ALLENTOWN, PENNSYLVANIA

The $200 million PPL Center arena in downtown Allentown, Pennsylvania, is home to the Lehigh Phantoms minor league hockey team and other uses. Opened in September 2014, the arena was financed by Pennsylvania's Neighborhood Improvement Zone legislation. The NIZ program has stimulated $600 million in new downtown investment in Allentown, which helped spur an 8.41 percent growth in the number of Lehigh Valley leisure and hospitality jobs in 2014.

SUPER TIFS ARE TRANS-FORMING THREE CITIES

States are putting muscle behind redevelopment.

By EVANS PAULL, AICP

ABOVE BY JUSTSPORTS PHOTOGRAPHY; RIGHT COURTESY LINDSAY LAZARSKI/ KEYSTONE CROSSROADS, WHYY

IN THE LAST YEAR THE *NEW YORK TIMES* has featured articles about community-altering redevelopment projects in three come-back cities: Allentown, Pennsylvania's City Center Lehigh Valley Project ("Tax Program Aims to Reverse Decades-Long Decline in Allentown"), the University-to-Downtown Gateway project in Bowling Green, Kentucky ("A University's Partnership Reshapes Bowling Green, Ky"), and the dramatic makeover of downtown Kansas City, Missouri ("Millennials Going to Kansas City, to Live and Work").

These three urban success stories share a common thread: They benefited from unique partnerships with their respective states through what has generally been dubbed "Super TIF" programs. Pennsylvania, Kentucky, and Missouri all have programs that supplement local TIF projects that meet certain state criteria.

Approved developments get the benefit of project-generated state revenues in the same manner that local government tax increment financing ventures use project-derived property taxes to support the project. The result is probably the most powerful gap-closing incentive in the urban redevelopment toolbox.

Urban opportunity

Those three states are among 10 in all (the others are New Jersey, Mississippi, Tennessee, Kansas, Indiana, Nevada, and Colorado) that have adopted legislation allowing them to capture the state taxes generated by certain kinds of redevelopment projects and devote those revenues to funding infrastructure or closing gaps in those particular projects.

The initiatives vary according to state priorities: The Mississippi program assists brownfield projects; the Indiana program assists "certified technology parks"; and the remaining states all support tourism and economic development projects, not necessarily *urban* development or *re*development.

This article focuses on the three states whose programs may have the strongest urban redevelopment focus: Pennsylvania, Kentucky, and Missouri. Leaders in those states seem to understand that strategic urban reinvestment produces multiple benefits:

- Creating attractive and exciting urban places helps draw new business investment, while also retaining a young and talented workforce and improving quality of life.
- Partnering with localities on redevelopment-oriented infrastructure avoids more costly and inefficient sprawl.
- Investing in distressed urban areas helps alleviate poverty and arguably lowers state outlays for social welfare.

Up-and-coming Allentown

Pennsylvania Senator Pat Browne's Neighborhood Improvement Zone legislation, passed in 2009 as Act 50, was dubbed by both supporters and detractors as "tax-increment financing on steroids."

The NIZ program (which was crafted as Allentown-specific legislation) has stimulated $600 million in new downtown investment, including a minor league hockey arena, 650,000 square feet of Class A office space, 100,000 square feet of upscale retail and restaurant space, and 156 new luxury apartments—all complete or under construction. In 2014, *Fortune* magazine named Allentown one of "five cities with up-and-coming downtowns."

Businesses lured to the NIZ zone include:

- The headquarters of the Penn National Bank: 300 employees
- Renaissance Hotel: 170 rooms and 200 employees
- Lehigh Valley Health Network Sports Medicine & Fitness Center: 65 employees
- Air Products, Inc: 125 employees
- Lehigh Valley Health Network Sports Medicine and Wellness Center: 500 employees
- Trifecta Technologies, an IT business services firm: 72 employees

These businesses wanted to be a part of the evolving character of downtown Allentown. Andy Derr, Trifecta's chief operating officer, has been quoted as saying, "Our environmental need is to be in an urban area, a walkable environment with a top-notch collaborative workspace."

So far, $135 million in NIZ tax incentives have stimulated $400 million in private development, generating about 3,000 jobs.

