March 2010

GOOD JOBS, STRONG INDUSTRIES, A BETTER PENNSYLVANIA:

Towards a 21st-Century State Economic Development Policy

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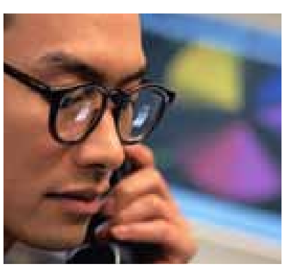

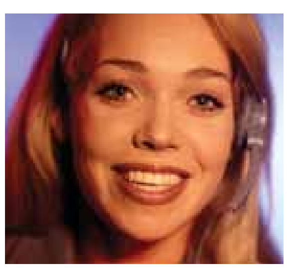

About Keystone Research Center

The Keystone Research Center (KRC) was founded in 1996 to broaden public discussion on strategies to achieve a more prosperous and equitable Pennsylvania economy. Since its creation, KRC has become a leading source of independent analysis of Pennsylvania's economy and public policy. The Keystone Research Center is located at 412 North Third Street, Harrisburg, Pennsylvania 17101-1346. Most of KRC's original research is available from the KRC website at www.keystoneresearch.org. KRC welcomes questions or other inquiries about its work at 717-255-7181, or toll free at 888-618-2055.

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Acknowledgments

KRC gratefully acknowledges support for this project from the William Penn Foundation. The Keystone Research Center thanks the staff of the Pennsylvania Departments of Community and Economic Development (DCED), Environmental Protection, and Revenue, and the staff of the Pennsylvania Office of the Budget and the Commonwealth Financing Authority for their extensive cooperation during the preparation of this report, including their responsiveness to requests for interviews, for information on program funding, and for their feedback on a draft of the report. We owe a special thanks to Rich Overmoyer of GSP Consulting, and John Sider and Deborah Nifong of DCED, for helping us confirm the accuracy of the numbers in Tables 1–4 of the report. We also owe thanks to John Blake, Kerry Campbell, George Cornelius, Brian Deamer, Joanne Denworth, Scott Dunkelberger, Theresa Elliott, Dan Hassell, Dee Kaplan, Carmen LaRosa, Eric Menzer, Jared Lucas, Bryce Maretzki, Cathy Onyeaka, Tom Rathbun, Jake Rouch, Charles Scheidler, and Steve Swalm. Phil Durgin of the Legislative Budget and Finance Committee, the research staff of the Pennsylvania Department of Revenue, and Sharon Ward, Director of the Pennsylvania Budget and Policy Center, provided helpful comments on an earlier draft of the report. Mary Fusco (Fusco Design) laid out the report and Andrea Wilkinson (Wilkinson Wordsmith) expertly proofread it. Any remaining errors in the report are the responsibility of the authors.

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Executive Summary

The Big Picture of This Report

Pennsylvania lawmakers today face two challenging and difficult-to-reconcile pressures: a) a deep recession that has eroded state revenues, leading to careful scrutiny of all state spending and deep cuts in some programs, and b) high unemployment rates that have brought new urgency to state efforts to boost job creation. In the context of these twin pressures, this report contains an overview and assessment of current programs in Pennsylvania that aim to create jobs and promote economic growth.

The report suggests that today's economy, together with a gubernatorial campaign and transition, provide a chance for policymakers to step back from 50 years of incremental expansion of state economic development programs, and to implement a strategic updating of Pennsylvania's approach to stimulating economic growth.

This new approach would be based on three key principles:

- First, instead of handing out checks to lure new businesses to the state (or retain existing ones), a dominant practice to date, Pennsylvania should strengthen its efforts to grow its own companies by investing in the public goods of a 21st-century economy. These 21st-century public goods start with education and traditional infrastructure but also include technological infrastructure and amenities, cultural assets, and natural endowments that make Pennsylvania an attractive place to live and work. Today's public goods also include institutions that support specific industry sectors, such as training partnerships and sector-specific innovation centers that build on Pennsylvania's higher-education institutions.
- Second, any future distribution of subsidies and tax breaks to individual businesses must be accompanied by commonsense accountability. Since most companies don't receive special subsidies from state or local governments, those that do must comply with transparency requirements, pay decently, and deliver on jobs and wages promised.
- Third, Pennsylvania should focus its job-creation dollars on already-developed rural towns, inner-ring suburbs, and cities, where new jobs will rely on existing infrastructure and be accessible to families and communities that most need good jobs.

