

How to make full use of CRIZ designation

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With a strong application, including \$350 million worth of new “shovel-ready projects,” Bethlehem won approval from the state as a pilot city for designation in the new City Revitalization and Improvement Zone.

The CRIZ program brings potent tax incentives to spur development on 130 acres of otherwise difficult-to-develop properties, including the former Bethlehem Steel Machine Shop No. 2, slated to house a new Bass Pro Shops, and the Martin Tower.

As the celebrations for participation in this exciting opportunity subside, the significant work of understanding and implementing the legislation – and maximizing its potential benefits for developers and businesses going to the CRIZ – has just begun.

Signed into law on July 9, 2013, as part of a much larger bill amending the Tax Reform Code of 1971, the CRIZ permitted third class cities with populations of at least 30,000 residents to apply for one of two initial zones of no more than 130 acres designated by a local “contracting authority” for “economic development and job creation.”

Before submitting an application to the state, each qualifying city was required to establish a five-member contracting authority to identify the zone’s boundaries and oversee construction. The contracting authority also has the broad authority to borrow money for construction, site preparation, reconstruction and renovation within the CRIZ.

Following a city’s selection by the state for participation within the CRIZ, the city’s contracting authority must certify to the state an annual list of the businesses within the CRIZ; and a baseline tax number to be sent to the state and the local taxing authority.

Provided a business is listed by the contracting authority and conducts business within the CRIZ, any amount of its eligible taxes paid to the state and local taxing authorities in excess of the prior year’s baseline local and state tax is transferred by the state from a separate fund established by the state treasurer and by the local taxing authority to the contracting authority’s fund.

Eligible taxes paid by construction contractors working within the CRIZ are returned to the contracting authority in the same way. The eligible taxes include corporate net income tax, local amusement tax, sales and use tax, personal income tax, local services tax, taxes paid on the sale of liquor, wine or malt or brewed beverages and several others.

Monies in the contracting authority's fund may be utilized for a variety of purposes, including: construction; improvement or development within the zone; the acquisition of facilities or land; and payment of debt service for bonds issued for construction or renovation. However, every five dollars distributed from the fund must be matched by one dollar of private investment.

Any money remaining unused in the contracting authority's fund at the end of a calendar year must be returned to the state. The CRIZ should exist as long as necessary for the repayment of debt incurred within the zone, but not longer than 30 years.

The actual effect of the CRIZ legislation is unconventional, as it incentivizes businesses to increase their payment of eligible taxes to bring more money into the contracting authority's fund.

As people and businesses rarely seek to pay more taxes, businesses and advisers intending to maximize the benefits of the CRIZ must be creative. Qualifying businesses within the CRIZ and those considering establishing a presence within the CRIZ should explore possibilities with legal counsel and tax professionals, such as modifying corporate structure and relocation of offices and employees in efforts to maximize eligible taxes.

Developers and landlords, on the other hand, should work closely with qualifying businesses to formulate methods of passing the benefits achieved from increased eligible taxes to qualifying businesses, without sacrificing the security of market rental rates necessary to secure and maintain financing.

Businesses in the CRIZ also must be careful to attract and invest private funds in a way that ensures that each year's fund can be fully depleted by the contracting authority in accordance with the five-to-one ratio required by the statute.

Although the CRIZ promises great things for Bethlehem, these considerations require careful analysis and the retention of professionals that can help businesses achieve innovative results for businesses and developers.

CRIZ participants who will realize the most success and long-term viability will be those that can quickly and efficiently identify and implement models that capitalize on its significant benefits.