

## **Testimony - Future of Pennsylvania Cities Large and Small**

**Submitted by the York County Economic Alliance to the  
House Urban Affairs and Senate Urban Affairs & Housing Committees**

**June 13, 2013**

Chairmen of the Committees, Senators and Representatives, welcome to York, and thank you for this opportunity to testify before your distinguished committees. My name is Bob Jensenius. I am Vice President of the York County Economic Alliance. Sitting next to me is Blanda Nace, our Senior Manager of Development.

The York County Economic Alliance was founded in 2012 through an affiliation between York County's chamber and economic development organization. We are York's primary business resource for facilitating expansion, funding, redevelopment, networking, business-to-business promotion, workforce development, and advocacy, among many other services. We serve over 1400 business members and we serve as staff and administration to 13 County Boards and Authorities including the York County Alliance for Learning, General Authority of Southcentral PA, Partnership for Economic Development in York County, Redevelopment Authority of the County of York and the York County Industrial Development Authority, to name a few.

I believe we have a great story to tell.

In September of 1777 the Continental Congress, under threat of the advancing British, moved the location of the colonies' central government from Philadelphia to Lancaster and then to York. It was in York that the Congress adopted the Articles of Confederation, proclaimed the first National Day of Thanksgiving, and signed the French Treaty of Alliance. All of these events occurred in the nine months that the Congress stayed in York. That is where The City of York made history for being the first Capital of the United States.

While some uninformed historians may dispute that the adoption of the Articles of Confederation was the defining moment that gave birth to the United States, thus making York the first Capital, that's our story and we're sticking with it.

We have many exciting things to talk about this morning along with many challenges faced by all Pennsylvania cities. Before I talk about some of the challenges let me speak about the citizens of York. Yes, we have a rich and proud history, wonderful buildings, and a great location. But what really makes a difference, is our people.

If you want to know what drives urban revitalization its smart, hard working, dedicated people with sufficient resources. You will meet many of those people today.

I speak to you today having worked for a privately owned company that was acquired by a Fortune 100 company with similar businesses. They were pleased with the high productivity per employee, the low absentee rate, and the low healthcare utilization of our York employees.

As we look at the successes in the past and into the future our strength lies with productive York County residents, we hold the key to shape our own future. But to shape our future we also need the proper tools to do so.

York's economic development is focused on Business Development, Product Development (commercial, retail and residential construction projects), and Promotions and Marketing of our Downtowns, but York needs your help.

- Comprehensive Municipal Pension reform and reforms that will modernize Act 111 binding arbitration
- Modify the existing program guidelines and allow for funding to be applied to mixed-use projects for the SBF, CED, RACP and Building PA funding programs
- Support the passage of SB 947 the City Revitalization and Improvement Zones Act (CRIZ)
- Continue and enhance funding of the Keystone Communities program, including Planning Grants, implementation Grants and Development Grants

Pension reform must be addressed while at the same time recognizing the hard working state and municipal employees. This is why the business community is concerned with municipal pension reform.

The business community has come to understand that even the best managed communities don't have the tools they need to truly hold down the often-spiraling cost of pensions. In the business community, we wouldn't accept these circumstances; nor should our municipal leaders, but all municipalities need the General Assembly to act to provide these cost controlling tools.

We have been proud to be members of the Coalition for Sustainable Communities since September 2010, because we recognize the need for legislation that will maintain the fiscal integrity of the pension programs that so many employees count on for their retirement. Recent legislation has addressed only short-term budgetary issues while ignoring long-term cost containment.

Coalition for Sustainable Communities members all support comprehensive pension reform, such as Representative Seth Grove's bill which would shift from defined pension benefit to a cash balance "hybrid" plan a more modest defined benefit supplemented by a defined contribution plan for new hires; also allowing existing pension liabilities to be paid down over time and without the need for new revenue. Additionally, pension reform should require calculations on base pay only, eliminating "spiking" (which occurs when final base pay calculations are bloated to include overtime hours and unused sick/vacation days); and remove pension benefits from the collective bargaining process. Reform legislation needs to freeze benefits for existing public safety personnel and establish a pension plan portability options for new hires. All of these reforms will only serve to improve job and pension security for the uniformed unions.