These three principles, basic to strategically updating the state's approach to economic development, are hardly controversial. In fact, they are embraced by the most respected economic-development practitioners and academic scholars who study regional economies, by conservative advocates of transparent and accountable government as well as liberal critics of sweetheart deals for politically connected corporations, by leading legislators in both parties and the economic development agencies of Pennsylvania state government, by advocates for low-income neighborhoods in cities, and by proponents of open-space preservation in affluent exurbs. These three principles build on accountability improvements already made by Pennsylvania's lead economic development agency, the Department of Community and Economic Development (DCED). Now is the time to put these three principles more forcefully into practice, ensuring that Pennsylvania will enjoy a higher return on its future investment in job creation.

Overview of Pennsylvania Economic Development Programs

Pennsylvania spent over $1 billion on economic development (defined broadly) in 2008–09, the last year before revenue shortfalls led to deep program cuts. (Our exact definition of "economic development" is described in the "Report Scope and Methodology" section of this report.) Drawing on scholarly research that examines different ways other states promote economic growth, we divide this $1 billion total into four components: Traditional Subsidies; Grow-Your-Own Programs; Regional, Community, and Industry Programs; and Discretionary Subsidies. While the allocation of individual programs into these four categories is not an exact science, the exercise nonetheless provides a better analytical sense of where Pennsylvania puts its job creation dollars than does either looking at the grand total by itself or looking at the laundry list of 89 separate programs. Breaking the total into four categories also allows us to see which components have felt most keenly the budget-cutters' scalpels over the past two years.

1. **Traditional Subsidies** induce new facilities to locate in Pennsylvania or, in some cases, help retain existing jobs. We estimate that these subsidies accounted for nearly $250 million of the $1 billion total in FY 2008–09.

2. **Grow-Your-Own Programs** provide assistance to homegrown Pennsylvania businesses and accounted for about $215 million annually, on average, for the three years ending in 2008–09. Grow-Your-Own Programs pay for a range of activities in the life cycle of a company, from the initial generation of ideas with commercial potential, to the incubation of new companies, to the further growth of new start-ups. For mature companies, Grow-Your-Own Programs may help pay for the improvement of company processes or the development of new marketing strategies and identification of new markets.

3. **Regional, Community, and Industry Programs** account for 44% of the $1 billion total. These subsidies pay for regional capital projects (e.g., construction of convention centers, hospitals, or new stadiums); for community improvements (such as subsidies for upgrading Main Street and Elm Street); and for subsidies to groups of companies (e.g., grants to industry training partnerships). Assistance in this category operates at a broader level than does a subsidy to an individual company.

4. **Discretionary Subsidies,** our final category of "other" DCED programs, accounted for $145 million in FY 2008–09, and consists largely of discretionary grants—sometimes criticized as "Walking Around Money" or WAMs—that often go to local nonprofits and fire departments.

With state revenues declining during the recent recession, the programs analyzed here absorbed overall cuts of about 28% in the FY 2009–10 state budget. Looking within our four categories and at the entire decade from 2001–02 to 2009–10, we found the following trends:

- Until recent cuts, spending on Traditional Subsidies grew the most in the last decade, from $115 million to $260 million at its height. The deal-making core of Pennsylvania's economic development approach remains extremely powerful. The tax credit for making films in Pennsylvania explains part of this increase.

- Grow-Your-Own Programs increased from the FY 2001–02 to 2008–09 period, but declined by $100 million in 2009–10, to below the level at the start of the decade. Pennsylvania's two "flagship" Grow-Your-Own Programs—the Ben Franklin Technology Partnership and the Industrial Resource Centers—have seen cuts from a combined annual total of at least $65 million for five years leading up to FY 2008–09 to the governor's request of only $27 million in 2010–11.

- Changes each year in funds for Regional, Community and Industry Programs are driven partly by annual allotments for capital projects to the Redevelopment Assistance Capital Program (RACP), which fluctuated between $163 million and $284 million in the last decade. Regional, Community, and Industry Programs spiked most with the implementation of the state's Economic Stimulus in 2004–05. This stimulus included additional RACP funds plus two new programs subsidizing business-site and real-estate development—Business in Our Sites and Building PA. While the 2009–10 budget cut most Regional, Community, and Industry Programs, spending on the category as a whole did not decrease due to a $100 million increase in RACP.

