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CONCERNING

Neighborhood Improvement Zone

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Note: Unless otherwise footnoted, the County real estate data presented in this essay was provided to and compiled by Indiana University.

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What is the Neighborhood Improvement Zone (NIZ)?

The Neighborhood Improvement Zone (NIZ) passed the Pennsylvania Legislature in 2009 establishing a special purpose taxing district comprised of 128 acres of land in the City of Allentown. The land is predominantly concentrated in Allentown's urban core around Hamilton Street and along the Waterfront west of the Lehigh River. The tax zone allows developers to tap state and local tax dollars to pay down debt associated with real estate development and construction.

Over the last decade, it is estimated that the NIZ has generated over a $1 billion in new development projects[1], mainly of new residential units and office building expansion to attract new businesses including Lehigh Valley Health Network and Automatic Data Processing (ADP). In addition, the construction of the PPL Center, an 8,500-seat arena and event center has provided the focal point of the downtown's rejuvenation. Furthermore, a 2016 report by the Lehigh Valley Workforce Development Board found the NIZ created more than 1,800 jobs between 2013 and 2016.[2]

The primary goal of the NIZ was to increase investment in downtown Allentown, generate additional growth in tax revenue, increase property values, and reverse decades of decline in Allentown's urban core.

The Controller's Office serves as the chief financial watchdog for the county and evaluator of the effectiveness of government programs. As property tax constitutes the largest source of local revenue to finance county operations, the Controller has a clear interest in determining if the NIZ has achieved its primary objectives.

In this Non-Audit Service, the Controller is looking to objectively and factually evaluate the effectiveness of the NIZ. In the context of this conversation, it is important to separate from this discussion other auxiliary concerns that while legitimate do not have any bearing on this investigation.

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[1] https://www.philadelphiafed.org/community-development/deep-tax-incentives-fuel-1-billion-in-new-development-in-allentown-pa-four-perspectives

[2] https://www.mcall.com/news/local/allentown/mc-allentown-anizda-jobs-20160406-story.html

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Over the years, there has been significant community concern regarding the NIZ's impact on community stability, housing prices and whether it has been an active contributor to gentrification. Furthermore, there is ongoing discussion about the nature of the NIZ and whether it has been a net benefit to the community as a whole.

The Controller casts no dispersions on those concerns, and believes them to be vital and important conservations which need to continue. However, the primary goal of this investigation is to review the financial impact of the NIZ. The Controller is seeking to answer the following questions.

1. Has the NIZ positively or negatively affected the value of both land and surrounding buildings?
2. Has the NIZ increased county property tax revenue?

The Controller believes these questions to be central to determining whether NIZ has achieved at least in part the reason for its existence beyond urban revitalization.

NIZ Impact on Land Value and Property Value

One of the primary goals of the NIZ was to encourage and incentivize greater investment and development in downtown Allentown. The primary argument for providing generous subsidies and tax breaks was to reduce risk and development exposure to aggressively generate new real estate growth. The end goal is to obviously create additional investment by catalyzing interest from other perspective developers who determine that there is potential for growth in real estate values. A regular and predictable growth in the value of land and property makes it more compelling for businesses and developers to invest in the city given the long-term window of real estate development.

In addition, increases in the assessed value of property yield greater property tax for the county. This in turn enables additional county investment and expansion of services resulting from greater revenue that wouldn't have existed absent development.

On the question of appraised building value, there is little question that the NIZ has been a net positive. From 2003 to approximately 2013, the taxable value of buildings was stagnant with a total value of $100 million. Today, their total value has nearly tripled to just over $300 million in appraised value. This is the result of new construction in the NIZ that has produced increased assessments on the new buildings.

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For example, one of the most valuable properties in the NIZ, City Center Five which currently houses ADP, has a total appraised building value of $46 million. Prior to the property being purchased under Five City Center OP LP, it was being held by City Center Investment Corp. City Center has been the primary beneficiary of the NIZ and is projected to be largest recipient of tax subsides throughout the duration of the NIZ's existence.

Under City Center's control, the Five City Center property had a minimal appraised value of $92,500. It generated just $336.50 in annual tax revenue for the county. Under its new appraised value, it generates roughly $173,000 in annual taxes for the county. The same can be said for Tower 6 which was originally appraised at just $21,700, but now has a net worth of well over $21 million. Tax revenue increased from just $500 annually to over $81,000 annually.

This pattern is consistent across many of City Center's investments with a significant increase in both tax revenue and appraised value. However, not all NIZ development has resulted in net tax revenue.

