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Allentown's Neighborhood Improvement Zone: Five Years of Failed Community and  
Economic Development

by

Christopher Woods

A Thesis

Presented to the Graduate and Research Committee  
of Lehigh University  
in Candidacy for the Degree of

Master of Arts

in

Political Science

Lehigh University

August, 2019

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Christopher Woods

Thesis is accepted and approved in partial fulfillment of the requirements for the Master of Arts in Political Science and Public Policy.

Allentown's Neighborhood Improvement Zone: Five Years of Failed Community and Economic Development

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Date Approved

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## ABSTRACT

Community and economic development decisions affect every aspect of city life. Allentown, Pennsylvania is currently in the midst of redevelopment financed by one of the largest state subsidies in the commonwealth's history, the Neighborhood Improvement Zone (NIZ) (Assad, 2017). The NIZ is an unprecedented state tax subsidy that most closely resembles locally-financed Tax Increment Financing (TIFs). Despite being the most utilized financing tool for urban redevelopment, the impacts of TIFs are still largely unstudied. The burgeoning literature trying to assess the effectiveness of TIFs is often too small in scale, focusing just on the redevelopment zones isolated from their surrounding neighborhoods, and utilizes misguided metrics of community and economic development success. This paper employs more comprehensive metrics like poverty rates, housing stability, and incomes of residents. It looks to analyze the effect the NIZ development has had on high poverty neighborhoods adjacent to the NIZ against comparable neighborhoods throughout the state, and examine how the city has trended as a whole over the span of NIZ development in context with analogous cities throughout the state. The paper also assesses whether the benefits of downtown development have spread throughout the city or remained isolated to the development zone, while trying to understand some of the mechanisms of TIFs that precipitate large sums of private investment that seldom benefit a city beyond the target area. Using census tract level data from the American Community Survey, I found that the lowest income neighborhoods in Allentown had higher rates of poverty than would be expected if those neighborhoods kept pace with similar high poverty neighborhoods in other cities. Additionally, these high poverty neighborhoods had no significant increase in incomes or employment

compared to similar neighborhoods statewide. Furthermore, when compared to a cohort of comparable cities, Allentown's metrics of economic wellbeing have lagged. Lastly, I found that the economic benefit of the NIZ has not spread beyond the development zone. While the development is still very much in its infancy, these findings point to a need for a reassessment of the development strategies, and the creation of parallel mechanisms to ensure the subsidy more broadly benefits the City of Allentown.

Key Words: Neighborhood Improvement Zone, Allentown, Economic Development, Equity, Tax Increment Financing

## Introduction

Allentown, Pennsylvania, like many other mid-Atlantic industrial cities, was hit hard by the Great Recession. By 2012, a full four years after the generally recognized start to the recession, persons living below the poverty line, as a percentage of total population, soared 4.2 percentage points from pre-recession levels, unemployment was up 6.3 percentage points, and housing vacancy had increased by nearly 1,500 units (U.S. Census Bureau, 2007 - 2012). It was in this context that the State of Pennsylvania, led by State Senator Pat Browne, passed the 2009 PA Act 50, creating the Neighborhood Improvement Zone (NIZ). Act 26 of 2011 and Act 87 of 2012 further defined and amended the regulations around the NIZ (PA Department of Revenue, 2018). Two more amendments were made to the law in 2013 and 2016. The NIZ is a zone of 127 acres located in center city Allentown and along the western side of the Lehigh River (ANIZDA, 2017).

The NIZ is a one of a kind tax subsidy that allows developers to capture state and local tax dollars to pay off the debts accrued in bonding to develop their commercial buildings (ANIZDA, 2017). These tax diversions pay down both interest and principal on the original loans. Developers then pass on the subsidy to businesses that locate in their buildings in the form of lower rents. The developer who has taken advantage of this incentive the most, City Center Investment Corporation, is projected to utilize \$1.3 Billion of would-be state and local tax dollars by the time the legislation expires in 30 year (Assad, 2017). The projected developments of City Center Investment Corporation alone would make the NIZ legislation one of the largest subsidies the state has ever offered. Pennsylvania offered such a generous subsidy to the developers in Allentown in

the hopes that the redevelopment would precipitate property values to rise to a level where the additional taxes generated, the increment, would offset the subsidy. It remains to be seen whether the development will achieve those desired ends. Furthermore, that debate is outside the scope of this study.

Here I look to assess whether the millions of dollars that have already been diverted are an effective development tool. To evaluate effectiveness I look at three key components of development: 1) how has the development affected adjacent communities; 2) how has the city done as a whole with respect to other comparable cities; and 3) have the benefits spread out throughout the city, or are they confined to a specific geographic location? I answer these questions by comparing a comprehensive list of metrics of development between Allentown and five comparable cities in Pennsylvania. The five cities are: Erie, Reading, Bethlehem, Lancaster, and Harrisburg. Additionally, the metrics of economic health will be compared against the state average over the same time. The data is taken from the Census Bureau's American Community Survey. This study begins in 2013 because that is when the PPL Center, a publicly financed arena in the center of the NIZ, and multiple office buildings underwent the bulk of their construction. Numerous other buildings opened in each of the subsequent years (City Center, 2018).

The use of publicly subsidized sports arenas and entertainment venues as a form of economic development is a contentious issue in city politics. It is less hotly debated by economists, however, as there is a rather broad consensus that these arenas typically fail to live up to their income growth and job creation promises, and the opportunity costs of those size subsidies could be better spent otherwise to achieve economic development (Coates and Humphreys, 2008; Wolla, 2017; Cockrell, 2017). While the NIZ legislation

also authorized the public financing of the PPL Center, and no comprehensive assessment of its impact on the community exists, this study does not look to disaggregate the effects of the PPL Center and the new office buildings. It also does not look to just assess the success of the blocks included in the NIZ, but rather the success of the city at large. A city-wide revitalization was the rhetorical promise of the NIZ by prominent architects and implementers of the legislation from its inception, and those narratives persist unchallenged today (Kraus & Assad, 2014; Tierney, 2014; McEvoy 2017).

## Literature Review

### Community Economic Development Theory

Economic development, in its modern sense, traces its origins to the progressive politics of the New Deal and the rapidly expanding post-war economy. Industry elites and politicians, especially at the city-level, cooperated in what John Mollenkopf first named pro-growth coalitions, to orchestrate mutually-beneficial urban development that was meant to improve the business environment and win political constituencies that supported and benefited from the urban development being implemented (Mollenkopf, 1983). These coalitions were a staple of the Democratic Party across many US cities, funded by liberal federal grant monies, but eventually found a home in the Republican Party as well, albeit targeting different constituencies. Republican leadership, under Eisenhower and Nixon, shifted the focus from public housing accommodations and general social welfare policies towards the promotion of commercial districts and “urban renewal” policies.

It was at this time, during the early 1970s under Nixon's presidency, that the federal government started outsourcing many functions of economic development to nonprofit and for-profit corporations (Chapple, 2012). Community development, viewed originally as the work of social organizations, and economic development, led by the pro-growth coalitions, coalesced into a single field in the wake of Lyndon Johnson's war on poverty as a response to intractable poverty caused by federal policy (Dreier, Mollenkopf, and Swanstrom, 2004; Chapple, 2012). Community Development Corporations (CDCs) increasingly began to concern themselves with local economies. Community Economic Development (CED) was overseen as a managerial and promotional pursuit, mostly in the formal institutions of Chambers of Commerce and CDCs, for the sake of attracting exogenous, typically large corporations to their cities (Teitz, 1994).

Beginning in the mid 1980's, a decade after the end of the federal government's "urban renewal" policies, public officials and CDCs began to see themselves as more than managers of business attraction, but in effect entrepreneurs responsible for driving local small business growth through innovation and creative approaches (Eisinger, 1989). These entrepreneurs focused on making their local constituencies more competitive through improving education, stimulating research, and improving business infrastructure (Isserman, 1994). Development organizations and local governments have more control over endogenous development conditions, and these locally focused strategies have been shown to be sustainable in terms of enduring growth and community development (Stough, 2001).

As of the mid 1990's these two development paradigms, attracting exogenous corporations and enhancing endogenous businesses, were complemented with what

Andrew Isserman called “knowledge and process”, which essentially looked to streamline the process of business and maximize efficiency of local economies as to both improve the local businesses *and* attract outside companies. In 1997 Michael Porter suggested that city development should reorient to stop pursuing policies that made cities competitive with less dense regions for business attraction, and instead highlight their natural assets like unmet customer demand, strategic location, industry clusters, and available workforce (Porter, 1997).

Throughout this evolution of CED, much of the focus was centered on specifically two metrics: job growth and property values (Man, 2001; Dye and Merriman, 2006; Bryne, 2006; Smith, 2006; Chapple; 2012). As Richard Dye and David Merriman have elucidated, economic growth in certain neighborhoods can come at the expense of economic well-being elsewhere in the city. Additionally, job growth and property values do not depict the full story of a neighborhood’s economic health. For example, rising property values are a benefit to homeowners who see their assets increase and are thus permitted to access lines of credit through their properties, but it can simultaneously hurt tenants in the community who are expected to pay higher rents in turn. As Timothy Bartik details in his theoretical analysis of local development policies, economic development, especially of high-skill firms, can often benefit in-migrants at the expense of low-skilled workers and the unemployed (Bartik, 1991). As such, neither job growth nor increased property values are sufficient to determine the success of development policies for preexisting businesses and residents. The more comprehensive the list of economic metrics, the better picture of community vitality.

