12-year period. The uniqueness of this proposal is that it would create a zone where by business and residents would pay no taxes. House Bill 2328 and its companion measure introduced in the Senate by Sen. John Wozniak, D-Johnstown, defines a strategy for development.

Clearly, the most appealing marketing tool of any community in seeking outside business and industry is the concept of no taxes, including corporate net income tax, personal income tax, earned income tax, net profits tax, business gross receipts, mercantile and local real property taxes. The program is similar to Michigan's Renaissance Zone Program, which apparently has shown signs of success.

The key to the proposed legislation is

the word "opportunity." The Johnstown area needs a bold opportunity to propel itself out of consistently high unemployment and population loss if we are to attract investment and regain economic stability.

Local economic agencies, including the Partnership among the authority, the city and Johnstown Area Regional Industries, are working hard, striving to create jobs by operating with existing state and federal programs to capitalize on the entrepreneurial spirit from the outside as well as expansions and successes within. More innovations are needed.



Repak

An eligible applicant can be any local municipality, group of municipalities, county or group of counties experiencing economic distress or major job loss.

Based on this criteria, the program could assist not only Johnstown, but also surrounding communities and counties that contain appropriate sites. Twelve KOZs would be designated in November to begin the tax-free status on Jan. 1, 1999.

The legislation states that no additional KOZs would be designated in subsequent years and this would be a one-time-only program. Obviously, the zone selected must be in an area where little or not taxable revenues existed prior to the designation.

Zone selection is the most critical aspect

of the program, which should be most beneficial to the city and surrounding municipalities or perhaps be a multiple-county application. Creation of the zones would require extensive coordination of public and private entities and must involve residents, businesses, state and local officials, as well as community organizations.

The concept can work, as I pointed out in my testimony before the House Urban Affairs Committee, but we must move cautiously. Other amendments and safeguards need to be considered.

Under the legislation, the zones are to be given high priority for funding from existing state programs. The legislation should specifically designate that a percentage of available funds be dedicated to establishment of the zone and to mitigate impact on a community providing services to the zone.

In the short run, spin-off economic activity outside the zones should offset immediate tax revenue loss. This is a minor trade-off for the long-term benefits achieved by the zone, and the properties inside the zone would eventually become taxable.

The Legislature should also consider limits or thresholds on the total amount of exemptions offered. The zone is established for 12 years. But if a company does exceedingly well in the first four or five years, a cap on total taxes waived should be established in that the zone will have succeeded in establishing the business, created jobs and revitalized the distressed area. In this way, return of revenues can begin after a shorter period to the local community and the commonwealth.

Given the complexities of the tax relief prescribed in this program, the state may wish to provide for a division within the Community Development or Revenue departments to assist in monitoring safeguards against abuse.

The current legislation prescribes 100 percent participation by local communities, school districts and counties. Something less than the 100 percent level of abatement or exemption could be programmed on a graduated scale.

Penalties, safeguards and recapture provisions should be inserted to preclude relocation out of a zone once a business has taken advantage of the tax abatement provisions.

Strict notification requirements should be implemented in that a community must be notified when a business is proposing a

move from a non-zone location into the zone.

If a political body decides to discontinue the exemption, it should not revoke the entire zone. Other cooperating taxing bodies should not be penalized because of a change in local political mix. Again, zone selection is critical here and across the state, relative to existing tax revenues needed to support existing bonded indebtedness by local municipalities.

The legislation may require amendment. But Keystone Opportunity Zones may provide the opportunity the Johnstown community needs. With a 12-year life span, the zone success may not be known until Dec. 31, 2010.

Ronald Repak is executive director of the Johnstown Redevelopment Authority.

How it would work

Here are examples of how the Keystone Opportunity Zones program would operate:

Example 1: If one were asked to relocate a business into a distressed community, it would be necessary to assemble land, provide grants or loans and other incentives. At best, it is still difficult to attract the established entrepreneur.

However, if it is indicated to the same business that it would pay no state corporate net income tax, capital stock tax, local earned income or net profit taxes, no business gross receipts tax or local real property taxes, this incentive

would provide a powerful marketing tool to create jobs inside the zone with many other economic spin-off effects outside the zone, including a large payroll base to buy local products.

Example 2: If we ask someone to build a \$75,000 home in a distressed residential community, it probably would not be considered. However, if someone would pay no real estate taxes and — because they resided in a zone — no personal state income taxes for a 12-year period, the offer becomes extremely attractive and would act to create long-term residential communities.

Proposed

An Act

Amending Title 12 (Commerce and Trade) of the Pennsylvania Consolidated Statutes, further providing for retail enterprises under the Infrastructure and Facilities Improvement Program.

The General Assembly of the Commonwealth of Pennsylvania hereby enacts as follows:

Section 1. Section 3402 of Title 12 of the Pennsylvania Consolidated Statutes is amended to read:

§ 3402. Definitions.

The following words and phrases when used in this chapter shall have the meaning given to them in this section unless the context clearly indicates otherwise:

* * *

“Retail enterprise.” An entity or entities engaged in retail sales which created or will create at least 200 full-time jobs and occupies or will occupy at least a 200,000-square-foot facility, or, if located within a city of the third class, will create at least 100 full-time jobs and occupies or will occupy at least a 100,000-square-foot facility.

Section 2. This act shall take effect immediately.