As the national economy begins to show signs of awakening, we don't want the fiscal strain on Pennsylvania's municipal governments to stunt a full recovery in Pennsylvania. We must act - no one wants to live, work or grow a business in a community that is being pressured to cut services and raise taxes.

Everyone, not just our third class cities, suffers from the current municipal pension distress which leads to higher taxes and/or reduced services for businesses and residents. Our municipal governments suffer because increasing higher shares of budgets are devoted to legacy costs. And labor suffers when financially stressed pensions do not provide retirement and employment security.

While our cities tend to be the front line of the pension crisis, these problems are not just City problems. In fact, at least one municipality in 66 of the 67 counties in Pennsylvania is in severe distress. This includes rural townships and boroughs as well.

In total about 1/3 of all Pennsylvanians live in a distressed municipality.

Business leaders from around the state know what I know, that the uncontrollable cost of municipal pensions is not just a problem for York City, it is a problem for Pennsylvania.

Also a problem for all of Pennsylvania is Act 111. Act 111 began as a fair and neutral process, however, in the opinion of Coalition for Sustainable Community members, has become one of frequent adverse arbitration awards depleting municipal financial health. The current process of binding arbitration is one of the primary causes for escalating costs. Even the best managed municipalities are not immune from adverse arbitration awards. And this is not just a city problem.

Act 111 awards have injured municipalities across Pennsylvania, and the Coalition for Sustainable Communities is working to reform and modernize Act 111, something that has not been done since it was first enacted in 1968. The Coalition for Sustainable Communities wants to see legislation that will ensure that standards for awards include a justification of the award based on the evidence presented and a calculation of new costs and account for a municipality's ability to pay. The Coalition also seeks reforms to Act 111 to penalize either party for failing to engage in good faith bargaining; start the collective bargaining process earlier in the year and require arbitration to be requested earlier; expand the list from which a neutral arbitrator is selected from 3 to 7; require the cost of arbitration be shared equally between both parties; require arbitration sessions be open to the public; and broaden avenue for appeal process and for municipal relief when the Auditor General identifies an illegal pension benefit.

I won't go into more detail, as you have heard about the need for more comprehensive binding arbitration reform and comprehensive municipal pension reform from others today. But, as business leaders concerned with economic development, we know that when our communities struggle, when they fall into distressed status or Act 47 oversight, it becomes increasingly difficult to attract and retain businesses.

I now yield the balance of my time to discussion of economic development successes and programs.

Thankfully, there is good news on the horizon: Cities are cool, the next generation of residents, business owners, employees and shoppers are excited about living, working and playing Downtown. Our future leaders actually want to live in urban environments.

A recent piece by the Brookings Institution (May 28, 2013) reviewed the latest Census Bureau population estimates through July 2012. Cities throughout the United States have seen a resurgence of population base. In fact, a larger number of college graduates recently surveyed are not interested in obtaining a driver's license and owning a car. New trends are showing up on company websites - businesses that offer bike-sharing, car-sharing and "walkability scores" of housing addresses. Downtowns and cities will thrive again in the future.

How is York capitalizing on these trends? What can we do to attract people to our city? We need to focus on Product Development (commercial, retail and residential construction projects), Business Development, and Promotions and Marketing of our Downtowns.

Following are several of York City's successes over the past few years.