Data constraints limit the depth to which this study can explore neighborhood success. Still, the metrics selected are a combination of those employed by two studies that did a particularly thorough job teasing out the impact of economic development policies: Meagan Ehlenz's assessment of development in University City, Philadelphia, and Charles Swensons' study of 5,000 census tracts throughout California (Ehlenz, 2015; Swenson, 2015). This study will particularly focus on poverty rates, unemployment, incomes, vacancy rates, housing costs, and transiency within neighborhoods. This more comprehensive economic assessment better allows the analysis to consider the true improvement to quality of life conditions, which I contend is the most important consideration in any development strategy.

This type of thinking about economic development, known as equity planning, was popularized in the early 1990s by scholars and practitioners like Norman Krumholz. Equity planning contends, particularly when public subsidies are involved, that poverty rates, municipal budgets for services, and unemployment should be given primacy over high end commercial projects (Krumholz, 1991). The true arbiter of success is how broadly the benefits are shared and to what magnitude.

#### Tax Increment Financing Theory

Allentown's Neighborhood Improvement Zone (NIZ) is a one of a kind special tax district that has precipitated over \$1 billion in new or proposed development (Assad, 2017). Because of its unique features and lavish incentive structure, there is no exact comparison to be made with past tax incentive policies. Within the broader field of CED, the NIZ development most closely compares to Tax Increment Financing (TIF). However, unlike most TIFs, which generally divert only real-estate taxes, Allentown's

NIZ allows developers to tap non-property local taxes, like earned income, and essentially all state taxes including, but not limited to, payroll taxes, income taxes, cigarette taxes, liquor taxes, sales taxes, and capital stock taxes (Pennsylvania Department of Revenue, 2019).

TIFs originated in California during the early 1950s as a way to match federal block grants, but remained relatively uncommon and mostly used only on the west coast until the 1970s (Weber, 2002). As of the mid 1990s, TIFs had become the most utilized financing tool for redevelopment in the country (Briffault, 2010). They originated as a complement to urban renewal policies heavily focused on remediating or removing blight from central cities, but have since evolved to focus more on overall economic stimulation and redevelopment. The expansion and redefinition of TIFs corresponds with a decrease in federal dollars for city aid and development, declining housing conditions in urban areas, and rising opposition to tax increases (Johnson and Kriz, 2001). In general, Tax Increment Financing is a system wherein a specific district is designated for redevelopment with the future increases in real-estate property taxes being earmarked to be spent in the district for public improvement. The authorizing government, typically a city, can also sequester taxes that would be paid to overlaying districts like a school, county, or special district (Merriman, 2018). The literature is quite clear that the major challenge to comprehensive, nationwide, assessment of the effectiveness of TIFs is the fact that the statutory guidelines vary drastically from state to state and city to city. As such, the success of a Tax Increment Finance district is highly dependent on local economic factors, the benefits granted, and duration of the zone.

No comprehensive typology of TIFs exist because of their variable nature between states' authorization and municipal implementation. However, they can thematically be split according to the mechanism used to finance them and end usage of the increment generated. Accordingly, *developer-financed* TIFs will be the focus of this paper because the method of increment generation and expenditure is most proximate to the function of Allentown's NIZ (Merriman, 2018). In developer-financed TIFs, developments are funded through conventional lenders who offer lines of credit to developers. When the TIF revenue becomes available, the developer is allowed to capture the increment and use it to pay down their interest and principal to the creditor (Merriman, 2018). This subsidy is then passed on to tenants in the form of lower rents.

In his 1999 theoretical inquiry into TIFs, Jan Brueckner highlights that local improvements are typically met with opposition from property owners living beyond the affected region. TIFs, by utilizing the appreciation of property values to finance development projects, and tapping overlaying tax districts, allow cities to improve local conditions without increasing taxation, thus quieting the opposition of more traditional public improvement financing (Bureckner, 1999). While politically expedient, Brueckner argues that the allocation of resources may ultimately be inefficient and the revenues generated insufficient. In her 2001 review of several TIF-adopting cities in the Midwest, Joyce Man finds mixed results, with some cities in Michigan and Indiana experiencing faster property value growth than control cities. But, those results were not found in Illinois, where non-TIF-adopting municipalities outperformed the districts that had adopted TIFs (Man, 2001). A 2006 study by Richard Dye and David Merriman found that TIF-adopting municipalities did not outperform non-adopting cities in terms of property

value growth, and furthermore within cities that had implemented TIFs, the TIF district detracted from growth elsewhere in the city (Dye and Merriman, 2006).

While raising concern about the impacts of TIFs, analysis such as these are few in number and also affected by the primary shortfall of the current literature evaluating TIFs: a narrow set of metrics by which they measure successful development. This is mirrored in the analysis of CED more broadly. Common methods in evaluating success contend that the growth of property values, and sometimes employment rates, are the two best dependent variables to assess. This is a limited view of success because property value growth does not benefit every stakeholder in cities, most prominently tenants who can face steeper rents in neighborhoods where property values are increasing, and employment does not necessarily speak to the quality and stability of jobs, let alone the affordability of basics like housing and food, given the incomes generated from those jobs. Additionally, this analysis is limited in disaggregating who is actually benefiting – whether they be long-time residents or newcomers to the community. While the aforementioned metrics are important to assess, they must be supplemented with metrics like poverty rates, changes in income, and housing stability to better understand the quality of life created by development policies.

### Hypothesis

As discussed earlier, TIFs have been the most widely used redevelopment tool in the US for the past two decades. This is not necessarily due to their efficacy, however, as much as to their political expediency (Bureckner, 1999; Briffault, 2010). TIFs do not require new tax dollars, as the subsidy comes from deferred future tax payments, and they

often produce impressive new development. The limited literature is clear that TIFs successfully produce construction growth beyond what would have occurred in the absence of public financing (Dardia, 1998; Johnson and Man, 2001; Chapple and Jacobus 2009). What is more contentious is the degree to which the development is worth the subsidy, let alone beneficial community development. In fact, TIFs often fail to even generate enough revenue to cover the cost of the subsidy (Dardia, 1998; Weber, 2003). Furthermore, many benefits of the subsidy fail to materialize beyond the investment corridor due to shifting of economic activity within the area and limited spillover effects (Chapple and Jacobus, 2009).

The idea of large development creating border vacuums that insulate the investment from the broader community, and even lead to blight and stagnation along the boundaries, was popularized by Jane Jacobs in 1961 (Jacobs, 1961). This is often a product of the border signaling a lack of welcome and participation. Large development tends to alienate the participation, economic or otherwise, of residents who do not feel as though the new space is meant for them. Allentown's stadium development and the contiguous high-end retail district mirrors this sort of large scale development. A 2017 quality of life survey was conducted for residents of Center City Allentown and found that one third of residents responded to the question, "To what extent do you feel a part of the new development in the downtown area," as "not at all." (Deegan and Baker, 2017).

With the NIZ development most closely mirroring TIF development, I hypothesize that the lowest income census tracts surrounding the NIZ will fare no better than similar high poverty tracts throughout the state in metrics of income, unemployment, and poverty since the construction of the NIZ began. Based off of the work of Chapple

and Jacobus, and Dye and Merriman, I expect that there has been little spillover benefits to these high poverty census tracts, and perhaps the detrimental effects of shifting capital out of those tracts into the NIZ. Secondly, I anticipate that Allentown as a whole has not outperformed comparable cities during the duration of the NIZ as assessed by income, poverty, unemployment, housing costs, and neighborhood transience. This expectation is based off of the literature finding that TIF-adopting municipalities often do not outperform non-adopting municipalities (Man, 2001; Dye and Merriman, 2006). Lastly, I expect that the census tracts containing the NIZ have markedly better economic indicators, five years after construction began in full, than the adjacent census tracts and non-adjacent tracts that are also within the city limits. This expectation is premised on the findings of minimal spillover effects of large development and Jacob's border vacuums concept (Chapple and Jacobus, 2009; Jacobs, 1961).

#### Methodology

Census tracts are the level of analysis in each of the three sections of this report. Census tracts are statistical subdivisions made by the United States Census Bureau to group between 1,200 and 8,000 people, although the optimal size is considered 4,000 people (U.S. Census Bureau, 2012). While neighborhoods are subjective constructs that conform to the perceptions of those who use them (Coulton, et. al., 2001), census tracts often serve as a proxy in social science research for neighborhoods (Ehrenz, 2015; Swenson, 2015). Data for census tracts is readily available, consistent, and certifiable. As such, this paper employs census tract level data to understand conditions in various parts of Allentown and Pennsylvania. Data for these tracts comes from the Census Bureau's

American Community Survey. The time frame of this study is from 2013, the year substantial construction began on the PPL Center and other NIZ buildings, until 2017, the year of most recent data.

For the first part of the study comparing high poverty neighborhoods, data is collected for 11 high poverty census tracts surrounding and including the NIZ, and compared against 45 other high poverty tracts throughout the state. Two high poverty census tracts exist in Allentown that are beyond the distance threshold to be considered NIZ-adjacent, explained further below, and thus they are grouped with other high poverty tracts in the control group. High poverty is defined as having at least 30% of residents of that tract living below the poverty line starting in 2013 (Galster, Quercia, Cortes; 2000). The control tracts are limited to the five control cities for this study, and must have complete data over the five-year timespan. The control cities are the five successively largest Pennsylvania “Third Class Cities” after Allentown, and as such are regulated under the 2014 PA Act 22 (Pennsylvania General Assembly, 2014). They are Erie, Reading, Bethlehem, Lancaster, and Harrisburg.

The second section of this study compares Allentown as a whole against those five cities during the same period. Metrics employed include median income, owner occupancy rates, poverty rates, median rents, unemployment rates, median home values, property vacancy rates, transience, and cost-burdened rates. The rates and figures for each of the five control cities are then averaged together to arrive at a single figure against which Allentown’s rates and figures are compared.