For example, 5 parcels of land under the ownership of the NIZ were taxable in 2015-2017, but are now considered tax exempt; this includes the arena, two parking lots and two restaurants that are not subject to local taxation, as they are owned by a local public authority. Their total assessed value is $133 million, which means $450,000 in potential tax revenue has not been realized since the properties became exempt in 2018.

This produced a very public and contentious battle in 2015 when Lehigh County presented a $3.2 million bill to the Allentown Neighborhood Improvement Zone Development Authority (ANIZDA) for school, county and city taxes.[3] A lawsuit from the Allentown School District challenging the arena's tax-exempt status sought to force the arena to pay property taxes. The court case upheld their tax-exempt status which deprived local authorities of significant revenue.

[3] https://www.mcall.com/news/local/mc-allentown-arena-tax-appeal-20151005-story.html

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Conversely, ANIZDA has a limited operating budget. It was budgeted at just $1.2 million in 2016.[4] This battle raises serious questions about the tax status of arenas, events centers and sports stadiums which are often built with large public subsidies, and have questionable contributions to the local tax base.

Besides the 5 parcels owned by the NIZ, also within the PPL Center's proximity are four taxable properties worth $42 million that contribute $153,000 annually in real estate tax, which are One City Center and Hospitality City Center. Given that NIZ's portion is worth more than three times that of the taxable portion, the $153,000 is only a small fraction of the $660,000 potential tax value of the PPL Center.

Furthermore, the NIZ's impact on the value of land has been much less impressive and produced little in the way growth. The total taxable land value in the NIZ was around $18 million through 2013, before it drastically decreased following the counties reappraisal. During reappraisals, value was shifted from land to property, leading the average owner with a lower appraised land value despite the passage of 22 years since the prior appraisal in 1991. It has steadily risen since then, but has failed to recapture its full market value from 2003.

Perhaps one of the most salient breakdowns of the NIZ's impact has been the sectoral breakdown in increased property and land value. From 2003 to 2021, the majority of the value in property tax increases went to businesses who saw a $233 million increase in total property value. Businesses also accounted for a disproportionate share of the collective increase in appraised values. While businesses make up 61% of the ownership, they represented almost 90% of the total increases in appraised value. On land value assessment, the individual property owners (as opposed to business- or government-owned land) within the NIZ saw their total land value actually decrease by $22,000 on average from 2003 to 2021.

Furthermore, looking into the history of the property growth for NIZ properties reveals that relying on regular increases in appraised value yields minimal annual increases in revenue. On average the median rate of growth for building value was about 3% a year. This suggests that a finance strategy built exclusively around property tax or increases in real estate growth is unlikely to produce much in the way of year over year revenue growth.

[4] https://www.wfmz.com/news/insideyourtown/allentown-anizda-board-releases-1-2-million-budget-for-2016/article_940b42e2-33b1-5005-ae04-adda5217f400.html

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Taken together, it's difficult to argue the NIZ has not accomplished the primary goal of increasing both tax revenue and the value of development within Allentown's urban core. The increase in the value of property is both undeniable and immense signifying at least in part a compelling incentive for future development and growth.

It's unlikely that these appraisal increases will cease as development continues in the NIZ. Furthermore, the NIZ is legally fixed at 128 acres placing a finite number of opportunities for future development and growth.

This should in practice catalyze even larger increases in building and perhaps at a point land value, which has remained almost entirely unchanged. The old adage, "buy land they're not making any more of it" could soon hold true.

In addition, a large portion of the land within the NIZ is owned by government. These large parcels of land have seen increases in both land and building value which is of little consequence to public entities, which aren't concerned with appraised value as they are providing government services. This does suggest that efforts to consolidate government bureaucracy and locations would free up additional value land for future development. As it stands now, government absorbing the corresponding increases in value doesn't immediately benefit either tax payers or the government itself.

Future development in the NIZ could be expedited by freeing up government owned parcels of land for private development. On balance, some of the NIZ's signature development projects haven't resulted in tax revenue given their tax-exempt status; in particular the PPL Center and its adjoining parcels. However, one could argue that its benefit extends beyond the lost tax revenue extending into the ancillary benefits of event nights and games, which attract patrons and support local businesses which do feed into property tax.

In the future, for the benefit of taxpayers and the county, future development should focus on taxable properties and minimize the amount of parcels which become tax exempt. A greater emphasis needs to be placed on commercial growth and office construction which yield better building value and property tax revenue. By the standard of property values the NIZ has undeniably been successful.

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Property Tax Growth & Revenue

While briefly expanded on before, development in the NIZ has resulted in new property tax growth for the county as well as the City of Allentown and the Allentown School District. In total the NIZ has resulted in over $1 million in new property tax for the county. This almost double what it was in 2014.