I served as project manager for the York County Industrial Development Authority (YCIDA) for the construction of Sovereign Bank Stadium. This \$34.5 Million project was partially funded with Federal EPA Brownfields assessment funding, private contributions, prepaid rent and a \$13.5 Million RACP grant – yes, \$21 Million in private investment and donations to our community that results in a stadium with no debt, no additional burden on the local taxpayer. This investment brings over 300,000 visitors each year to the City of York! That is 300,000 "walking wallets" and 300,000 people some of which never had a reason to come Downtown. As a side note, the YCIDA pays a payment in lieu of taxes to the City of York and the County of York of \$100,000 – nearly double the amount of property tax revenue that was received prior to stadium construction. The Stadium has served as the catalyst that it was intended to be – we have seen the addition of restaurants, market rate housing, and commercial space near the Stadium and it also serves as a place for community pride. Sovereign Bank Stadium is not just one of the most beautiful minor league ballparks in America, it's also a place where a little boy from the City can stand in line to buy ice cream beside a retired banker from Wrightsville – and both of them are cheering for victory for the York Revolution.

The York Downtown Market District Revitalization activities benefited from a \$3.375 M RACP grant. By using existing private equity as match, Federal HUD funding as well as Federal USDA Funding, we were able to redevelop four major projects Downtown. The project costs for all four projects totaled \$7.5m.

1. Central Market renovations included upgrades to all mechanical systems, improvements to interior spaces and the addition of a sprinkler system. York's "Cathedral of Food" is finally up to code and ready for another 125 years. A few years ago I asked our Fire Chief how he would fight a fire at Central market – His response: I'd hose down the Strand next door.
2. Penn Street Farmers Market renovation included a new roof, new ADA restroom and repairs to exterior masonry. Again, our oldest Market is ready for another 140 years of helping us eat our greens.

3. Marketview Arts is the Downtown home of York College's fine art program, home to the PA Arts Experience and the new home of 7 professional artists studios – a place where student artists from York College can literally walk down a flight of steps and meet with an experienced mentor about being an artist – and hopefully not a starving artist. Marketview Arts has also added a 220-person capacity event space in the heart of Downtown directly across from Central Market.
4. YorKitchen is a shared commercial kitchen incubator available for rent by the hour to food producers, 24 hours a day, 7 days a week. Located downtown in the annex of Central Market House, the kitchen is located in the middle of a produce and food hub. Typically, what stands between the farmer or food entrepreneur and creating a new venture is the start-up costs to construct a licensed commercial kitchen to prepare their new products and that is what YorKitchen provides. Additionally, YorKitchen is an asset to the local agricultural community. Product diversity contributes considerably to a farm's economic performance. YorKitchen allows agricultural producers the ability to create value-added products with their commodities. With the ability to make pies from fruit crops or cider from apples production, for example, YorKitchen will directly contribute to helping these farms become more sustainable and successful. Since its opening in June of 2011, YorKitchen has helped to start 26 new businesses and has created 47 new jobs for our community.

These four projects would not have been possible without the ability to piece together funding provided by RACP, USDA and HUD, along again, with funding by local investors and donations. These projects are not grabbing headlines as would a new factory with 400 new employees. This is Downtown Economic Development – we must continue to chip away at creating multiple small business opportunities for our small and growing companies who want to be Downtown. As Economic Development Professionals, the staff of the YCEA helps to find the available funding, works with the private developers and assists in putting the pieces together.

The RACP program has been a huge success in York. \$73 million in assistance has been released to projects throughout York County since 1993. \$45 million of that has funded projects in York City. These are significant projects like Sovereign Bank Stadium, the Northwest Triangle, the Strand Capital Performing Arts Center, Central Market, Penn & Farmers Market, YorKitchen, Marketview Arts, our New City Hall and Police Headquarters, and the York College West Campus Development. These are projects that enhance our community and, as the program title infers, provides Redevelopment Assistance Capital. The future of RACP could affect the future of our Cities in Pennsylvania. Recently, the program has undergone changes – it is now open to applications and each project is scored on its merits. We welcome the transparency and thorough review process, but there are limitations now placed on future funding for the important projects like we had had in the past. The new RACP scoring process is broken in to five categories Job Creation, Community Impact, Strategic Clusters for Development, Financial Impact and Shovel Readiness. Most City projects can score well in the shovel readiness and community impact categories, so the 30 points gained there are helpful.