The final section looks at trends within three zones in Allentown according to median rent, median income, a rent-to-income index variable, and homeownership. The

first zone is the NIZ. It comprises 127 acres along Hamilton Blvd between 5th and 10th streets and along the western front of the Lehigh River. Some parts between 5th and 10th streets extend to Linden Street with one block extending as far north as Turner Street. There are also a few stand-alone parcels that are not contiguous with the primary block of NIZ development. While construction is beginning along the riverfront, no buildings have opened as a result of NIZ development. The remainder of the NIZ is almost entirely within the boundaries of Lehigh County Census Tract 97, with very little existing outside of the tract and the overwhelming majority of development occurring within its boundaries. While there is not an exact overlay, using Census Tract 97 serves as a strong proxy for the streets within the NIZ. The second zone is referred to as NIZ-adjacent. These are the contiguous census tracts around Census Tract 97 that are within three quarters of a mile of the NIZ via roads. There are 13 such tracts<sup>1</sup>. The final zone is non-adjacent tracts within the city. These are more than three quarters of a mile from the NIZ via roads, and there are 14 such tracts.

Statistical analysis is performed for each of the three sections. The first section has enough time-series data and an adequate sample size ( $n=112$ ) to perform three difference in differences regressions. The dependent variables for the three regressions are poverty rates, median income, and unemployment. All three analyzed the independent variable of interest being the NIZ construction as represented by the interaction term of the two dummy variables for proximity to the NIZ and the time of its construction. For all

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<sup>1</sup>Lehigh County Census Tract 14.01 is not considered NIZ-adjacent because although it borders Census Tract 97, the roads leading from the edge of the NIZ to the residential buildings in Tract 14.01 are more than three quarters of a mile away. Additionally, due to the steep topography, intersection of the Little Leigh Creek, and local consideration of that area to be “on the south side”, it is sufficiently removed from the NIZ development to be considered non-adjacent.

three regressions of high poverty tracts, the residuals are plotted against fitted values and visually examined to reveal a general congruity around the mean (Williams, 2015). Additionally, a Breusch-Pagan/Cook-Weisberg test for heteroscedasticity is conducted. The data shows chi-square values below the critical value for a regression with six degrees of freedom (Williams, 2015; van Belle, et. al, 2004). Both tests indicate that the data is not detrimentally impacted by heteroscedasticity. Covariates like home values, neighborhood transiency, and rent are used to reduce error variance in the models. Variance inflation factors are also assessed in the regression analysis and demonstrate that the regression formulas have low levels of multicollinearity (Pardoe, 2018). All three regressions prove statistically significant at the 0.01 level.

The second and third sections use descriptive statistics as the sample sizes are too small to allow meaningful regression analysis. Without the power of this regression analysis, no claims of causation can be made. However, the descriptive trends, in the context of the previous section's analysis and the Community and Economic Development literature, are meaningful and should not be discounted. Graphs are presented for both sections to aid in the visualization of the data and trends. Additionally, maps of the five year change in median rent and income are shown for the third section. Those maps use census block groups, rather than tracts, as the unit of analysis to show an even more precise description of what is happening in the city. Where data is presented for the block groups, it varies from the data presented for the census tract. Both units of analysis use Census Bureau data.

## Results

### High Poverty Tract Comparisons

Tax Increment Financing is often employed in the hopes of precipitating new development, and the secondary effects of creating good paying jobs in construction and retail (Briffault, 2010; Dye and Merriman, 2006). There is no doubt that Allentown's NIZ has precipitated new development and created some jobs in the construction of new buildings (Darragh, 2018). However, the picture is far less clear when the goals of increased employment, decreased poverty, growing tax bases, and increased wages are considered. It is impossible to prove a counterfactual to NIZ development (i.e. what would have happened without the intervention). But, what researchers can do is examine the results observed in comparison to what we would have expected to happen in the absence of the intervention. To do this, I utilize three difference of difference regressions between the 11 high poverty tracts adjacent to the NIZ and the 45 other high poverty tracts in comparable cities throughout the state. The regressions are all premised on the Parallel Trend Assumption – prior to NIZ construction, the difference between the control and intervention groups in the three variables remained relatively constant (Lechner, 2010).

The first regression, addressing poverty rates in the census tracts, finds that the NIZ development is statistically connected to smaller reductions in poverty within the treatment group than are experienced by the control group to a 95% confidence interval (Table 1). In other words, given no NIZ development, we would expect the NIZ adjacent census tracts to have experienced a statistically *larger* reduction in poverty over the

treatment time. From 2013 to 2017, the NIZ adjacent tracts have a reduction in the poverty rate from 39.7% to 39.4%, a near-negligible reduction. Meanwhile, the similar high poverty tracts throughout the state experience a reduction from 45.4% to 39.8%, a considerable drop in poverty rates over five years. The difference between these two differences is enough to assert a causal relationship between the NIZ development and the tepid decreases in poverty experienced by the surround tracts, in the context where similar tracts statewide have a precipitous improvement.

Table 1: Effect of NIZ-Adjacency on Poverty Rate in High-Poverty PA Census Tracts			
	Coefficient	Standard Error	Significance
NIZ-Adjacent (Interaction Variable)	7.269	2.04	0.013*
Individual Median Income	-0.001	0.000	0.000*
Unemployment Rate	0.197	0.101	0.053
Annual Residential Transience	0.084	0.065	0.198
Constant	64.419	3.932	0.000
Model Significance			0.0000
R^2			0.6135
N			112

The second regression addresses unemployment rates. The model finds *no* statistical difference between the control and treatment variables. This means that despite the NIZ development, and the assumption of job creation, the neighborhoods around the NIZ see no statistical decrease in unemployment compared against what is expected to happen without the development (Table 2). The treatment group sees a decrease in unemployment from 21.5% to 16.6% percent, a demonstrable improvement. However, the control group sees decreases from 20.6% to 17.0%. The model is assessing whether or not the NIZ development caused significant improvements in the unemployment rate

compared to the control group. The interaction variable signifying NIZ construction is far from significant, meaning the observed decreases in unemployment cannot be attributed to the NIZ, but rather a series of other factors influencing employment throughout the state. Over this period, drastic reductions in unemployment are realized at both the state and national level due to economic recovery from the Great Recession (Census Bureau, 2013 – 2017).

Table 2: Effect of NIZ-Adjacency on Unemployment in High-Poverty PA Census Tracts			
	Coefficient	Standard Error	Significance
NIZ-Adjacent (Interaction Variable)	-1.933	2.686	0.473
Individual Median Income	0.000	0.000	0.025*
Median Home Value	0.000	0.000	0.004*
Annual Residential Transience	0.003	0.063	0.967
Constant	30.233	3.433	0.000
Model Significance			0.0002
R <sup>2</sup>			0.2214
N			112

Finally, the third regression assesses the effects of NIZ development on the median individual income across census tracts. Similar to unemployment rates, the treatment group sees no statistically significant improvement in median individual income over the five years (Table 3). The 11 adjacent tracts see an average increase in median income from \$24,495 to \$29,508, a sizable gain. At the same time, the 45 control tracts see an average increase in median income from \$23,715 to \$26,875. Again, because the variable is far from significant, no causal link can be drawn between NIZ development and increases in median income that occurred as a result, outside of the general economic improvement that is impacting high poverty tracts throughout the state.

Table 3: Effect of NIZ-Adjacency on Individual Median Income in High-Poverty PA Census Tracts

	Coefficient	Standard Error	Significance
NIZ-Adjacent (Interaction Variable)	1402.035	1931.849	0.470
Unemployment	-233.656	66.172	0.001*
Rent	28.401	2.583	0.000*
Transience	-135.714	44.217	0.003*
Constant	11946.300	2389.346	0.000
Model Significance			0.0000
R^2			0.605
N			112

