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# City Revitalization and Improvement Zones



Program Guidelines

November 2014

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## **Section I – Introduction**

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The City Revitalization and Improvement Zone Program (CRIZ Program) was created by Act 52 of 2013. The Pennsylvania Department of Revenue (Revenue Department), the Pennsylvania Department of Community and Economic Development (DCED) and the Governor’s Office of Budget are tasked with administration of the CRIZ Program. These guidelines provide information for municipalities looking to apply to the CRIZ Program.

A City Revitalization and Improvement Zone (CRIZ) is an area of up to 130 acres, comprised of parcels designated by a contracting authority, which will provide economic development and job creation within a third class city. State and local taxes collected within the CRIZ will be used to repay debt service to stimulate economic development projects within the CRIZ. The CRIZ Program also permits one pilot zone to be designated. A Pilot Zone is an area of not more than 130 acres designated by a contracting authority within a township or borough with a population of at least 7,000 based on the most recent federal decennial census. These guidelines apply to both zones.

The focus of the program is to provide opportunity to spur new growth in cities that have struggled to attract development, helping to revive downtowns and create jobs for the residents in the regions. Vacant, desolate, underutilized or abandoned space will be developed, thereby creating jobs, increasing personal incomes, growing state and local tax revenues, reviving local economies and improving the lives of city residents and visitors.

## **Section II – Contracting Authority**

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### **A. A contracting authority may be created by:**

1. A city of the third class with a population of at least 30,000 based upon the most recent federal decennial census, so long as the city has not had a receiver appointed under Chapter 7 of the Act of July 10, 1987 (P.L. 246, No. 47).
2. A third class city with a population of at least 30,000 based upon the most recent federal decennial census designated as distressed under the Act of July 10, 1987 (P.L. 246, No. 47) that is not located in a home rule county.
3. A home rule county where a third class city with a population of at least 30,000 based upon the most recent federal decennial census designated as distressed under the Act of July 10, 1987 (P.L. 246, No. 47).
4. A township or borough with a population of at least 7,000 based on the most recent federal decennial census.

**B. The board of the contracting authority:**

The Municipality Authorities Act (53 Pa. C.S.A. § 5601 et seq.) specifies that the governing board of the municipality that creates an authority shall appoint at least five members of the authority. Section 5610 of the Municipal Authorities Act (53 Pa. C.S.A. § 5610) provides for the residency requirements of the governing board of the contracting authority.

**C. Powers of the contracting authority:**

1. Designating Zones: The contracting authority may designate a zone where a structure or complex of structures to be used for commercial, sports, exhibition, hospitality, conference, retail, community, office, recreational or mixed-use purposes may be constructed, reconstructed or renovated. Construction includes related infrastructure and site preparation.
2. Providing or borrowing money for the following purposes:
  - a. Development or improvement within a zone.
  - b. Construction, including related site preparation and infrastructure, reconstruction or renovation of a facility within a zone that will result in economic development according to the state-approved zone plan.

**D. Duties of the contracting authority:**

1. Preparing a list of qualified businesses and construction contractors. The list must include:
  - a. The name of each entity.
  - b. The zone address of each business.
  - c. The mailing address of each business.
  - d. State tax identification number of each business.
  - e. The parcel number of each business.
  - f. A map of the zone including parcel numbers.
2. Filing the list of qualified business and construction contractors with the Revenue Department by June 1 following the end of the baseline year and for every year thereafter. If the list is not timely provided to the Revenue Department, no state tax will be certified by the department to be transferred to the CRIZ for the prior calendar year.
3. Hiring an independent auditing firm to perform an annual audit, to be maintained by the contracting authority for the duration of the zone, verifying all of the following:
  - a. The correct amount of the eligible local tax was submitted to the local taxing authorities.
  - b. The local taxing authority directly transferred to the Pennsylvania Treasurer the correct amount of eligible local tax for deposit in the City Revitalization and Improvement Zone Fund. (See Section IV)
  - c. The state and local tax dollars transferred to the City Revitalization and Improvement Zone Fund were properly expended by the contracting authority.
  - d. If restricted funds or excess funding was requested by the contracting authority and approved by the commonwealth, that such funding was requested appropriately under Section 1812-C of the Tax Reform Code.

**E. Restrictions to Participation:**

1. A city designated as distressed under the Act of July 10, 1987 (P.L. 246, No. 47), which is located in a home rule county, cannot participate in the CRIZ Program unless the county creates the contracting authority that designates the zone.
2. A city that has had a receiver appointed under Chapter 7 of the Act of July 10, 1987 (P.L. 246, No. 47) cannot participate in the CRIZ Program.