But once you start to review the remaining 70 points for Job Creation, Strategic Cluster and Financial Impact, future important community development projects similar to those built in the past are in jeopardy. To score well in the Job Creation category, a project must create 351 new jobs, AND retain 351 jobs, AND generate 351 indirect jobs AND 101 Construction jobs AND the average wage of the new jobs must be two and one half times the County median income or about \$138,000 for York County. The RACP program, which is QUOTE “for the acquisition and construction of regional economic, cultural, civic and historical improvement projects” may not be able to fund many cultural and civic and historical improvement projects that are needed in our cities.

RACP also has limitations on funding projects with housing components. Think about your typical Downtown. It was built with retail on the first floor and residential above. Over 100 years ago, the income from the residential units made the retail work for the small business owner. Nothing has changed – the residential component of a project is just as important as the first-floor retail component of a project. The York County Economic Alliance is currently working with a successful restaurant owner who wishes to expand his business. He is located downtown and has plans to purchase the building next to him, renovate the apartments upstairs, tear down the garage in the back and add more parking. This is a great project and we as Economic Development Professionals have been working with him to develop a business plan for the expansion and formulate a project that makes sense financially. Through DCED and the Economic Alliance, he should have access to great programs such as the Community Economic Development Loan Program ( or C-E-D Loan) – which provides a 2% interest rate loan for land and building acquisition, building construction and renovation, machine and equipment acquisition and working capital. Up to \$100,000, or 50% of the project cost can be available to retail businesses with less than 100 employees. He could also have access to the Small Business First (or SBF) loan program, which offers up to \$200,000, or 50% of the total project cost. But there is a catch. Neither program allows funding for projects with a housing component. As a smart business-man, he knows that he cannot expand in to the building next door and have a three-story restaurant. He also knows that he doesn’t want to own a building with deteriorated apartments above his new seating area. As a small business owner, he cannot afford to finance the project privately. He continues to seek funding and try to appropriately scale back his plans.

In addition to small business projects, larger scale market-rate housing development has been on the rise in York – the addition of projects like CODO 241, adjacent to Sovereign Bank Stadium and the \$4.8m CODO 28 – just a few steps away from Continental Square as well as projects like The Historic Rosenmiller Apartments and Codorus Flats on West Market Street are all NEW Market-Rate apartments in Downtown York. York has also added some very exciting new projects like Gable Flats on North Queen Street, Linden Lofts on Linden Ave and Monarch Mills on North Hartley Street – all built by private developers who see the future of our City and want to invest their money here.

Recent market studies by some of these developers have shown that there is a demand for 600 to 800 new market-rate housing units in the York area. The projects that are listed above have added just over 100 units – so we have a long way to go to meet the demand for City living.

One of our biggest challenges with new development in York is the lack of funding for housing development and mixed-use properties. CODO241, mentioned above, was a recipient of Housing and Redevelopment Assistance (HRA) funding as well as a Building PA Loan through the Commonwealth Financing Authority and the York County Economic Development Corporation. Even though, the Building PA loan allocation in York is \$4m – the limitation on a mixed use project only allowed \$840,000 to be used for the commercial portion of the \$12m CODO241 project. The HRA funding was structured as a loan to the developer and as the developer pays back the interest and principal of this loan, The York City Redevelopment Authority can launch housing initiatives and revolving loan funds that further help attack blight and poverty and improve our neighborhoods.

Commonwealth funding streams have been critical to the development of York. The reduction of funding and the guideline restrictions for mixed-use or residential properties over the years to programs like Business in Our Sites, Housing and Redevelopment Assistance, Community Economic Development Loans, Small Business First Loans and Building PA will soon begin to take their toll on the future of our Cities. We've been fortunate enough to be able to cobble together funding sources from Federal programs like HUD and CDBG and USDA, we've been working hard to assist developers and small business owners with their business plans and financing plans and opportunities to partner with similar and complementary businesses. Led by community partners like the York County Community Foundation, our community has been blessed with a strong philanthropic mindset. Our successful entrepreneurs and industrialists from the past want to leave a legacy of success and want to leave York in as good of shape or better shape than they found it in the 1940's and 1960's. How long can those individuals support a city? To see growth in our cities in the future, funding should be able to be applied to mixed-use projects for the SBF, CED, RACP and Building PA funding programs.