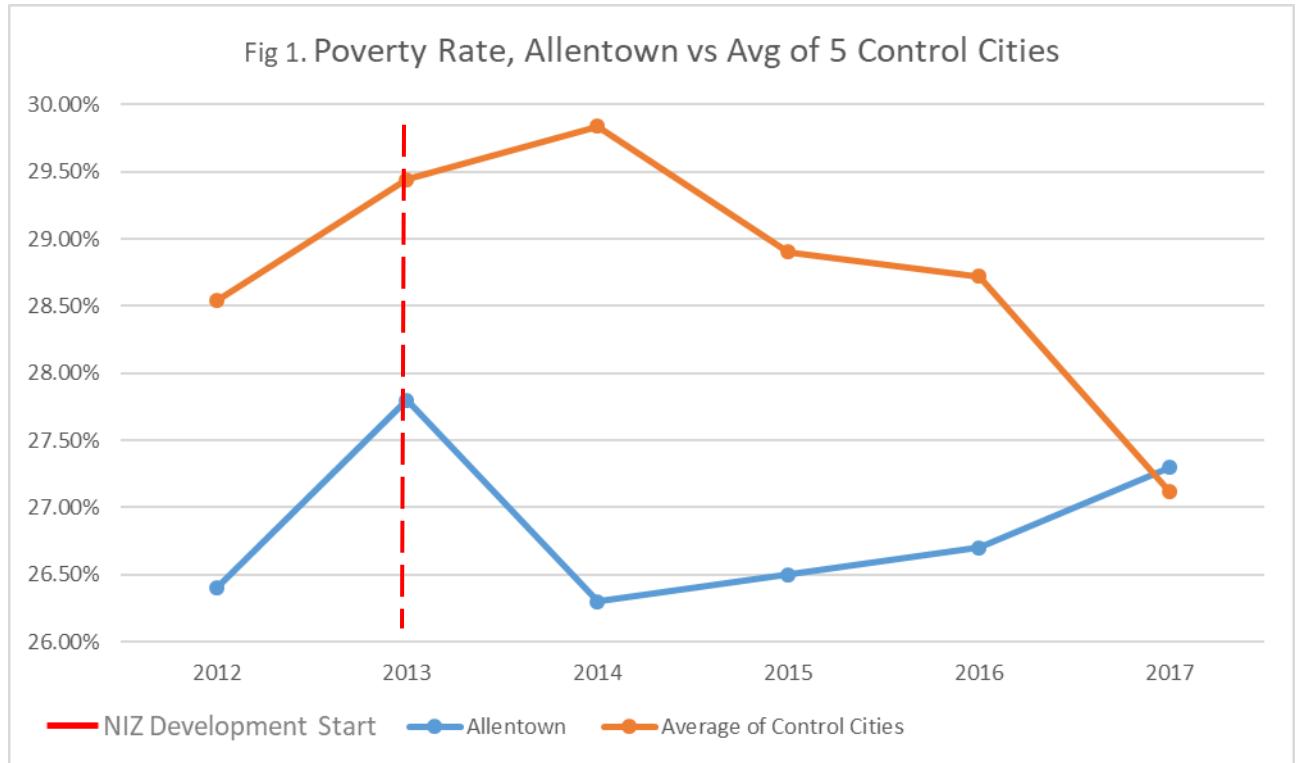
Factors that potentially influence these outcomes will be discussed later in the paper. The results from these three regressions point to a failure on the part of the NIZ for improving economic conditions in the adjacent high poverty census tracts. Five years after the development started, they have higher rates of poverty than would be expected without the Neighborhood Improvement Zone. Furthermore, despite the assumption of good paying jobs, neither employment rates nor incomes are statistically better than the outcomes observed throughout the state. While there are improvements in both employment and income, they cannot be attributed to NIZ development. Rather, their improvements are more likely influenced by the waning recession that influenced high poverty neighborhoods throughout the state.

#### City-Wide Comparisons

For city-wide comparisons, the five control cities are grouped and their outcomes averaged to produce a single value against which Allentown's are compared. No causal link can be drawn from the data, but as presented below, it will be clear that *despite* one

of the largest subsidies in state history (Assad, 2017), Allentown lags behind other midsized, class three cities. The metrics assessed are changes in income, owner occupancy rates, poverty rates, rent prices, unemployment, home values, unit vacancy rates, housing cost burdens, and neighborhood transience. The metrics are selected from studies that do a better job than most of truly understanding the economic impact of development policies (Ehlenz, 2015; Swenson, 2015), and supplemented with metrics available through the American Community Survey, can more fully encapsulate the economic situation of a neighborhood.

The first metric assessed is overall poverty rate between Allentown and the five control cities (Figure 1). In 2013, Allentown has a poverty rate of 27.80%. Over the five years of NIZ development, this rate slightly decreases to 27.30%, a drop of 0.50 percentage points. Meanwhile, the five cities average a decrease of 2.32 percentage points from 29.44% to 27.12%. In fact, every one of the five control cities sees at least *double* the rate of decrease in poverty over the same time as Allentown, with cities like Lancaster and Bethlehem decreasing more than 2.5 percentage points. Allentown and the five comparable cities all experience increasing poverty leading into 2013, a trend mirrored throughout the state. By 2014, Allentown sees a drop in the poverty rate while the average of the control cities continues to rise. However, starting in 2014 and continuing every year thereafter, Allentown's poverty rate continues to *increase* while the average of the control cities steadily decreases, eventually falling lower than Allentown's rate by 2017.



The next metric assessed is median income. Both Allentown and the five control cities see great income growth between 2013 and 2017. Like poverty, the five control cities see larger increases than Allentown. In 2013, Allentown's median household income is \$35,560. By 2017, it increases to \$38,522 – an increase of 8.3%. The average of the five comparable cities increases from \$34,763 to \$38,508 over that time, or a 10.8% increase. Only Harrisburg and Reading see lower income growth than Allentown during that time.

The median monthly rent in Allentown increases 6.50% between 2013 and 2017, from \$881 to \$938. This rate is actually lower than the increase seen across all five control cities, the average of which increases 8.60% from \$752 to \$816. This is a notable finding considering the often made claim that Allentown is experiencing dramatic increases in rents. This figure is just a median number, and not reflective of how

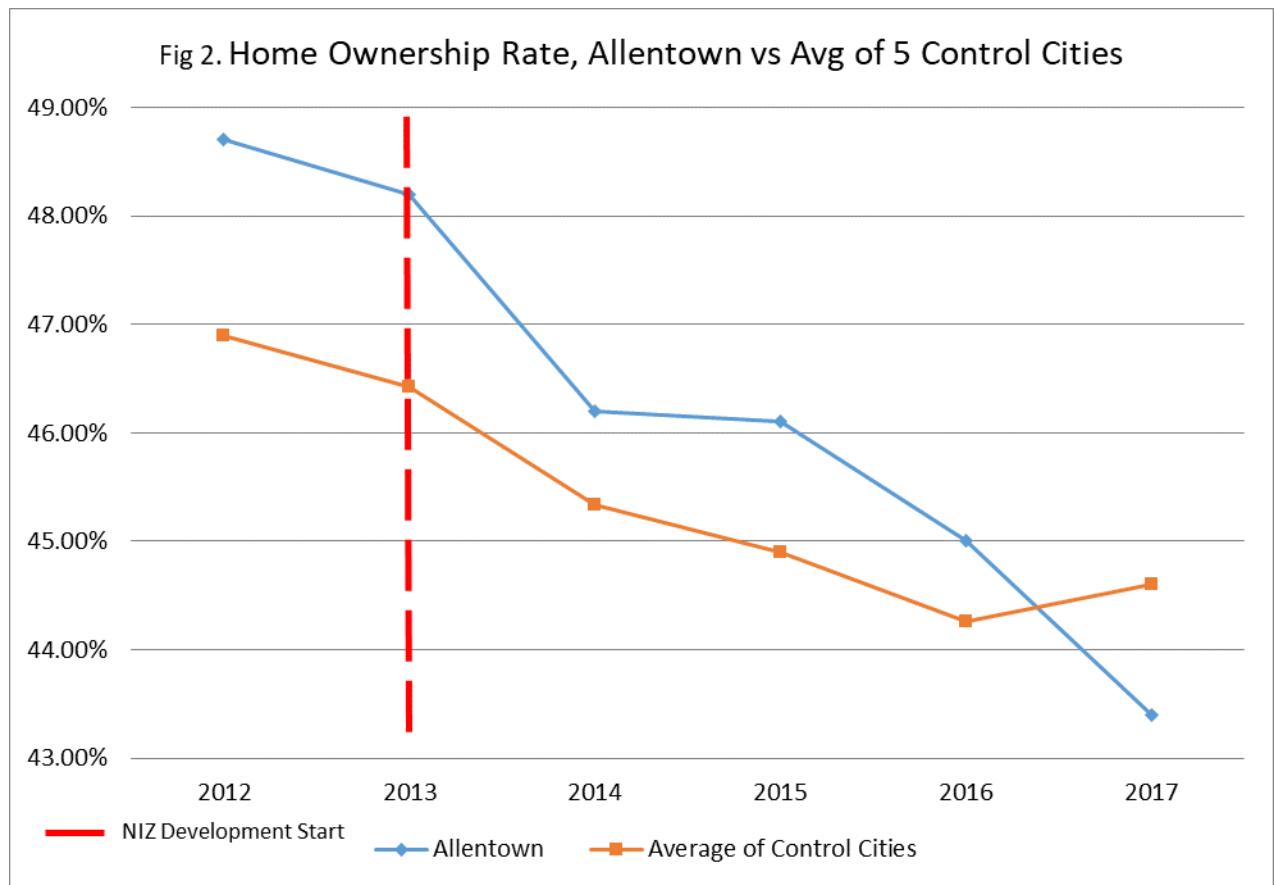
individuals' rates might change over time. It should also be noted that Allentown still has a considerably higher median rent than all of the control cities except Bethlehem. These two metrics factor into an index variable called the housing cost burden. It assesses how much renters and owners spend on housing costs as a percentage of monthly household income. Any percentage over 30% of monthly income towards housing costs is considered by the United States Department of Housing and Urban Development (HUD) to be cost-burdened (HUD, 2018). The percentages at multiple income levels are aggregated to find a percentage for the cities. Allentown has a cost burdened rate of 49.5% in 2013, meaning nearly half of all housing units (renting and owning combined) cost more than 30% of the household income. In 2017, this rate slightly decreases to 45.9%, a drop of 3.6 percentage points<sup>2</sup>. This drop is primarily driven by income growth exceeding the growth in the cost of housing. The five control cities have a cost burdened rate of 43.8% in 2013, which falls 4.4 percentage points to 39.4% in 2017. The larger drop is partially attributable to faster growth in wages than in Allentown, despite housing costs increasing faster too. Reading is the only city of the five controls that has a higher cost burdened percentage in 2017 than Allentown.