**F.** If an existing authority created pursuant to the Municipality Authorities Act (53 Pa. C.S.A. § 5601 et seq.) will be the contracting authority, an opinion of legal counsel must accompany the application for the designation of the zone providing that the authority is a contracting authority with the purposes and powers required of Act 52 of 2013 (72 P.S. § 8801-C et seq.), which are not in conflict with any other purposes and powers of the existing authority.

## **Section III – Zone Designation Requirements**

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**A. Creation of the contracting authority** – The contracting authority must be formally created prior to submitting an application for designation of a zone.

**B. Zone Plan** – The contracting authority develops the zone plan, which is the basis of the application and details the zone designation, development plans and public and private financing for the project(s).

1. A zone plan must be submitted by the contracting authority to DCED electronically using the “Single Application for Assistance” found on DCED’s website, [www.newPA.com](http://www.newPA.com).
2. Zone plan applications must be electronically submitted, and three copies of appendices must be postmarked between November 1 and November 30 in years of eligible designations.
3. The plan must detail the establishment of one or more facilities that will promote economic development in the zone.
4. The plan must include the feasibility of the zone, a pro forma analysis taking into account tax revenues to be generated by the zone, jobs to be created or preserved in the zone, the level of private sector investment in the zone, tax growth and economic growth in the zone.
5. Specific information relating to the facility to be constructed, reconstructed or renovated must be provided, including related infrastructure and site preparation details.
6. A zone plan must include the likely regional impacts.
7. The plan must designate the specific geographic area or areas of the zone, including a GIS map of the zone with parcel numbers. Public infrastructure, such as roads and public sidewalks, will not be included in the acreage calculation.
8. Contact information for the contracting authority must be provided in the application.
9. An appendix may be attached to the zone plan if additional information is provided.

**C.** Any other information determined to be necessary by the Revenue Department, Office of Budget or DCED must also be provided upon request.

## **Section IV – CRIZ Program Approval**

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- A. Up to two CRIZ and one pilot zone approval may be granted prior to 2016. Beginning in 2016, up to two CRIZ may be granted each year.
- B. Applications must be approved by DCED, the Office of Budget and the Revenue Department.
- C. Once all zones have been awarded in a year of eligible designation, all remaining applications shall be null and void.
- D. Upon approval of the zone, the contracting authority will notify the Pennsylvania Treasurer, who will establish a special fund for the zone (The City Revitalization and Improvement Zone Loan Fund).
- E. If the zone plan is amended or modified in a significant manner after the zone is approved and during the term of the zone, the contracting authority must inform DCED, the Office of the Budget and the Revenue Department in writing with a detailed explanation of the amendment or modification. DCED, the Office of the Budget and the Revenue Department may ask for additional information.

## **Section V – Zone Duration**

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A zone will be in effect for the period of time necessary for the repayment of debt incurred for the zone including the issuance of bonds. However, all debt, including bonds, must be repaid no later than 30 years after the initial issuance of debt or bonds, and the zone shall terminate at that time.

## **Section VI – Program Funding and Baseline**

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- A. The year of zone approval is the tax baseline year for the program.
  - 1. Tax reports must be filed by contractors and businesses in the zone by June 15 to detail state and local taxes attributable to the zone the prior calendar year. State tax reports must be filed with the Revenue Department; local tax reports must be filed with the local taxing authority.
  - 2. From the zone state tax reports, the Revenue Department will certify a state tax baseline for the zone by October 15. No state taxes will be transferred to a City Revitalization and Improvement Zone Fund the October after the zone is approved.
  - 3. The local taxing authority will certify local taxes attributed to the zone and directly transfer those monies to the Pennsylvania Treasurer by October 15 for deposit into a specific City Revitalization and Improvement Zone Fund.

- B.** For subsequent program years, all zone-certified state taxes over and above the baseline, plus all local taxes certified as attributable to the zone, will be transferred to each City Revitalization and Improvement Zone Fund.
1. The baseline will be adjusted annually to include taxes attributed to any business relocating into the CRIZ from elsewhere in Pennsylvania.
  2. Each state tax certification will consider tax reports and adjustments from the prior calendar year.

## **Section VII – Transfer/addition of property**

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Under Section 1814-C(a) of the Tax Reform Code, parcels in a zone where a facility has not been constructed, reconstructed or renovated using funds obtained through zone designation may be transferred out of the zone if a request is filed in writing with DCED and approved by the Revenue Department, Office of Budget and DCED. Additional parcels in the city or municipality may be added to the zone so long as they do not exceed the acreage of parcels transferred out and the addition is approved by DCED, the Revenue Department and Office of Budget.