As Don Cunningham, president and CEO of the Lehigh Valley Economic Development Corporation, explains it, "The Allentown downtown area had been declining for three decades, holding back the growth of the entire region, and existing economic development incentives were not enough of a catalyst. The NIZ lit the fuse."

The NIZ covers almost 130 acres, but most of the induced economic activity has been in an eight-block area in the center of town. Through the NIZ, state tax revenues, as well as some local tax revenues, generated by a redevelopment project can be used to assist the project.

The diverted taxes (including state and local income, corporate income, sales and use, and amusement taxes) can benefit the project in the form of a loan, project equity, or a grant, with the Allentown Commercial and Industrial Development Authority acting to convert the revenue stream to the desired financial vehicle. Local property taxes are specifically exempt from the program, with a result that 96 percent of the diverted revenues are state revenues. This approach (relying almost exclusively on *state* tax revenues) is a key difference between Pennsylvania and the other states referenced here, all of which view the state commitment as complementing and supplementing *local* TIF commitments.

The $200 million PPL Center arena, now home to the Lehigh Valley Phantoms minor league hockey team, was financed by dedicated tax revenues from within the district. One sign that downtown Allentown is starting to achieve a desirable mix: The 170-unit apartment complex now under construction one block from PPL Center is entirely market-rate (the NIZ incentives cannot be applied to residential projects), and more than 90 units are already reserved.

ALLENTOWN PA

Another positive sign: Many previously vacant upper floors over ground-floor retail are being activated, some for creative new uses, like a 7,000-square-foot co-working space now humming with entrepreneurial activity.

Cunningham credits J.B. Reilly, president of City Center Lehigh Valley (the largest developer in the downtown district), with a strong urban vision for the area. Reilly's firm developed and managed the co-working space, not because it contributed to the bottom line, he says, but because it added to the growing buzz about downtown.

Pennsylvania's take

Inspired by Allentown's NIZ success, the Pennsylvania state legislature authorized the creation of City Revitalization and Improvement Zones in 2013. CRIZ is now applicable to all "third class cities," those with a population of at least 30,000. These include Erie, Reading, Lancaster, Bethlehem, Altoona, Wilkes-Barre, Chester, and York.

One key difference from NIZ: The new and incremental revenues can only be counted if the business is new to the state or, if relocating within the state, the business is producing greater state revenues than it did in its previous location.

The first cities chosen for CRIZ participation are Bethlehem and Lancaster, but it is too early to tell if they will experience anything close to Allentown's revival. Reilly and Cunningham agree that the CRIZ rules would have been problematic for Allentown, since most of that city's office growth has not been "net new" to the state.

Cunningham understands this restriction, but he also says, "Yes, it is relocation, but you can't have regional growth with the urban center in decline."

Bowling Green's transformation

A 2013 news account in the *Lane Report* of Lexington, Kentucky, summed up Bowling Green's downtown transformation this way: "Explosive growth in downtown Bowling Green and on its fringes illustrates exactly how multiple leaders from disparate economic sectors worked together to implement a $220 million transformation of what was a depressed zone just a few years ago." New public facilities—a minor league ballpark and a performing arts center—led the way and private investment followed.

Established in 2007, the Western Kentucky University Gateway to Downtown covers 383 acres and 52 blocks; as the name implies, the district essentially connects WKU to downtown Bowling Green. The driving force behind the project is a state Super TIF initiative known as the Signature Projects Program, authorized in 2007. Similar to the Pennsylvania NIZ and CRIZ programs, it allows qualifying developments to divert new state tax dollars it generates (individual and corporate income taxes, limited liability entity tax, and sales taxes) to fund projects in the district.

Aside from meeting certain program requirements (must be a "blighted urban redevelopment" area, and no more than 20 percent of the project can be retail), the key to unleashing the Signature TIF incentive is reaching a $150 million investment threshold within 10 years of approval.

The plan hinged on three anchors: Bowling Green Ballpark, Southern Kentucky Performing Arts Center (known as SKyPAC), and WKU. The public facility elements of the plan (the ballpark and SKyPAC) were designed as state-local partnerships, but since the state's participation was contingent on a $150 million investment from other parties, the local investments were a bit of a gamble.

Nevertheless, the city forged ahead using $25 million in general obligation bonds for the ballpark and a hotel tax to finance SKyPAC. With the state threshold met, Signature TIF revenues became available to the city for payment of debt service on the ballpark bonds.