One of the most dramatic changes over the five years of this study is Allentown's change in homeownership rates. In 2013, 48.2% of all housing units in the city are owner-occupied. Every subsequent year, Allentown's homeownership rates falls to eventually be 43.4% in 2017, a 4.8 percentage point decrease. The control cities have an

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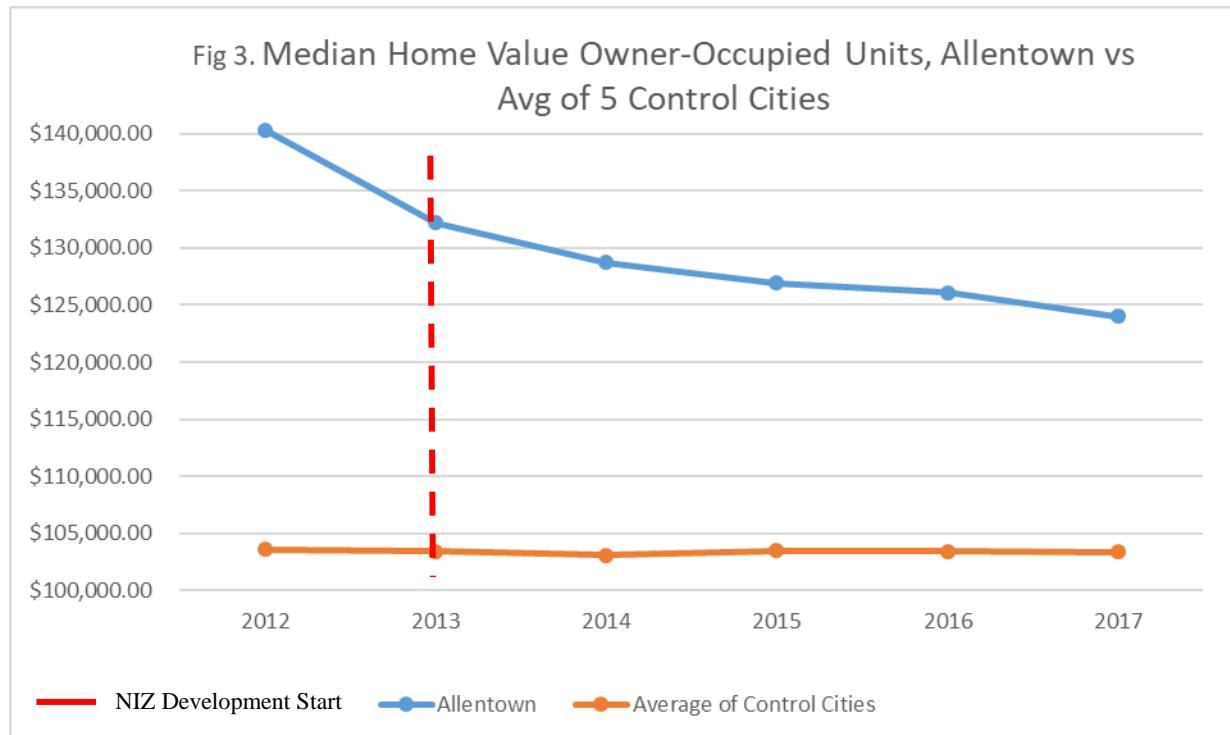
<sup>2</sup> Homeowners see a slightly larger decrease in units being cost burdened than do renters. Over the five-year period, homeowners decrease in cost burden by 6.0 percentage points while renters decrease by 4.2 percentage points. However, renters are far more likely to be cost burdened over the entirety of the period assessed. In 2013, 64.3% of all renters are cost burdened and by 2017 that is down to 60.1%. Only 37.3% of homeowners are cost burdened in 2013, and that drops to 31.3% by 2017.

average home ownership rate of 46.4% in 2013, which slowly declines 1.8 percentage points to 44.6% (Figure 2). This decrease will be analyzed further in the discussion section of this paper, but signifies a large transition in Allentown's housing stock over the duration of this study compared to what is happening in comparable midsized cities throughout the state.



Another metric of interest where Allentown differs drastically from the five control cities is the median home value for owner occupied units. In 2013, the median value is \$132,200 in Allentown. By 2017, it falls by 6.2% to \$124,000 (Figure 3). Meanwhile the average median home value of owner occupied units in the five control cities remains almost unchanged over that same time. In 2013, it is \$103,420. By 2017, it drops a negligible 0.04% to \$103,380. Harrisburg and Bethlehem also see decreases in

median home value over that time, but Erie, Lancaster, and Reading all see dramatic increases. Possible causes of this disparity will be discussed later.



Four final metrics are compared between the cities, but the trends from 2013 to 2017 are not significantly different. Unemployment in Allentown drops by 3 percentage points over the five years. The control cities see an average drop in the unemployment rate of a slightly higher 3.8 percentage points. Each of the control cities sees a larger drop than Allentown except Erie. The second trend that is relatively even between the cities is vacancy rates of owner-occupied housing. Allentown sees a minuscule increase of 0.1 percentage points while the five control cities average an increase of 0.4 percentage points. The renter vacancy in Allentown has a very modest decrease of 1.4 percentage points. The average renter vacancy across the five control cities decreases by 0.2 percentage points. Reading has a large *increase* in renter vacancy over this time which

skews the average down, but the other four cities see very close decreases to what Allentown experiences. Lastly, Allentown sees a slight decrease in transiency by 0.8 percentage points. This is a measurement of how many people are living in the same unit as they were the year before. The five control cities average a decrease of 0.6 percentage points over this same time. These four trends do not vary much between Allentown and the control cities. The major difference over the five-year timespan is incomes, owner occupancy tenure, poverty, median rent, home value of owner occupied units, and housing cost burden.

#### *Changes within Allentown*

This final section tries to understand the spill-over effects of NIZ developments. Median incomes, median rent, an index variable for rent to income, and homeownership are presented for three different sections of the city and the city's rate. The three sections are the NIZ, NIZ-adjacent tracts, and non-adjacent tracts. The median rent within the NIZ increases 10.3% between 2013 and 2017. NIZ adjacent tracts average a smaller increase of 6.8%. Non-adjacent tracts average an increase of 7.4%, while the city as a whole increases 6.5% (Figure 4). The map included below shows net changes to median rent from 2013 – 2017. Census block groups are used rather than tracts. The block group is a further division within a tract that generally consists of between 600 and 3,000 people (Census Bureau, 2018). The NIZ zone, a smaller census block group within tract 97, is crosshatched and sees an increase in median rent of 41% over the five year timeframe, making it one of the faster areas of increase. Many of the block groups immediately

adjacent see smaller growth in rents with only a few block groups throughout the city seeing even 20% growth (Figure 5).

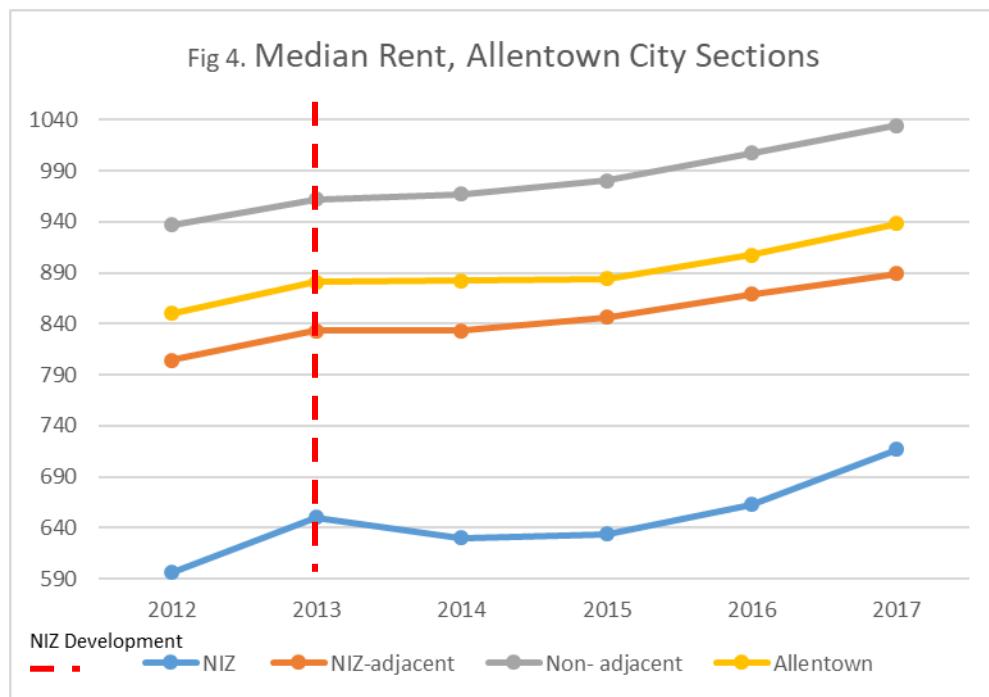
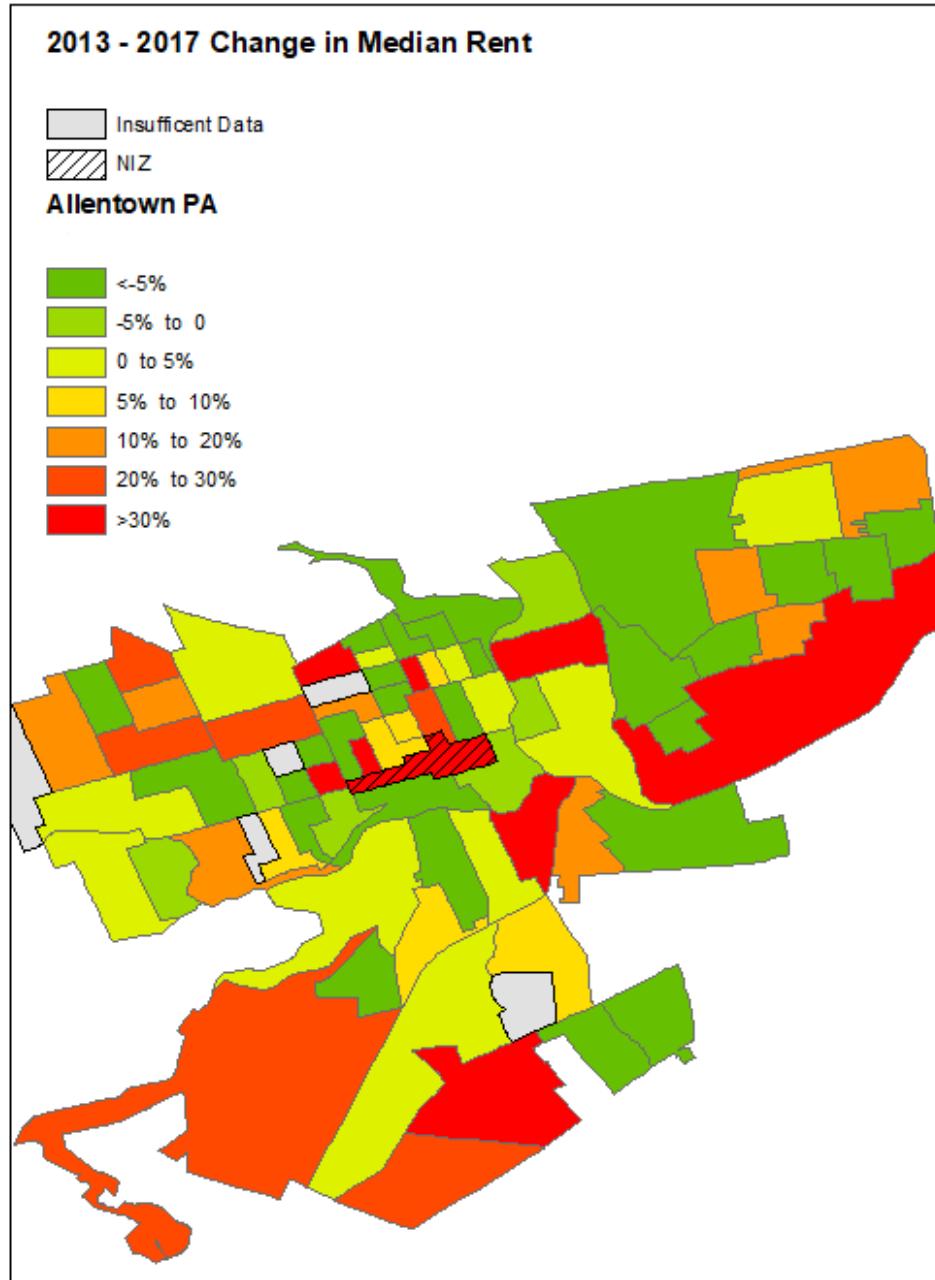