- In the FYs 2006–07 and 2007–08, there was an increase in discretionary subsidies from around $100 million to $158 million. These grants were then virtually zeroed out in the 2009–10 budget.
- In part because tax credits don't increase state spending (but instead cut state revenues), there has been a substantial increase in the use of tax credits to promote job growth over the past decade. Tax credits for economic development jumped from less than $100 million in FY 2001–02 to a peak of $260 million in 2008–09. This jump contributed to increased scrutiny from the state legislature in 2009, including performance audits by the Legislative Budget and Finance Committee, resulting in a $130 million cut to tax credits in the 2009–10 budget.

Targeting of Traditional Subsidies

Nationally, best economic-development practice emphasizes the importance of targeting Traditional Subsidies based on *industry* (by asking: would the new business fit with the regional economy?), *community* (by asking: would the business site rely on existing infrastructure, and, is it in an area of high unemployment or accessible to unemployed and low-income workers?), and *job quality* (by asking: what does the company pay, and does it provide healthcare benefits?).

This report examines to what extent nine Pennsylvania Traditional Subsidy Programs target their dollars based on industry, community, and job quality. We found:

- Good data is not routinely collected and publicly disclosed on how well programs target Traditional Subsidy dollars to good jobs, to industries that make sense, or to places with existing infrastructure accessible to high-unemployment communities.
- Nearly a decade ago, painstaking collection of data by Keystone Research Center indicated that significant numbers of subsidies went to companies with low-quality jobs or business sites in outlying communities where they could reinforce sprawl.
- Over the past decade, targeting of subsidies based on industry, community, and job quality may have increased. We base this tentative conclusion on interviews with economic development policymakers and practitioners, analyses of program guidelines, and the Rendell Administration's 2005 adoption of principles (the "Keystone Principles") that endorse investment in good jobs and older communities.
- Even now, however, a majority of the nine programs reviewed do not give high priority in program guidelines to high-unemployment communities or to communities close to public transit.
- None of the program guidelines examined contain strong job-quality standards that would ensure promotion of good jobs with public dollars. At best, program guidelines require wages equal to at least one-and-a-half times the federal minimum wage of $7.25 per hour (i.e., $10.88 per hour).

Subsidy Accountability and Transparency

This report examines three dimensions of accountability once companies receive subsidies: public disclosure of basic information on projects funded; monitoring of companies that receive awards; and so-called recapture provisions (i.e., do companies that fail to deliver promised jobs and wages repay subsidies?)

- At present, Pennsylvania has no public disclosure requirements that mandate public reporting on whether businesses that receive subsidies actually create jobs and, if they do, what the wages and healthcare benefit coverage of those jobs are.
- In response to recent performance audits by the Auditor General and the Legislative Budget and Finance Committee, Pennsylvania has strengthened its monitoring of companies that receive subsidies—for example, by auditing the accuracy of some company reports of how many jobs projects create. DCED also acknowledges the need for greater monitoring in general but does not currently have the resources to create an adequately staffed monitoring unit.
- The Opportunity Grant program has more than doubled its recapture of subsidy money from companies that do not deliver on promised jobs—to 30% in 2007 from 13% between 2000 and 2005. No public information exists on whether recapture has increased more generally.

Return on Investment of Grow-Your-Own Programs

The return-on-investment in Traditional Subsidies is very difficult to estimate, because no one can answer the "but-for" question—i.e., how many jobs businesses might have created without a subsidy. As a result, the most that is ordinarily done to measure the "performance" of Traditional Subsidy programs is to add up all of the (self-reported) jobs at business sites receiving assistance. By contrast, Grow-Your-Own Programs have been the subject of somewhat more rigorous performance evaluations. These evaluations have found that Grow-Your-Own Programs have a high return on investment. For example, a recent study of the Ben Franklin Technology Program (one of Pennsylvania's best known Grow-Your-Own Programs) by the Economy League of Greater Philadelphia concluded that Pennsylvania's Ben Franklin Technology Program increased state tax revenues by $517 million from 2002 to 2006, compared to a state investment of $140 million over those five years.

Another critical point to keep in mind when the state decides how much to invest in Traditional Subsidies vs. Grow-Your-Own Programs is that most new jobs result from the expansion of businesses already in the state. For example, a 2010 Good Jobs First study found that, over a period of 16 years in a broadly defined group of high-tech industries (including advanced manufacturing), net job growth of in-state companies was 28 times larger than net movement of jobs across state lines. (See *Growing Pennsylvania's High-Tech Economy,* online at www.goodjobsfirst.org.) In sum, growing your own companies is where the action is and industrial attraction is not.