According to the Downtown Allentown Community Development Initiative (DACDI), the NIZ contributed $5.4 million to the Allentown school district, and over $3 million in annual revenue for the City of Allentown.[5]

From our own report, the county saw significant increases in property tax revenue from the construction of Five City Center as well as Tower 6. The growth of residential units has also increased property taxes albeit at a considerably smaller share then commercial growth.

Additional NIZ growth has yet to fully materialize with the first office tower on the Waterfront expected to be open in June 2022. The recent development decisions of the Manhattan Building Company, one of the first major external developers to take on a project of considerable size in Allentown is also cause for optimism.

Even by DACDI's own standards county real estate tax revenue isn't projected to grow immensely through 2023. However, the school district and city will see a fairly higher share of revenue come in as future development projects come on the line.

In addition, there is considerable fluctuation with properties that move between tax exemption and non-tax exemption; namely, those held by the Allentown Commercial and Industrial Development Authority (ACIDA). ACIDA is an independent redevelopment authority whose primary goal is to acquire defunct or derelict commercial or industrial properties and responsibly redevelop them to create new tax revenue and generate additional job growth.

ACIDA regularly procures properties before selling them off to development partners. While these properties are being held, they're tax exempt, but based on our research their average time under tax exemption is almost a year and a half. This is in keeping with DACDI's mission.

[5] https://drive.google.com/file/d/1EKhIzbj1Qxi-eDWuvn7owti33ZoDzk5n/view

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The properties they procure have little in the way of taxable value and are unproductive for the city in terms of employment and tax revenue. To the outside eye, ACIDA procuring and shifting of properties can be hard to follow. However, their procurement of properties and subsequent sale to City Center enabled the growth in building values and tax revenue.

The total tax revenue lost through ACIDA's holdings is almost irrelevant taken as a portion of the total county budget. The total tax value lost while ACIDA held the property was only $19,932.48, which furthers demonstrates the total impact when compared against the revenue they generate once they've been redeveloped.

While the NIZ has produced new revenue, which would not have existed without the real estate growth that is produced, it shouldn't be taken as a panacea to financial challenges. Property tax growth is extraordinarily meager when placed against rising expenses and the total expanse of the county's real estate tax budget. The county's total property tax revenue billed, that is the amount assessed and sent to property tax payers was $115,423,745 in 2020[6], further minimizing the total fiscal impact of the NIZ on our bottom line. While new revenue is always vital, when placed in context, it is far less historic and significant.

$5.4 million for the school district sounds impressive, but the Allentown school districts financials challenges would be better resolved by increasing investment in the state's fair funding formula. If fully funded by the state, the City of Allentown would receive an increase of $111 million.[7] In addition, one has to weigh the total public subsidy of $1 billion against the total return on investment. It should be acknowledged that return on investment can't be measured exclusively in property taxes as a strong Allentown is also crucial to Lehigh County's success.

[6] https://www.lehighcounty.org/Portals/0/PDF/controller/General_Reports/AA%20-%20Real%20Estate%20Tax%20Collections%202020%20Final%20Report.pdf?ver=C5el31jR1TFgLGsQgkpmqQ%3d%3d

[7] https://paschoolswork.org/500/LehighCounty_AllentownCitySD.pdf

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Success or Not?

From a review of the evidence, it's clear the NIZ has achieved its expressed goals and certainly been a net financial positive to the county. While some of the growth in value has been concentrated in the hands of tax-exempt properties, the county has experienced property tax revenue growth.

The value of buildings has increased considerably as result of new construction, but land prices have remained largely unchanged. It is logical to assume land value should increase as enthusiasm for development in the NIZ grows and space for additional projects becomes limited.

Furthermore, this process also exposes the arbitrary nature of assessment and appraisal which is at the mercy of political will. There is a compelling argument to make for mandated appraisal every decade so property values and land values more accurately reflect the market. As it stands now, counties determine when they want to reappraise properties which means extended periods of time can pass creating mismatches between actual values and previous values.

As a total percentage of Lehigh County's local fiscal budget, the NIZ has not contributed a significant sum of money. The county's total operating budget dwarfs the growth in property tax revenue. It would be financially unwise for the county to count on large scale development projects to suddenly drive new sums of money into the county's pockets. Building values rise gradually and slowly across the board which means tax revenue climbs slowly too. The ability to expand programs and finance new goals will require new sources of revenue or greater contributions from non-profit entities.

Allentown's NIZ from the perspective of financial contributions is achieving its goals by the letter of the law. A much broader discussion about the use of subsidies and the responsibilities of private developers to contribute to the community is concurrently needed. This research does not address the concerns about poverty, housing quality or affordability which must also feature into discussions about the NIZ. Its success will ultimately be determined by how it's harnessed for the benefit of all.

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