Figure 5: Change in Median Rent

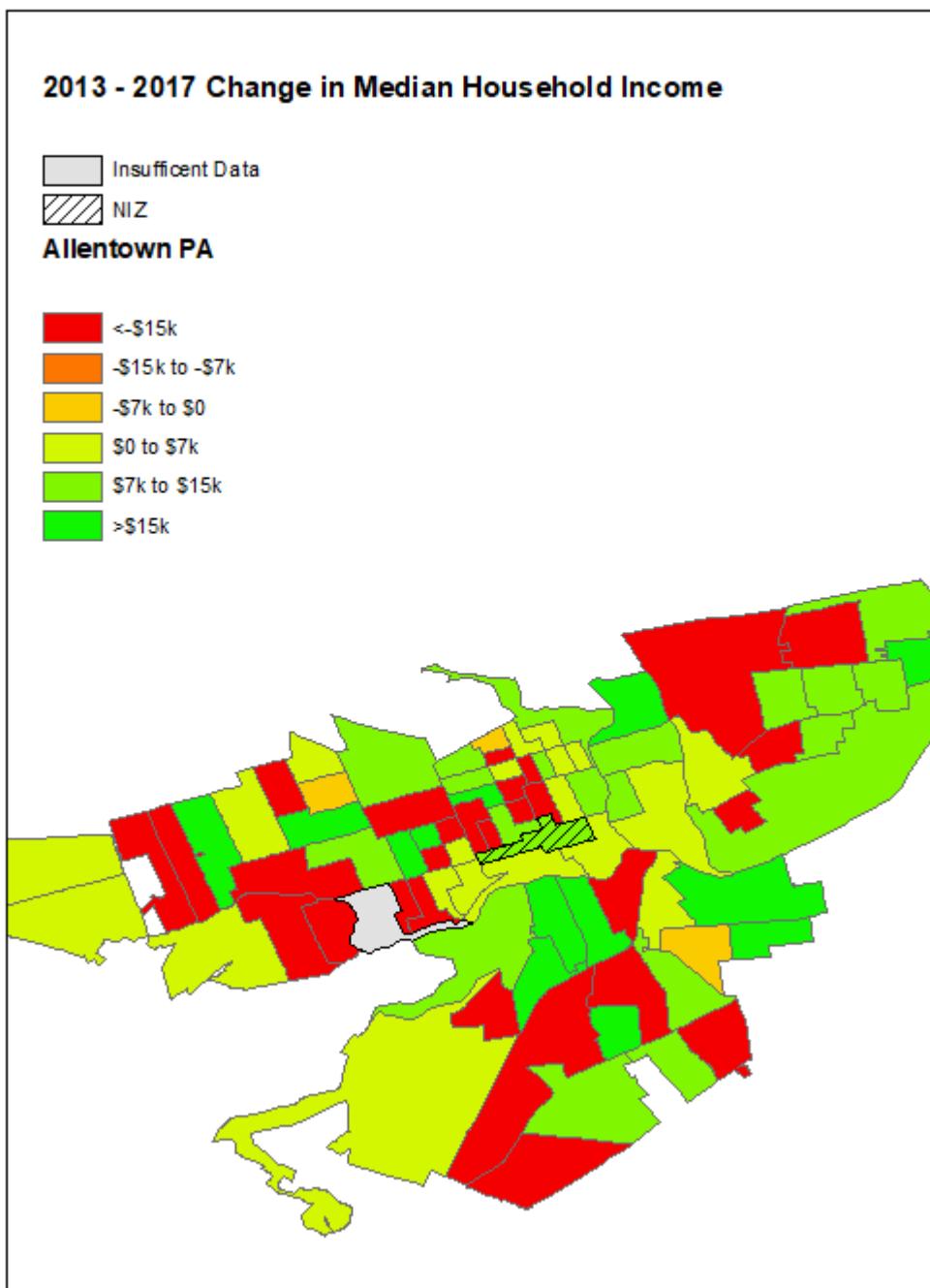


Over that same time, the NIZ sees an increase in median household income of a staggering 19.4%. The NIZ adjacent tracts average an increase of 12.6%. The non-adjacent tracts average an increase of 10.3%. The city wide median income increases

8.3%. The sections of the city are grouped and averaged to calculate the adjacent and non-adjacent figures. Within these tracts the populations are not uniform therefore if the larger tracts performs better, the data will slightly skew to undercount the impact. If the smaller tracts perform better, the data will slightly skew to over count the impact. Additionally, these are area specific measurements. An increase in median income does not necessarily mean the same people receive more income the following year, it could instead indicate the people earning more money moved into the census tract, either displacing original residents or adding to the population of the area.

The map included below shows net changes to median income from 2013 – 2017. Again, census block groups are used rather than tracts. The NIZ zone is crosshatched and sees an increase in median income of \$7,500 over the five-year time frame, making it one of the faster increasing areas. Many of the block groups immediately north see decreased median income over time, with the largest growth happening on the South Side of the city, far removed of the NIZ and the adjacent tracts (Figure 6).

Figure 6: Change in Median Household Income



The index variable median rent to income ratio uses the two previous metrics to assess how much of the median household's income is used to pay median rent. This does not capture the housing costs of homeowners and does not necessarily represent any

given person's situation. It could be the case that someone earning well below the median income pays a rent much higher than the median rent, in which case they would likely be extremely cost burdened. Rather, this is a conceptual statistic used to approximate what is the common cost burden in a given neighborhood. All three areas see decreases in the median rent to income ratio because incomes increase faster than rents do during the time of this study. The NIZ sees the largest decrease in the rent to income ratio of 4.1 percentage points. The adjacent tracts average a decrease of 2.3 percentage points. The non-adjacent tracts average a decrease of 1.7 percentage points. City wide, the median rent to income ratio decreases 0.5 percentage points.

Homeownership trends are remarkably similar between NIZ-adjacent and non-adjacent tracts. The city sees an overall decrease in homeownership of 4.8 percentage points. The NIZ-adjacent and non-adjacent tracts see average decreases in homeownership of 4.7 percentage points and 4.8 percentage points, respectively. Meanwhile, the NIZ itself sees an *increase* in homeownership of 2 percentage points. While the NIZ is one of the fastest increasing areas of homeownership within the city, it still has remarkably low rates. In 2017, only 6.2% of residents within the NIZ are living in a home they own – the lowest rate of any census tract in the city. The NIZ sees modest gains in homeownership while the rate falls precipitously across NIZ-adjacent and non-adjacent tracts alike.

## Discussion

### High Poverty Tract Comparisons

As stated earlier, it is impossible to prove the counterfactual. There is no way to know what the current state of Allentown's economic metrics would be today had the

NIZ development not occurred. This paper employs difference in difference regressions because they allow researchers to approximate a reasonable counterfactual and use that to estimate a causal effect (Lechner, 2010). With a strong model and strict adherence to the requisite assumptions of difference in difference regressions, researchers are able to calculate an *average treatment effect (ATE)* to quantify the impact of a given policy on the treatment group (Lechner, 2010). This paper does not try to calculate the ATE because the data encapsulating the NIZ development is still new and the potential impact of the NIZ is limited in time. As more years of American Community Survey data accumulate, future researchers might look to calculate the ATE of the NIZ on poverty rates, incomes, and property values.