## **Section VIII – Zone Exclusions**

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- A.** The acreage of a zone cannot be increased after the zone is established.
- B.** A zone may not include neighborhood improvement zones.
- C.** A zone may not include any of the following unless and until these special zones are decertified: keystone opportunity zones, keystone opportunity expansion zones, keystone opportunity improvement zones (opportunity zones, collectively) or strategic development areas (SDA). Decertification information is available from DCED.
- D.** A zone may not include keystone special development zones or keystone innovations zones unless and until modifications to the geographical boundaries are made to the keystone special development zones or keystone innovations zones. Information on modification is available from DCED.
- E.** If an opportunity zone or SDA is decertified or a keystone special development zone or keystone innovation zone is modified after a zone is established and is then transferred into the zone per Section VII of these guidelines, businesses within the former opportunity zone, SDA, keystone special development zone, or keystone innovations zone will be considered businesses relocating into the zone from elsewhere in Pennsylvania. The tax baseline (see Section VI of these guidelines) will be adjusted to include taxes attributed to these businesses.
- F.** Projects located within a zone shall not be eligible for new RACP grant considerations; however, approved RACP grants that existed prior to zone approval shall not be restricted.

## **Section IX – Key Certification Dates and Transfers**

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- A. The contracting authority must submit to the Revenue Department a list of all qualified businesses in the zone by June 1 of each year.
- B. State and local zone tax reports are due annually on June 15.
- C. The Revenue Department will certify to the Office of the Budget the state taxes attributable to the zone, less the baseline, by October 15 each year.
- E. Local taxes attributable to the zone will be certified and transferred directly by the local taxing entity to the Pennsylvania Treasurer by October 15 of each year.
- E. The Office of the Budget will direct the Pennsylvania Treasurer to transfer the certified amount of state taxes from the General Fund to each City Revitalization and Improvement Zone Fund for each zone by October 25 of each year.
- F. The Pennsylvania Treasurer will authorize payment of certified state and local taxes from each City Revitalization and Improvement Zone Fund to the contracting authority by November 4 of each year.

## **Section X – Zone Tax Reports**

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- A. All construction contractors and qualified businesses in a zone must file a zone state tax report, with the Revenue Department and a local zone tax report with the local taxing authority by June 15 each year to identify taxes attributable to the zone in the prior calendar year.
- B. The following state taxes will be detailed in the zone state tax reports as attributable to the zone:
  - 1. Corporate Net Income Tax
  - 2. Capital Stock/Foreign Franchise Tax
  - 3. Bank Shares Tax
  - 4. Sales, Use & Hotel Occupancy Tax
  - 5. Employer Withholding
  - 6. Liquor or Malt Beverage Tax charged on the sale of liquor, wine or malt brewed beverages in the zone by an LBC store or beer distributor.
  - 7. Sales/use tax paid by a construction contractor on the purchase of materials used in construction in the zone.
  - 8. Sales/use tax paid on the purchase of tangible personal property or services used exclusively by the business for activity in the zone.
  - 9. Liquor tax on purchases by a restaurant or bar from an LCB store outside of the zone.
  - 10. Malt beverage tax on purchases by a restaurant or bar from a Pennsylvania beer distributor outside of the zone.

- C. The following local taxes will be detailed on the zone local tax report:
1. Business privilege tax calculated and apportioned to reflect taxes attributable to the location within the zone.
  2. Amusement tax, only to the extent the tax is related to the activity of a qualified business within the zone.
  3. Local services tax withheld from employees of a qualified business or construction contractor for work performed in the zone.
  4. Earned income tax imposed by a city, township, borough or school district entirely within a city, township or borough where a zone is located and withheld from employees of a qualified business or construction contractor for work performed in the zone.
- D. Construction contractors and qualified businesses that fail to timely submit complete zone tax reports will be subject to a non-filing penalty of the lesser of 10 percent of taxes attributed to the zone or \$1,000 for each late or non-filed report.

## **Section XI – Confidentiality Requirements**

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- A. An authorized agent for the contracting authority must sign a tax information confidentiality agreement to and comply with the provisions and prohibitions of state and federal laws as they apply to accessing, using, divulging or disclosing confidential tax information in the course of accessing zone state tax reports.
- B. A zone state tax report may only be used by a contracting authority to verify the state tax baseline amount calculated for state tax certification.

## **Section XII – State Tax Certification**

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- A. By October 15 following the baseline year and each year thereafter, the Revenue Department will:
1. Analyze timely filed zone state tax reports to calculate eligible state taxes paid by qualified businesses.
  2. Calculate refunds of eligible state taxes by qualified businesses.
  3. Calculate non-filing penalties paid by qualified businesses and construction contractors that fail to timely submit complete zone tax reports in the prior calendar year.
  4. Certify the amount to be transferred from the General Fund to each City Revitalization and Improvement Zone Fund [(state taxes - refunds + penalties) – state tax baseline].