Another way to assist projects is to forego current tax revenue increases with a vision and foresight of future tax revenue.

We must seriously look at school property tax reform. Our current system penalizes people who choose to live in the city by taxing them as much as 30% more on a similar house they could buy in the county. And in York County because of growing school districts and an antiquated funding formula homeowners pay over 30% more in property taxes than their counterparts in other counties in the Commonwealth.

The City of York, County of York and York City School district all participate in the traditional programs such as Tax Increment Financing (TIF) and Local Economic Revitalization Tax Assistance (LERTA) to phase-in tax liability for property improvements. In York, however, we've taken it one step higher and offer the ReTAP program, the Residential Tax Abatement Program, which offers a full ten-year abatement of taxes on residential improvements for County and City taxes and a 10-year phase in of School District Taxes. This will pay off for us in the future, but remember when you hear of hundreds of millions of dollars of investment in the City that these dollars will not be realized as tax revenue for 10 years. It's an incentive that has attracted many developers to our City and has made their proformas work.

Speaking of tax revenue incentives; Senators Smucker, Waugh and Blake recently introduced Senate Bill 947 known as the City Revitalization and Improvement Zones Act (CRIZ). The CRIZ Act will reinvest state and local tax funds directly back into the City – the potential impact of the Act are huge to Pennsylvania’s 3<sup>rd</sup> Class Cities. Working similar to a TIF, all State taxes collected from businesses located in a CRIZ will be able to be used for debt service on a bond to finance the redevelopment activities. The Cities of the future will grow and develop quickly with this tool in their toolbox – and the good news is that it has no impact on the current state revenues – it simply foregoes the increase tax revenue and allows the local communities to realize a gain of employees who will live, work and play downtown. It will allow for the redevelopment of blighted areas and will encourage private development in our urban cores. An important component of this legislation is the definition of a facility: “A structure to be used for commercial, exhibition, hospitality, conference, retail, community, office, recreational or mixed-use purposes.”

Our local taxing bodies have been providing tax incentives for years in order to encourage development. It is exciting that the Commonwealth is considering doing the same and allowing future tax revenue to fund debt service on a project. The future benefits to the Cities and eventually to the Commonwealth are great.

We have had successes with not only product development but with business development as well. Start-up companies and the entrepreneurial spirit are the engines that will drive our Cities in the future, and we must do whatever we can to support and grow these businesses. Our Keystone Innovation Zone program (K-I-Z) was fortunate enough to have cash match from the York County Commissioners and administrative match from the YCEA which allowed us to directly fund companies for subsidizing patent costs, research costs and the development of internship and student placement programs. The funding cuts to this program have dramatically affected the amount of assistance that can go directly to these technology start-ups. While many communities have since abandoned their KIZ programs due to funding cuts, York continues to assist its KIZ companies and we continue to seek funding to support their future. Over the course of the past 5 years, we have assisted in the launch of 13 new technology companies and the creation of 75 jobs through the KIZ program.

The relatively new Keystone Communities program covers the Main Street and Elm Street programs as well as Planning, Implementation, development and Affordable Housing grants. York’s Main Street program, run by Downtown Inc is an extremely well run organization – there are over 100 volunteers that coordinate events from public art festivals to small business training seminars. The York County Economic Alliance, The Convention and Visitors Bureau, Downtown Inc and the York County Chamber Foundation and the City of York recently partnered to fund a Downtown Business Development Liaison – this person spends 30% of their time in other communities promoting Downtown York to small business who are considering opening a second location. The remainder of their time is spent “holding the hand” of new business owners to assist them through the process of finding a space in Downtown, negotiating a lease, securing funding and financing and working through the permitting and inspection processes. Downtown Inc works closely with the City of York to ensure a friendly, streamlined process for establishing a new business.



