



Jennifer B. Hirneisen is an associate at the law firm of MacDonald, Illig, Jones and Britton, LLP. She received her bachelor of science degree in Business Logistics with a minor in Real Estate from The Pennsylvania State University and received her juris doctor degree from The Pennsylvania State University, Dickinson School of Law. Attorney Hirneisen is associated with the firm's Business, Real Estate and Family Law Departments.

Legal Brief

LERTA: 'All Good Things Must Come to an End'

On November 13, 2007, the popular tax abatement program, Local Economic Revitalization Tax Assistance ("LERTA") Program, will expire. LERTA presently gives a full tax exemption from city, county and school taxes for certain improvements to deteriorated property and new construction in the City of Erie. The current LERTA program gives a full tax exemption for a maximum of 10 years and does not terminate upon the sale or exchange of the property.

The current LERTA program, which went into effect in late 2002, has been a major factor on the increase in construction in the City of Erie. The following are some examples of the effects of LERTA: An average of 34 single-family homes per year were built in the city between 2003 and 2006, which is 20 more than the previous three years; 10 apartment buildings with five or more units were built between 2003 and 2006, which is eight more than the previous three years; and seven industrial permits were issued between 2003 and 2006, when none had been issued the previous three years.

Critics of LERTA claim that the program is too generous and deprives the city of much needed revenue. It is estimated that the City of Erie will lose \$7.8 million in property tax revenue from 2005 through 2016, based on the properties now in the program. Additionally, the loss of revenue exceeds \$23 million after factoring in the loss of revenue of school and county property taxes.

Local officials are formulating a new LERTA program that would be less generous to taxpayers, but at the same time still provide some tax incentives for property owners in Erie.

The mayor's proposal would provide a scaled-back version of the current LERTA program and would offer the most benefits to the targeted "blighted" areas of the city. For example, the mayor's proposed LERTA program would offer new residential construction in the inner city a tax abatement of 90 percent in years 1 through 5, 70 percent for year 6, 50 percent for year 7, 30 percent for year 8, 10 percent for year 9, and no abatement for year 10. Other areas, outside the inner city, would receive a residential tax abatement of 75 percent for years 1 through 5, 50 percent for year 6, 25 percent for year 7, and no abatement for year 8 and beyond. The mayor also has proposed that the added value for residential renovations would be fully exempt for three years citywide. For commercial and industrial property, the mayor has proposed benefits that range from 25 percent to 50 percent, depending on location, for 10 years and an additional benefit of as much as 50 percent depending on the number of jobs created.

The Erie School Board has proposed a citywide gradual "phase-out" of the LERTA program. For example, the new residential and residential renovations would receive a 90-percent tax abatement for years 1 through 7, 70 percent for year 8, 50 percent for year 9, and 30 percent for year 10. The commercial and industrial sector would receive a 100-percent tax abatement for years 1 through 6, 80 percent for year 7, 40 percent for year 9, and 20 percent for year 10. Erie City Council agrees with the Erie School Board's proposed citywide gradual phase-out of the LERTA program; however, City Council has proposed a 90-percent tax abatement for five years instead of seven.

The three taxing bodies will present their proposed LERTA changes to City Council and the proposed change is scheduled to take place sometime in mid-November. Hopefully, the new program will establish a middle ground. The most beneficial program for Erie would be a program that strikes a compromise between providing incentives for revitalization of property located in the City of Erie without "giving away the store."

What Additional Assistance is Available?

Various other tax incentive programs and financing programs are available in the City of Erie and surrounding areas for renovation, expansion and relocation projects. Most of the programs are based on the level of private investment, number of jobs created and/or retained, and the wage level of those jobs.

Tax incentive programs:

- Keystone Opportunity Zones
- Job Creation Credit Program
- Customized Job Training
- WedNetPA

Financing programs:

- Pennsylvania Industrial Development Authority
- Pennsylvania Economic Development Financing Authority
- Machine & Equipment Loan Fund
- Small Business First
- Enterprise Development Fund or Erie County
- Enterprise Zone Revolving Loan Fund
- Pollution Prevention Assistance Account

For more information, contact Jennifer B. Hirneisen at MacDonald, Illig, Jones & Britton, LLP at 814/870-7703 or jhirneisen@mijb.com.