

Case Study 5: Allentown, Pennsylvania

With a population of 118,000, Allentown lies 90 miles west of New York City and 60 miles north of Philadelphia. Established in 1762, Allentown is one of the oldest towns in the United States, and was the hiding place of the Liberty Bell during the American Revolution. Today it is the services and retail hub for the Lehigh Valley region. Like Duluth, Allentown operates a strong mayor system.³¹

What the situation was

Allentown struggled economically for decades. Large employers like Bethlehem Steel and Mack Trucks had closed or left, and many residents moved to neighbouring towns. In the 1960s, downtown Allentown was home to Hess's, one of the most popular department stores in the country. But the creation of suburban malls caused Hess's and many other businesses to close or follow their customers to the suburbs. The area was left deserted and unsafe, full of pawnshops, boarded-up buildings and check-cashing operations.³²

What it became

A total of 4,000 jobs have returned downtown along with \$1 billion of new development. As new businesses move into downtown, they bring more jobs with them, ranging from entry-level jobs in the new Marriott hotel and retail outlets to professional and managerial jobs at Lehigh Valley Health Network, CrossAmerica Partners, and BB&T Corporation.³³ Downtown Allentown is now a thriving mixed-use destination. A local resident recently remarked:

“I used to come here as a kid, but there was never any reason to come back unless you had jury duty... they’ve really cleaned it up. I can’t believe this is Allentown.”³⁴

Crime has been reducing in Allentown since 2007, but perceptions are now beginning to follow. The growth in pedestrian traffic, busy restaurants, and an increased police presence downtown have led to a renewed sense of security. As a result, the city has been able to introduce a range of cultural events, from art walks to concerts and sports events, further adding to downtown activity levels.

US News and World Report included Allentown in its most recent ‘Best Places to Live’ report, which considers factors like quality of life, job market, value of living, net migration and people’s desire to live in the locations it reviewed. Allentown beat places like Philadelphia, New York City, New Haven and Providence.

How it happened

Fiscal policy, in the form of an innovative state-funding programme, was used to catalyse massive redevelopment in the centre of the Allentown. As a result of the combined efforts of the local business community, developers, and local and state legislators, the Neighbourhood Improvement Zone (NIZ), passed the Pennsylvania State legislature in 2009. The general concept of using state tax incentives and

31 Allentown City Hall is currently the subject of an FBI corruption investigation. Despite the current coverage overshadowing the successes of Allentown’s turnaround story, the case study still offers significant insights.

32 “When the malls got built, it sucked everything out like a giant vacuum,” Mayor Pawlowski. The Atlantic’s James Fallows comments: “By the way, the more we travel, the more we come to regard these malls as Public Enemy No.1 in the mis-shaping of late 20th century America”. Allentown bets big to shed its former image, Marketplace NPR, September 11, 2014

33 Reaching for the Future: Creative Finance for Smaller Communities, Urban Land Institute, 2016

34 PPL Center opening showcases the new Allentown, The Morning Call, September 12th, 2014

increment financing is not new: the American railways were built on a similar model in the 1860s.

Neighbourhood Improvement Zone

The Neighbourhood Improvement Zone (NIZ) is a special taxing district that encourages development and revitalisation in downtown Allentown. All taxes generated within the NIZ (with the exception of school district and city taxes), can be used to service debt on any improvements within the NIZ. Seventeen Pennsylvania state taxes and four local Allentown taxes qualify. The state taxes include state income tax, corporate income tax, and sales tax: if a building is built in the NIZ, the developer can get back the sales tax on any purchase made in that building for 30 years. The state and a local, independent authority oversee the distribution of the tax revenues, and if the tax breaks exceed what the developer spent on the building, the remainder goes to the state.³⁵

One strength of the model is that it depends on the developer's ability to attract tenants. According to local developer J.B. Reilly: *'If the developer can't attract tenants, then the developer's going to be on the hook for repaying [their development] loans.'*³⁶ But aided by tax dollars that would otherwise go to general funds, developers can offer 20 to 30% discounts on market rents, and the programme has worked well.

The NIZ legislation is not only repaying Allentown's debt on loans and bonds, but also breaking even and will soon be accretive for the state. NIZ tax returns are steadily increasing, allowing the state to be repaid. Under the NIZ structure, base NIZ tax revenues remain within the NIZ during buildout. Surplus tax revenues on each project then revert to the state. The state collected an additional \$2m in 2012, about \$16m in 2013 as new projects came on line, and about \$18m in 2014.³⁷

In a recent report, the Urban Land Institute (ULI) attributes the success of the programme to outstanding public-private collaboration with a clear vision: *'That partnership's strength was fueled by the leaders' commitment to one common mission: to drastically improve Allentown.'*³⁷ The report considers Allentown alongside five other places that have used innovative partnerships and financing to turn their communities around. Once a community makes an intentional decision to change (a prerequisite), the ULI lists a set of ingredients that must in place for a place to succeed:

- A clear understanding of a community's competitive advantages;
- Strong leadership by both the public and private sides;
- A strategic vision;
- An entrepreneurial spirit;
- A public/private partnership culture;
- Knowledge of public financing tools;
- A commitment to design excellence;
- Organisational and staff capacity.

35 Allentown bets big to shed its former image, Marketplace NPR, September 11, 2014

36 City of Allentown, "Neighborhood Improvement Zone (NIZ)", www.allentownpa.gov/Neighborhood-Improvement-Zone.

37 Reaching for the Future: Creative Finance for Smaller Communities, Urban Land Institute, 2016