Since 2011, over 150 businesses have been approved to open their doors in downtown York, including:

- 12 New Eating Establishments
- 23 New Retail Establishments
- 28 Central Market Vendors
- 13 YorKitchen Tenants
- 10 Farmers' Market Vendors
- 5 Nightlife Venues
- 28 New Business & Professional Services

Later this year, Main Street Hanover will be applying for Keystone Community Designation and will seek planning and implementation grants through the Keystone Communities program. As I stated earlier, the popularity of downtowns is growing, and the interest in revitalization of small cities is becoming more common – we would expect, as you look at the Cities of the future in Pennsylvania, that you will see the formation of many more Downtown Main Street organizations who exist to attract businesses to their main street and promote and enhance the downtowns. The continued (and preferably) enhanced funding of the Keystone Communities program, including Planning Grants, implementation Grants and Development Grants is critical to the future of our cities.

Our entrepreneurial and small business growth is what got us to where we are today. York has a history of innovations and is a community of “firsts”. York has a rich history of inventiveness. In 1940 the YORK PLAN revolutionized industrial efficiency, which soon became the national standard for wartime manufacturing. We are home to many industrially designed “firsts”, like designing and creating the first marketable replacement tilt-windows, which can be found all over the world. Creativity is in our businesses, our shops, our workers, our artists and our schools... it’s in our blood.

York is on the forefront of showing everyone the power of being creative. York has some of the finest industrial designers and artists in the mid-Atlantic region. Our manufacturers and their skilled employees design and craft some of the finest motorcycles, violins, packaging containers and aeronautic parts in America. We are Creativity Unleashed. We are America’s Industrial Art and Design Capital.

York’s Citywide Artist Homestead Initiative is the only citywide artist relocation and homeownership program in the United States and offers two tiers of financial and amenity incentives to artists who purchase homes in the City of York, with priority given to artists who establish live-above-work studios. These incentives include a \$5,000, zero interest forgivable loan, \$3,000 of professional architectural services by SAA Architects or Murphy & Dittenhafer Architects for their new location, free promotions in conjunction with White Rose Community Television and even a free gym membership to the YMCA for a year. Again, this shows how we are able, as a community, to work cohesively to bring together our community partners and attract and encourage people and businesses to locate in the City.

The City of York Redevelopment Authority has also established and funded the Fresh Food Revolving Loan Fund for food and restaurant start-ups. We have loaned over \$150,000 to twelve new small businesses since 2009. This includes an amazing partnership between the USDA, the RDA, Peoples Bank, the Community First Fund, Downtown Inc and the City of York Department of Economic Development. This funding is actually used to enhance collateral for a borrower, which allows a business owner with less-than-perfect credit or inadequate collateral to secure a loan through People's Bank at a rate close to Prime. This low-interest, high-risk type of investment is another great example of one of the programs that we have created in order to enhance our Economic Development opportunities in the City of York.

As part of our ongoing effort to Lead, Connect and Advocate for the small business owner, we provide business incubation services despite the lack of funding sources to subsidize these programs. Our Economic Alliance Roundtables help to create jobs and wealth, commercialize technology, diversify our local economy, and build and accelerate our local industry clusters. We help to encourage women and minority business growth, and help a company identify potential spin-in or spin-out business opportunities. The YCEA's Business Advocacy Council recognizes the regulatory and legislative challenges facing York and strives to provide timely and thorough information to our members on governmental, regulatory and business issues and engage in cooperative efforts to improve the business and economic development climate for York County and our region. The Economic Alliance also joins all of our local organizations such as York College JD Brown Center, the Shippensburg SBDC, Penn State York Co-Op Extension, and York SCORE to participate in the York Entrepreneurial Support Alliance (ESA). The ESA fosters communication, cooperation and collaboration of services and most importantly provides one point of contact for an entrepreneur to gain access to the many resources available.

Please remember, cities are cool, the next generation of residents, business owners, employees and shoppers are excited about living, working and playing Downtown. Today, I have shared the many ways in which York is preparing to capitalize on these trends.