

Testimony

PA Senate Finance Committee Hearing

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Keystone Opportunity Zones – Senate Bill No. 65 of 2007

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Good Morning, my name is Ronald W. Repak. I am the Executive Director of the Johnstown Redevelopment Authority. Let me start by saying on November 19, 2007, my tenure with the Redevelopment Authority will be 30 years. Over that **30 year timeframe**, I have seen numerous economic development initiatives put forth by the Federal and State government including my testimony nearly a decade ago calling for the creation of Keystone Opportunity Zones when I testified, in **April of 1998**, before the House Urban Affairs Committee. Clearly, as a local economic development professional, I am in full support of Senate Bill No. 65, providing for an extension of Zones though December 31, 2028. Most of the zones in our area will expire on December 31, 2010, and others in 2013. Thus, this extension is **critical** to the zones within the **distressed Johnstown** community as well as outlining areas. Important to the amending legislation is the extension to 2028 for sub-zones of the Keystone Opportunity Zones as well as the Keystone Expansion Zones, provided for under prior legislation.

I need not speak to the benefits of the Keystone Opportunity Zones, which are well in place and as you know **offer** numerous local and State **tax exemptions** for income tax, personal tax, earned income, net profits, business credits, receipts, local real estate, etc, etc. Establishment and **extension** of these benefits are critical and it is incumbent upon the Commonwealth Legislature to extend same if we are **to compete** with other surrounding States offering similar economic development tools. To put it bluntly, I do not believe that we have a choice as to whether or not to extend the benefits provided in these zones - rather, the issue is when. This action would include the **job tax credits** offered by the legislation in the amount of \$1,250 per job through 2028.

An equally important section of the proposed legislation calls for a **maximum of 15 years** of tax **relief** under the act. I believe this is an important component, whereas if a business has not been able to survive over a 15 year timeframe, with credit enhancements, then their not going to. Further, the committee may want to **consider a cap** being placed on the amount of **relief** offered during that period of time. Perhaps a cap of **\$5 to \$10 Million** would be reasonable and you may want to examine this further. My concern is that legislation works to attract a business through the various tax relief zone efforts and job credits, but what if that business is extremely profitable in 2 or 3 years. For example, what if the creators of **EBAY** would have been located in a KOZ? The Multi-Billions of dollars would be lost to the Commonwealth and more importantly third-class Cities such as Johnstown. Although this may be a rather extreme example, I suggest a cap be placed on the amount of total revenues exemptions that could be waived.

Another **key component** of this proposed legislation under Senate Bill 65, is that a business would be entitled to all tax exemptions, deductions, abatements, and credits not to exceed 15 years, which under the old Act was January 1, 1999. I like the language in the Bill that says “**or at the time the qualified person or business begins active conduct of its trade or business, which ever occurs later.**” – This was also a key issue I testified for a decade ago. The thinking at that time, and now, was why should a business **be allowed to benefit** by the zone without creating any new jobs or subsequent taxes for the local community simply because they owned a property “in the zone”. To me, this is the most **important part** of the legislation in that no benefits would be afforded to owners until such time as a “project” was developed bringing new enterprise to a community.

I will share with you that only one of our sub-zones is occupied by a new business, and that parcel is located in the Hornerstown section of the City being developed by a construction contractor. I further offer that at the time the zones were **created** and parcels were recommended in 1998, I was part of the **task force** that

selected the particular properties that would be eligible to become a Keystone Opportunity Zone. I will tell you that the properties selected were either **tax exempt** or producing **little or no taxes** to the community, such as old school buildings, remote industrial areas, etc. My reasoning of course was the designation of a zone would offer **another tool** or incentive to bring industry or businesses to these locations. However, other areas of the Commonwealth apparently chose industrial parks off of interstate highways and other good attractive parcels which, quite frankly, I believe would have been developed anyway, and therefore, the State and local community would not have needed to provide tax relief. Be that as it may, we are fighting a tough battle in trying to find new enterprise for our existing zones and the extension of the zones is important. If they were to expire, it gives us no hope in seeking developers. I still believe that the Keystone Zones provide a comprehensive tax relief initiative and can be a major pathway to economic growth for Johnstown and surrounding areas.

In summary, I am in full support of Senate Bill No. 65 of 2007, and in particular the provisions - - - to extend the zones to **2028**, the provision that allows these exemptions only **after “a project” begins** active conduct of its trade or business, and the consideration of a **potential cap** on the total amount of revenues that would be exempted or waived, and in this way the **return of revenues** can be accelerated to the **benefit** of the local community and the Commonwealth of Pennsylvania. Of course, job tax credits will allow us to compete with other States offering even higher credits. Finally, I would **commend** the Senate Finance Committee and our local Senator, John **Wozniak**, for introduction of a **meaningful** piece of legislation providing economic tools to local economic developers and agencies such as the Johnstown Redevelopment Authority.

If the Finance Committee permits, I would like to digress for a moment to speak to another financial issue in a Commonwealth Program pursuant to the **Infrastructure and Facilities Improvement Program**. As you may be aware, the IFIP provides for

financing to pay debt cost incurred for **infrastructure improvements**, which are necessary to build certain retail facilities including site preparation costs, road work, utilities, etc. However, under **current law**, **IFIP** specifies that a **retail** establishment must be a **minimum of 200,000** square feet. Often, this is difficult to meet in third-class Cities and communities such as Johnstown. It has been suggested and we have preliminarily discussed this with Senator Wozniak, is an **amendment** to the Section of Infrastructure and Facilities Improvement Program under **“Retail Enterprise”** to change the current provision that says 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 feet** facility, be expanded to add the following language, “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. This minor amendment would allow for certain retail establishments to be located in either downtowns or in proximity to the Central Business District and would allow for the IFIP to work in our community.

Thank you.