In addition to allowing for a reasonable approximation of the counterfactual that enables estimations of causal effects, difference in difference regression are also intuitive and reasonably account for changes due to covariates (Lechner, 2010; Columbia University Mailman School of Public Health, 2013). As such, a strong model that meets the assumptions is a powerful tool for assessing causation in observed natural experiments with repeated cross-sectional data.

The first regression looks to assess poverty levels across the high poverty census tracts. The 11 high poverty census tracts comprising the treatment group see almost no decrease in the number of individuals living below the poverty line between 2013 and 2017. On the other hand, the 45 control tracts see a major decrease in poverty – from an average of 45.4% of residents below the poverty line to 39.8% by 2017. The model and NIZ interaction variable both prove statistically significant beyond the 95% confidence interval. The NIZ interaction variable has a positive coefficient of 7.269. This means that

being a high poverty census tract adjacent to the NIZ during the first five years of development is causally linked with higher poverty rates than would have been expected with no NIZ. This finding is very much consistent with the literature that finds that TIF-adopting municipalities do not precipitate overall growth for the city, but rather shift the resources to a specific zone at the expense of other regions (Dye and Merriman, 2003; Dye and Merriman, 2006; Chapple and Jacobus, 2009).

Poverty, officially falling below \$24,600 for a family of four in 2017 (US Department of Health and Human Services, 2017), is either eased or exacerbated by a number of factors like housing expenses, medical expenses, taxes, government backed supplemental income, returns on investment, and more. As will be discussed in regards to the other two regressions, incomes and unemployment rates cannot explain why the poverty rate remains higher than would be expected without NIZ development in the adjacent high poverty tracts. This paper cannot isolate the specific mechanism keeping the poverty rates persistently high, but can suggest a few plausible explanations.

The NIZ development, like other TIFs, has diverted a significant amount of city resources to the commercial corridor. If city services like housing inspections, policing, and street beautification are enhanced in the NIZ, without reciprocal increases in the other neighborhoods, it leads to a loss of services and disinvestment in those regions. Additionally, consolidating commercial activity in a specific corridor can detract from commerce that would have otherwise occurred in the surrounding neighborhoods. The new investment downtown can increase cost of living expenses and lead to increased speculation of property as an investment vehicle in the surrounding neighborhoods. Additionally, in 2017, \$2,962,981.20 of local non-property taxes raised within the NIZ

was transferred into the Neighborhood Improvement Zone Fund (PA Department of Revenue, 2018). These funds would, without the NIZ sequestration, go to the city's municipal taxing authority to be used on citywide projects. Instead, they were earmarked to be specifically used within the NIZ to pay back bonds issued for the PPL Center and the debt service on adjacent developments. It is possible that any of these situations, or an interaction of these dynamics, have reduced access to opportunity that would allow residents to climb out of poverty. There might be further explanations not explored here. Whatever the exact cause, some dynamic conferred by NIZ development has meant persistently high rates of poverty in the surrounding neighborhoods that, given the experience of high poverty tracts throughout the state, would not be expected in the absence of the NIZ.

The other two regressions look at unemployment rates and median incomes. Both models meet the assumptions required for a difference in difference analysis and prove statistically significant. However, in neither model is the dependent variable able to reach significance. It is thus concluded that the NIZ development did not have a significant impact on raising median incomes or reducing unemployment within these high poverty tracts adjacent to the NIZ. Observationally, employment rates do improve and wages do increase; however, that is a trend observed in the control tracts as well, and the scale of the increase is not enough to conclude that the NIZ development has a demonstrable impact on those two metrics. It is more likely that a generally improving national and state economy helps to bolster these metrics in the high poverty tracts throughout Allentown and the comparable cities.

Taken together, the three regressions point to a failure of the NIZ as a community and economic development tool for the high poverty tracts surrounding it. The NIZ's success depends upon what metrics are applied. It has successfully generated construction that would not have otherwise occurred but for the legislation authorizing the special tax district. This new zone has also created retail jobs and luxury apartments that did not exist prior to the development (Darragh, 2018). However, if it is viewed as a strategy for city-wide economic development that decreases poverty, expands opportunity, and lifts incomes, the evidence does not support the rhetoric.

#### City-Wide Comparisons

While the observational data presented for the city-wide comparisons do not have the causal explanatory power of regressions, they, taken in context with those regressions, point to a severe shortcoming in the Neighborhood Improvement Zone as a tactic for city-level community and economic development. None of the trends examined can be said to be the result of the NIZ, but they do happen in spite of the NIZ. As mentioned, when the development is complete, the NIZ will be one of the largest tax subsidies in Pennsylvania history. It is an unprecedented quasi-TIF that allows developers to sequester far more taxes than other tax increment development subsidies. With this in mind, we would expect that, nine years after the legislation is passed, and five years after the construction begins in force, Allentown would be better situated economically than comparable cities that do not receive the same special taxing zone or nearly the same investment. And yet, as the data presented shows, Allentown is not only *not* outperforming those cities, it is clearly lagging behind them. Income growth over the

study period is less in Allentown than four of the five control cities; only Harrisburg sees slower growth, and the control cities average median income growth 2.5 percentage points higher than Allentown.

Similarly, only Erie sees a smaller decrease in unemployment than Allentown. The control cities average a larger decrease, albeit modestly, by 0.8 percentage points. While the NIZ construction and subsequent retail, entertainment, and service businesses create *some* jobs in Allentown, they are not even enough to keep pace with the income growth or reductions in unemployment that the other non-treatment cities experience. It then follows that there are other development policies, tools, and best practices that could precipitate intended job creation and wage growth more cost-effectively than large scale TIF development. Left without the NIZ intervention, Allentown could possibly have experienced larger wage growth and reductions in unemployment had it followed the development strategies of the five control cities.

Owner occupancy, as a percentage of total housing units, drastically decreases in Allentown over the five years of this study. The city goes from 48.2% owner occupied housing to 43.4%, by 2017. That drop is 3 percentage points higher than the average of the control cities. According to housing tenure data through the American Community Survey, Allentown adds nearly 2,000 new rentals during those five years and loses nearly reciprocal amounts of owner occupied housing (American Community Survey, 2013 – 2017). Vacancy rates of both rental and owner-occupied housing do decrease over this time, but not nearly enough to explain the changes in units occupied by housing tenure (American Community Survey, 2013 – 2017). The 2,000 further rental units occupied, and subsequent drop in owner-occupancy, is a product of new apartments being built, and

more importantly, the conversion of owner occupied housing into rental properties. Additionally, it is emblematic of housing in Allentown being used more and more as a means of financial investment. Owning rental units returns dividends in form of rent, and capital gains when sold at a higher market value than purchased. When the housing of a neighborhood is owned by the person residing in the building, there is more incentive to make mortgage payments (Robinson and Todd, 2010), more investment in the building's appearance, better environmental stewardship, and more civic engagement (Dietz and Haurin, 2003). A study published in the Journal of Urban Economics finds that transitioning a unit from renter-occupied to owner-occupied has a positive external benefit of \$1,300 on the neighborhood (Coulson and Li, 2013). The converse is not argued in the paper, but the implications that follow are that every unit converted from an owner-occupied home to a rental unit costs some external benefit to the neighborhood.

Housing values are based off of both the underlying asset and the neighborhood conditions. If neighborhoods are struggling, the values of the homes in that neighborhood are likely to suffer as well (Robinson and Todd, 2010). It follows then that some of Allentown's steep decline in home values is a partial product of this conversion from owner-occupied to renter-occupied. This also has detrimental impacts on quality of life for the neighborhoods that see potential services diverted. Allentown sees a 6.2% decrease in the median home value of owner-occupied houses from 2013 to 2017; the median value drops nearly \$8,000. Meanwhile, the control cities average a loss of \$40, or 0.04%. This has ripple effects on individuals' equity, amount of credit available, and on the services available to neighborhoods that are funded by the city and school district through millage rates factored against the assessed property value. The fact that the

median home value falls nearly \$8,000 over the timeframe of a massive subsidy meant, in part, to increase property taxes, is shocking.

Allentown does have a decreasing housing cost burden, an aggregation of both renters and owners, from 2013 to 2017. This is a product of rising wages outpacing rising housing costs, notably rent. Homeowners experience a large drop in cost burdened units over this time and have rates nearly half that of renters' cost burden. And yet, despite this improvement, the decrease in households spending more than 30% of their monthly income on housing is a lesser decrease than in every control city except Erie. The five controls average a decrease of 4.4 percentage points in their housing cost burden rate. Allentown decreases 3.6 percentage points. This is mainly due to slower wage growth, because as reported earlier, rents in Allentown do not increase as quickly as they do in the control cities.

This smaller decrease in housing cost burden, conversions in housing tenure, decreasing home values, and lagging unemployment and median wage statistics help elucidate some of the reasons that poverty has remained persistently high over the course of this study. Allentown sees almost no drop in the percentage of residents living below the poverty line from 2013 to 2017. Every one of the control cities sees at least double the drop in their poverty rate that Allentown experiences, which is 0.5 percentage points over the course of five years. The control cities average a decrease of 2.3 percentage points. This creates a vicious cycle wherein the underlying tax base needed to fund services is incapable of properly funding the services that would be needed to help reduce the burden of poverty. In this context, outside investment could theoretically be a boon to a struggling city. The issue with Allentown's Neighborhood Improvement Zone, to this

point, has been that the investment has only been available to a handful of developers and large corporate clients – not to many people and small businesses that comprise the vast majority of Allentown’s tax base and constituency.