Conclusion

Reinventing Pennsylvania's approach to economic development, with the goal of maximizing return on state investments, will take a joint effort by the state's entire economic development team—professionals in the field as well as legislators and the executive branch. The final section of this report details six recommendations to help the state get started:[1]

1. **Better Target Traditional Subsidies:** Pennsylvania has taken tentative steps away from the 50-year-old idea that "any job is a good job" and toward the idea that businesses that receive subsidies should meet criteria based on job quality, on whether recruited businesses make sense for the regional economy, and on whether the jobs will be in the right place. To move further in this direction, DCED should engage economic development practitioners in the development of practical ways to give additional emphasis to community, job quality, and industry. Would practitioners, for example, favor block-granting portions of Traditional Subsidy dollars to counties or multicounty regions that submit strategic plans outlining effective targeting? DCED, the next gubernatorial administration, and the legislature should also give consideration to setting aside a portion of Traditional Subsidies for specific communities (as done by Montgomery County in a new county economic development program).

2. **Improve Transparency and Public Disclosure by Making the "Investment Tracker" a More Functional Tool for Analysis:** The Pennsylvania Department of Community and Economic Development's "Investment Tracker" website (http://www.dced.state.pa.us/investmenttracker/) reports on more than 240 state programs. In a 2007 report by Good Jobs First, Pennsylvania was ranked 12th among the states for on-line information about job subsidies (only 23 states had any online reporting). But there are critical gaps in the Investment Tracker reports: For example, information is inadequate or lacking on wages and benefits, on where the money is applied geographically, on the industry of the recipient company, and on whether companies actually deliver on promised job creation. The Tracker's format also makes it difficult to download the mountain of (flawed) information into a data set for analysis. Being inundated with too much data can be as disempowering as having too little. To make the Investment Tracker a more functional tool, the state should improve its disclosure requirements and website to fill these data gaps and fix this download flaw. DCED or another entity should also be provided with resources necessary for better monitoring once companies receive subsidies.

3. **Create a Unified Development Budget:** To complement an enhanced deal-specific disclosure system, we also recommend a Unified Development Budget (UDB), an annual report to the state legislature which catalogs and analyzes all forms of state spending for economic development, including tax breaks. Similar to the present report—which is a template for a Pennsylvania UDB—UDBs are intended to enable legislators to see the big picture, as well as the patterns and trends within it, making it easier to set economic development priorities via the budget.

4. **Enact Economic Development Accountability Legislation:** Since FY 2003–04, a bipartisan group of Pennsylvania lawmakers from both chambers of the General Assembly have supported legislation to strengthen job quality standards and accountability (public disclosure, monitoring, and recapture of subsidy money if companies don't deliver promised job creation) of Traditional Subsidies in Pennsylvania. With the state facing tight revenue constraints and the public concerned that lack of transparency opens the door to politicized distribution of business subsidies, now is the time to enact this accountability legislation.

5. **Grow-Your-Own Businesses Rather Than Recruit From Other States:** Pennsylvania should use this time of budget cuts to shift its economic development portfolio toward Grow-Your-Own and strategic Regional, Community, and Industry Programs (which also grow Pennsylvania's own companies). Generous budgets for Traditional Subsidies play into the hands of site-selection

companies that stoke the war between the states and extract public money even when companies have already made up their mind to move or to stay. From the perspective of economic theory, moreover, it is easier to justify investments in Grow-Your-Own and Regional, Community, and Industry Programs. In the case of Grow-Your-Own Programs, the private sector underinvests in innovation because companies cannot capture all of the benefits of their innovation. Some of these benefits spill over to other (often nearby) businesses. This market failure creates a strong rationale for the public sector to invest. Regional and community assets also are appropriate targets for public investment because they are "public goods" that benefit many businesses and individuals. By contrast, handouts to individual companies too often deliver only private benefits with little or no public benefit.

6. **Change the Business Model and Mindset of Economic Development Organizations:** Upton Sinclair once said, "It is difficult to get a man to understand something, when his salary depends upon his not understanding it." This statement captures, in part, the challenge of updating the state's approach to job creation when economic development organizations make money cutting Traditional Subsidy deals. A partial answer might be to give economic development organizations a stake in effective "Grow-Your-Own" approaches, including initiatives to support innovation in regional industry clusters. The paragraph below suggests one way to do that.