Projects (both completed and under way) include:

- Bowling Green Ballpark, 4,500 seats, home to the minor league Hot Rods: $30 million
- Southern Kentucky Performing Arts Center, 1,600 seats, 201 employees: $28 million
- WKU-related investments: Alumni Square mixed use, WKU Health Sciences Complex, and student housing: $60 million
- Hitcents Park Plaza, 106,000-square-foot mixed use building with restaurants, shops, offices, and residences: $25 million
- Circus Square Park, three acres: $5 million
- Hyatt Place hotel adjacent to WKU, 100 rooms: $14.5 million

The district is attracting more private investment, most of which does not involve TIF subsidy. Another $80 million in projects are in the pipeline, including medical office buildings, three apartment projects, and

The $28 million Southern Kentucky Performing Arts Center was a key component of the plan to revitalize downtown Bowling Green, the economic hub for Warren County and nine surrounding counties.

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'The redevelopment of downtown Bowling Green has transformed our community. It was a good place to live, work, and play. Now it is a great place to live, work and play. The TIF district will positively impact the economy of the entire region for years to come.'

MARY COHRON,
TREASURER, WARREN COUNTY DOWNTOWN ECONOMIC DEVELOPMENT AUTHORITY

BOWLING GREEN KY

the Bowling Green Municipal Utilities Headquarters.

Counting pipeline projects, the total existing and planned investment stands at $300 million.

Operationally, the program works as follows: The Warren County Downtown Development Authority collects the local diverted taxes and receives the state's committed portion, then distributes the funds to the entities that made qualifying investments, according to prenegotiated agreements. Under the Kentucky program, Signature TIF revenues are pooled and can fund any eligible expenditure in the district, whereas in Pennsylvania each project benefits from the revenues that project generates.

Summing it up, Mary Cohron, treasurer for the district, says, "The redevelopment of downtown Bowling Green has transformed our community. It was a good place to live, work, and play. Now it is a great place to live, work, and play. The TIF district will positively impact the economy of the entire region for years to come."

Kansas City's revival

Kansas City, especially its downtown, is a well-documented urban revitalization success story. Tax increment financing is the primary tool driving its dramatic turnaround. The city's TIF program is particularly aggressive, using not only property taxes, but also economic activity taxes, which include individual earnings tax, net profits tax, and sales and use taxes.

Two state Super TIF programs have also been integral to the Kansas City revival. The Missouri Supplemental TIF Program (1997), which is generally targeted to blighted and economically distressed areas, allows diversion of up to 50 percent of state sales taxes or 50 percent of state income taxes. An eligible project must be a "major initiative" that meets certain investment or job thresholds and is found to have positive fiscal and economic impacts for the state.

The locality must also commit 100 percent of property taxes and 50 percent of EATs to the district. Interestingly, the program prohibits "funding for the construction, maintenance, or operation of any sports stadium, arena, or related facility." This provision would have been problematic for plans in Bowling Green and Allentown.

The 2004 Missouri Downtown Economic Stimulus Act established a tool similar to the Supplemental TIF, but with a more aggressive incentive. The diverted state tax revenues can be 50 percent of state sales taxes and 50 percent of state income taxes. Sites must be in a central business district and qualify as either a blighted or a conservation area. There are no economic distress criteria.

Five Kansas City projects have benefited from the Supplemental TIF Program, and a sixth has gained the more powerful MODESA backing. Three of these are downtown.

The Power and Light District, which has MODESA approval for up to $108.8 million in diverted state tax revenues, is restoring and rebuilding eight city blocks in the South Loop part of downtown. The district has generated $850 million in total investment and 1,570 new or retained jobs. The largest project within the district is KC Live!—425,000 square feet of specialty retail, dining, dancing, and drinking establishments and loft housing. KC Live! attracts more than nine million visitors annually and is the single largest factor in the dramatic expansion of the tourism and hotel industry in Kansas City.

Within the same South Loop-downtown redevelopment area, the 1200 Main district has funding approval of $62.6 million in diverted state tax revenues from the Missouri Supplemental TIF Program. The project included site acquisition, site preparation, and financing of the H&R Block headquarters building, which anchors the larger South Loop district renewal area by creating 525,000 square feet of commercial space, $292 million in new investment, and 1,100 new or retained jobs.