**B.** The certification shall not include:

1. Taxes detailed on zone state tax reports submitted after the June 15 deadline.
2. Tax paid by qualified businesses whose state tax was not included in the prior year's baseline calculation, except businesses that moved from outside the commonwealth into the zone during the prior year.
3. Taxes paid by any businesses not identified by the contracting authority as an eligible business on an annual list of qualified businesses in a zone.

## **Section XIII – Use of City Revitalization and Improvement Zone Funds**

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**A. City Revitalization and Improvement Zone Funds may only be used for the following:**

1. Payment of debt service on bonds issued for the construction, including related infrastructure and site preparation, reconstruction or renovation of a facility in the zone.
2. Construction, including related infrastructure and site preparation, reconstruction or renovation of all or a part of a facility.
3. Replenishment of amounts in debt service reserve funds established to pay debt service on bonds.
4. Employment of an independent auditing firm to perform required duties on behalf of the contracting authority.
5. Improvement or development of all or part of a zone.
6. Improvement projects including fixtures and equipment for a facility owned by a public authority.

**B. Prohibitions:** Money may not be utilized for maintenance or repair of a facility.

**C. Excess Money**

1. The contracting authority must return to the Pennsylvania Treasurer by January 15 of each year, excess money not utilized during the prior calendar year. Excess money will be deposited into the General Fund.
2. Excess money will be credited to the contracting authority's debt account for utilization of repayment of restricted funds borrowed by the contracting authority, as prescribed under Section 1813-C(c)(3) of the Tax Reform Code.

#### **D. Matching Funds**

1. The amount of money transferred from a City Revitalization and Improvement Zone Fund must be matched by private money at a ratio of five City Revitalization and Improvement Zone Fund dollars to one private dollar.
2. By April 1 following the baseline year and each year thereafter, a close-out audit will be performed by the contracting authority and provided to the Revenue Department, Office of the Budget and DCED. The audit report will include a detailed account of City Revitalization and Improvement Zone Fund expenditures and private funds expenditures for evaluation against the matching funds ratio requirement.
3. If the five-to-one-ratio cannot be supported by the expenditure report, all state and local tax money transferred from the City Revitalization and Improvement Zone Fund to the contracting authority the prior year will be deducted from the next fund transfer out of the City Revitalization and Improvement Zone Fund to the contracting authority.

#### **E. Restricted Account – Additional Funds**

1. If the amount transferred from a City Revitalization and Improvement Zone Fund to the contracting authority is insufficient to cover debt service on the bonds for a calendar year, the contracting authority must notify the Revenue Department, Office of the Budget and DCED. The notification must include:
  - a. A detailed accounting of the contracting authority's expenditures and the calculation demonstrating the need for additional funds.
  - b. Any other information requested by the Revenue Department, Office of the Budget and DCED.
2. The Revenue Department, Office of Budget and DCED will verify the amount of additional funds, if any, to be granted so the contracting authority may make payments on the bonds.
3. The Office of Budget will direct the Pennsylvania Treasurer to create a restricted account for additional funds within 90 days of receiving notification of need for additional funds from the contracting authority.
4. The Office of the Budget will direct the Pennsylvania Treasurer to transfer the additional funds to the restricted account to allow the contracting authority to make payments on the bonds. The transfer is limited to 50 percent of the state tax baseline of the calendar year prior to the date the additional funds are requested and may not exceed \$10 million. The transfer must occur in the first seven years following the baseline year.
5. The additional funds must be repaid by the contracting authority to the General Fund by the date of final payment on the originally issued bonds.
6. If the contracting authority does not repay the additional funds by the final bond payment date, the city, township, borough or county that created the contracting authority under Article II of these guidelines must pay the amount due to the General Fund plus a 10 percent penalty on the outstanding amount of additional funds.

#### **F. Restricted Account – Extraordinary Funds**

1. The contracting authority may request extraordinary funds that exceed the restrictions on additional funds under extraordinary circumstances. The Revenue Department, Office of Budget and DCED will determine whether circumstances merit extraordinary funding and the amount to be transferred if approved.
2. The Office of Budget will direct the Pennsylvania Treasurer to create a restricted account for extraordinary funds.
3. The Office of the Budget will direct the Pennsylvania Treasurer to transfer the extraordinary funds to the restricted account to allow the contracting authority to make payments on the bonds.
4. The extraordinary funds must be repaid by the contracting authority to the General Fund by the date of final payment on the originally issued bonds.

## **Section XIV – Application**

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To apply, the contracting authority must submit the electronic on-line Department of Community and Economic Development Single Application for Assistance located at [www.esa.dced.state.pa.us](http://www.esa.dced.state.pa.us). Once submitted, please provide three (3) copies of the application, and send with the required supplemental information via US Mail along with the signature page. Please reference the Single Application number on any documents sent with the signature page. All application documents must be received both electronically and by mail (postmarked) by December 1, 2014.