Assessing Allentown’s economic trends from 2013 to 2017 using the metrics herein reveals a stark contrast. It is the site of an extreme investment of capital, and yet five years after the development begins, the city is doing worse by nearly every metric than comparable mid-sized Pennsylvanian cities. These trends are not able to assert causation. Allentown’s median home value cannot be said to decrease \$8,000 over five years *because* of the NIZ. However, it decreases that amount *in spite* of the NIZ.

#### Changes within Allentown

This final section of analysis looks at the extent to which benefits of the NIZ have spilled over into the adjacent areas. As with other CED and TIF projects, the benefits of the investment in the NIZ have been largely isolated to the district itself (Dye and Merriman, 2003; Dye and Merriman, 2006; Chapple and Jacobus, 2009). The non-adjacent and adjacent tracts see relatively similar average growth in median income from 2013 to 2017, 10.3% and 12.6% respectively. Meanwhile, the NIZ tract has an increase of 19.4%. At the same time, the nonadjacent tracts see average median rent increase 7.4%. The adjacent tracts increase a similar 6.8%. The NIZ, however, increases 10.3%. These two trends combine to create an index variable, median rent to income ratio, which is again better for the NIZ. It sees a decrease of 4.1 percentage points while the non-adjacent and adjacent tracts see respective decreases of 1.7 and 2.3 percentage points.

Furthermore, when mapped according to more precise census block group, the NIZ block group, Lehigh County Census Tract 97.01, is one of the highest growing groups in both income and rent. Meanwhile, most of the adjacent block groups either see declines or modest growth. In both cases, the only block groups to outperform the NIZ are on the city's South Side or in the northeast of center city – both non-adjacent areas. Lastly, while homeownership is falling uniformly across both the NIZ-adjacent and non-adjacent tracts, the NIZ is one of the only areas within the city to see increasing rates of homeownership.

Addendum I, at the end of this paper, shows a seven year change in total property value appraised by census block group. It was prepared using Lehigh County data by Karen Beck-Pooley and is not included in the results of this study because it does not exactly overlap the five-year timeframe assessed herein. However, what emerges is that LC 97.01 sees by far the greatest increase in assessed property value between 2010 and 2017. The reasonable conclusion is that much of that unmatched growth happens due to NIZ development – which is active for more than half of the time of that increase. What emerges from these cumulative indices is that the NIZ well outperforms the *averages* of the rest of the city's tracts, which irrespective of proximity, perform about the same. Individual block groups throughout the city also fare well, but when taken in the neighborhood context, no single area keeps pace with the NIZ's improvements. Furthermore, those block groups that fare well are far removed of the NIZ geographically, and cannot be attributed to its commercial success. Thus, the conclusion is that NIZ has minimal, if any, spillover benefits to the adjacent tracts beyond how the rest of the city's tracts trend.

Moreover, because of the high transiency of Allentown's neighborhoods (American Community Survey, 2013 -2017), it is impossible to say, using census data, whether the benefits conferred to the NIZ are enjoyed by the people who lived there prior to development, or whether the improved economic metrics are a result of newcomers with more resources. Ultimately, to assess that question, city/county records identifying home sales and landlords' records of tenants would need to be examined. That is outside the scope of this report. However, it would be a meaningful finding in light of this report and should be done to better understand the changes underway in and around Allentown's Neighborhood Improvement Zone.

#### Conclusion

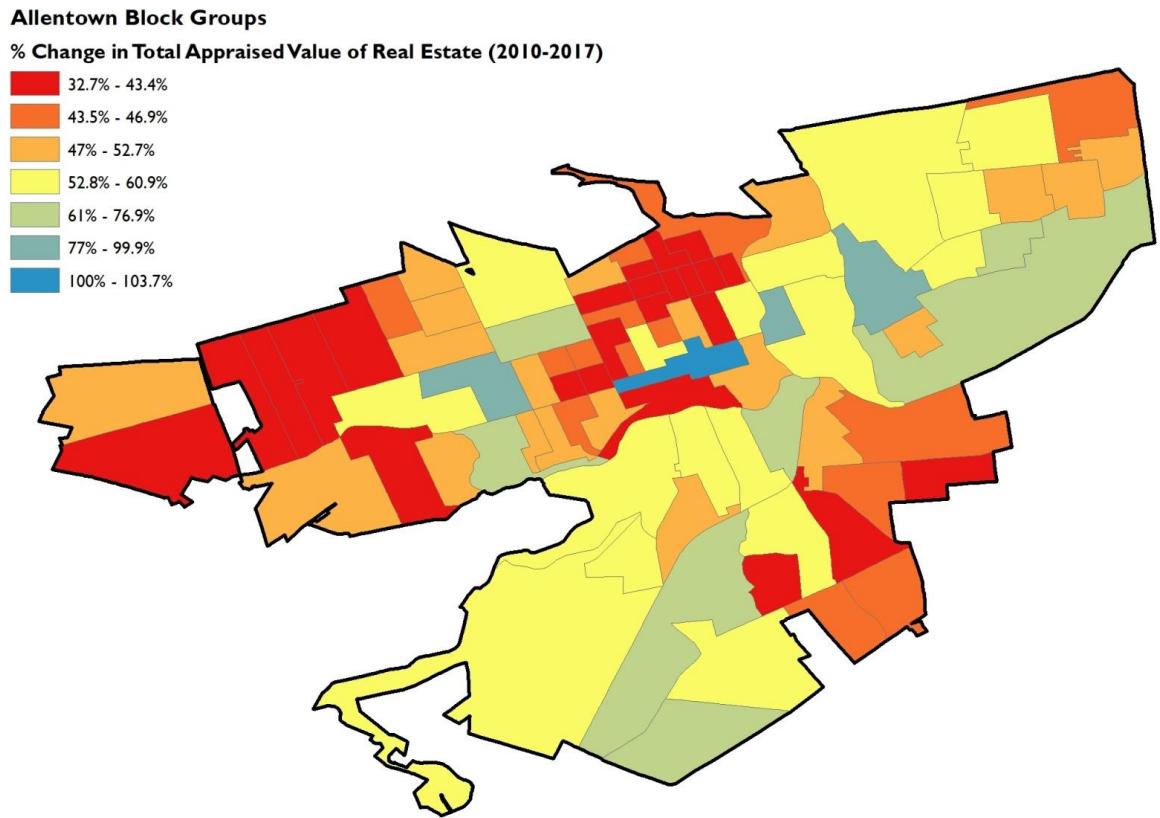
While tax increment financing development has been used broadly since the 1970s, comprehensive studies of its impact have been too few and too limited. Furthermore, Allentown's Neighborhood Improvement Zone, which is resonant of TIFs but unprecedented in terms of the types of taxes eligible to be diverted and its scale, is completely unexamined in the ways that it continues to affect the city. We are currently less than a decade into a thirty-year tax incentive with the most up to date data only capturing the first five years of development. Time will tell the success of the development spurred on by the NIZ, but in the meantime it is important to take stock of what the impacts have been so far. As new data becomes available it is important for these assessments to be updated in order to fully understand the policy's impacts and allow for changes to make the revitalization efforts more effective.

Still, the picture that emerges after five years of development is a bleak one. Allentown as a whole is experiencing huge investment in the downtown commercial corridor as a result of the NIZ, but that is not transcending into improved living conditions for residents, at least not when compared to other comparable cities. At the same time as hundreds of millions of dollars are being funneled into downtown development, the adjacent high poverty neighborhoods see tepid wage growth, stagnant levels of poverty, and decreases in property values. One possible explanation for this is that resources like policing and code enforcement are being diverted downtown to the detriment of the neighborhoods. Additionally, the local taxes sequestered by the NIZ Fund could otherwise be spent in these neighborhoods.

Allentown does not keep up with similar cities without NIZ development in many key metrics of economic success like poverty, incomes, unemployment, home values, and home ownership. Nor is it able to pass the benefits of the NIZ investment on to its neighborhoods beyond the census tract encompassing the Neighborhood Improvement Zone. It seems likely that any economic improvement to the NIZ area are largely driven by an influx of new residents, at the expense of those who lived there previously; residents in adjacent areas see decreased property values, increased rents, and only modest improvements in employment rates. The important conclusion of this paper is that while the NIZ has been successful in attracting new business investments and has returned modest tax increases to the school district (Zimmerman, 2017), it is not an effective method of improving quality of life for the city in general. This finding is in accordance with much of the literature that suggests Tax Increment Financing is successful at developing spaces, but not human capital.

Other policies should be explored, in tandem with the continued development, to ensure that the projected subsidy of well over \$1 billion is not directed to developers and landlords to the complete exclusion of the residents of the city. It might be the case that as more development occurs and more wealthy residents move downtown the city will reach a critical threshold allowing for the expansion of benefits to the community. City and school district budgets might begin to see real returns that allow them to end the structural deficits they are projected to run over the coming years (Opilo, 2018; Palochko 2018). However, as observed so far, the NIZ does not explicitly have a mechanism to drive investment into Allentown's neighborhood. This five-year assessment should serve as a warning that the NIZ, and TIFs in general, are not sufficient to revitalize struggling cities alone. They need to be accompanied by other policies that ensure investment happens outside of the specific corridors, and that development in one region does not deter growth elsewhere. This study should serve as neither a condemnation nor endorsement of the NIZ in general; however, as a standalone development strategy, the NIZ has so far failed. While making explicit recommendations is outside the scope of this report, it is my view that some other policies must be enacted, in order to complement the development prompted by the NIZ, if the goal of neighborhood revitalization is to be achieved.

## Addendum I



Source: Lehigh County Appraisal Data. Prepared by Dr. Karen Beck-Pooley

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