Also benefiting from the State Supplemental TIF Program, the Kansas City East Village district has funding approval of $33.2 million in diverted state tax revenues. The district, located on the eastern edge of downtown near the I-70 and I-670 loop, focuses on blight elimination through the creation of 1,120 new below market, market, and luxury housing units and associated neighborhood developments, construction of 71,000 square feet of retail space, and development of a new 204,000-square-foot world headquarters building for the J.E. Dunn Construction Company. Completed and planned projects total $356 million in new investment and 1,020 new or retained jobs.

The three downtown Super TIF projects total more than $200 million in state commitments that have helped leverage $1.5 billion in total district investments. This strategic infusion of state dollars generates benefits well beyond the district boundaries. The two headquarters buildings (H&R Block and J. E. Dunn) created and retained a total of 2,000 jobs and serve as anchors for other projects in the two redevelopment areas.

KC Live! has led to a fivefold increase in downtown tourism, from 2.5 million visitors in 2002 to 13.4 million in 2013. The investments have also made downtown Kansas City far more attractive for downtown living; the downtown population has tripled to nearly 20,000 in the last decade.

"When you walk around the streets in downtown Kansas City, you can see the tangible results of how these tools have transformed the area and spurred

KANSAS CITY MO

Sales at the Power and Light District in downtown Kansas City, Missouri, have more than doubled since 2008, but the district's sales, property, and earnings tax revenues continue to fall short of original estimates.

economic growth," says Bob Langenkamp, president of the Kansas City Economic Development Corp. "This story is one that represents the possibilities of what can happen when vision, community partnerships, and a commitment to revitalize the heart of a city can create very positive results."

Downside and promise

TIF was originally heralded as a tool for cities to combat blight and promote economic revitalization of distressed areas. TIF critics, and there are many of them, often cite projects that are counter to this original vision, such as suburban and greenfield projects and big box retail developments that arguably detract from Main Street.

In a 2008 article in *Planning & Environmental Law*, Greg LeRoy, director of the policy group Good Jobs First, argued that many states have such loose definitions of blight and other qualifying characteristics that TIF is often blind to place-related factors. LeRoy cited Good Jobs First's quantitative analysis indicating that TIF is more often used to move current jobs to new locations than to create "net new" jobs and that most of those relocations were "outward" (moving farther away from the CBD).

Other TIF critics chide city leaders for diverting scarce tax revenues needed for basic city services and question whether the projects funded are needy enough or worthy enough to warrant the incentives. In California, TIF and local redevelopment authorities were essentially eliminated in 2011 because of the fiscal impact on the state (a result of the state's reimbursing localities for a portion of foregone taxes that support basic services).

State Super TIF programs are now entering the fray, offering what could be the most powerful inducement ever devised by the economic development field.

If structured to address economic distress and encourage responsible, place-oriented economic development, Super TIF can be a tool for transforming cities, promoting more responsible growth patterns, and improving the quality of urban life. In order to achieve these lofty goals, cities and states need to have a well thought-out strategy for when, where, and how to use "TIF on steroids." ■

Evans Paull is principal at the consulting business Redevelopment Economics. The firm uses economic development and economic analysis tools to promote urban redevelopment.

RESOURCES

ONLINE

Pennsylvania's CRIZ Program: http://newpa.com/find-and-apply-for-funding/funding-and-program-finder/city-revitalization-and-improvement-zone-criz.

Allentown/Lehigh Valley City Center: www.citycenterlehighvalley.com.

Kentucky's Signature Projects and related TIF programs: www.thinkkentucky.com/kyedc/pdfs/TIF_FACT_SHEET.pdf.

Bowling Green City Center (Western Kentucky University Gateway to Downtown): www.gotoubg.com.

Missouri Supplemental Tax Increment Financing Program: http://ded.mo.gov/upload/tif%2811-07%29.pdf.

Missouri Downtown Economic Stimulus Act (MODESA): ded.mo.gov/upload/modesa.pdf.

Kansas City EDC: http://edckc.com.

Kansas City Power & Light District: www.powerandlightdistrict.com. HM00/20140624/102395/HHRG-113-HM00-Wstate-JohnsonJ-20140624.pdf.

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