At present, even though we live in a global, knowledge-based "network economy," the state of Pennsylvania invests very little in helping industry clusters respond to global competition. The state could remedy this shortfall by adapting to the economic development sphere the flexible approach the Department of Labor and Industry uses to distribute Industry Partnership grants.[2] While Industry Partnership grants support industry-specific training, an analogous economic development initiative could provide grants for upgrading technologies, developing new products, exploiting new markets, or otherwise improving performance to head off foreign competition. To give economic development organizations a stake in this process, they could be eligible—along with industry associations and Industry Partnerships—to submit proposals for such grants. (In several parts of the state, economic development organizations have staffed Industry Partnerships.)

Another way to change the mindset of economic development practitioners might be to block-grant to regions resources from all economic development programs—Traditional Subsidies, Grow-Your-Own Programs, and Regional, Community, and Industry Programs. The reason a broad block grant might help shift the balance away from Traditional Subsidies is that it would confront regions with "opportunity costs" when they offer big subsidies—i.e., they would have less money from their block grant to spend on industry cluster or strategic community development programs. Today, when a community helps a newly recruited company win state subsidies, the region does not lose any resources for other economic development initiatives.

Looking forward, Pennsylvania is recognized nationally as a leader in economic development policy and practice. The state has a richer and more balanced repertoire of economic development programs than many states. The state also has some of the nation's most respected Grow-Your-Own Programs. Now, in the wake of the Great Recession, Pennsylvania has a chance to step to the forefront again. It has a chance to become the first state to implement a comprehensive 21st-century state economic development policy. The state's future prosperity and quality of life depend on it.

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1 These recommendations, especially numbers 2 and 3, borrow liberally from the recommendations of Greg LeRoy, (2005). *Growing Pennsylvania's High-Tech Economy: Choosing Effective Investments.* Washington DC: Good Jobs First.

2 This suggestion was triggered by a comment of State Representative Scott Boyd of Lancaster that the applicability of the Industry Partnership model extends beyond workforce development to economic development as a whole. The suggestion was made in February 24, 2010, hearings in the Pennsylvania House Labor Relations Committee. For more on the state's Industry Partnerships, see http://www.portal.state.pa.us/portal/server.pt?open=514&objID=575072&mode=2

Report Scope and Methodology

The Scope of "Economic Development" in This Study

While much of state government spending, including for education and traditional infrastructure, contributes to economic growth, in this report we define "economic development" more narrowly. We analyze (1) programs that directly assist businesses, and (2) programs that invest in communities and regions to enhance quality of life and boost economic growth. In practice, this working definition of economic development includes most of the programs funded by the Department of Community and Economic Development (DCED), plus programs funded by Pennsylvania's Commonwealth Financing Authority (CFA) and the state's capital budget, as well as business assistance programs funded by other state agencies.

Methodology

The findings and recommendations of this report rely on five main research methods:

1. A review of trends in economic development spending from 2001 forward, with information drawn primarily from each year's Governor's Executive Budget, as well as reports on specific programs, online DCED data, other online documents, and interviews with program officials.
2. A review of the program guidelines of nine of the most important Pennsylvania business subsidy programs, which specify eligibility and criteria for receiving funds.
3. A review of the sparse literature on the actual impact of Pennsylvania economic development programs, including performance audits conducted by the Office of the Auditor General and the Legislative Budget and Finance Committee, and prior research by Keystone Research Center on the quality of jobs promised by subsidized companies and on the geographical location of subsidized business sites.
4. A review of the scholarly literature in the United States on state economic development.
5. Approximately 80 interviews with economic development policymakers, program officials, and regional practitioners, both in the Harrisburg area and in six other regions of the state.

The next section sets the stage for the remainder of the report by extracting from scholarly literature a set of distinctions regarding different ways that states seek to promote job creation. Armed with those distinctions, we can then analyze Pennsylvania's economic development programs and the extent to which these programs have emphasized one or another approach to job creation over the past decade.

Three Waves of Economic Development Assistance

Over the last half-century, three distinct waves of state economic development practice can be identified across the United States as a whole (Box 1). The first wave focused on inducing outside companies to locate in the state by offering subsidies. Even today, such Traditional Subsidies are a major component of economic development in many states, with one modification being the increased use of such subsidies to retain existing businesses as well as attract new ones. In the 1980s, a second wave of state programs helped birth or grow local technology companies. These Grow-Your-Own strategies paid for research and development, product innovation, or process improvement. A third set of programs lift their sights above the individual company. Some of these third-wave programs bolster regional assets (such as cultural, educational, infrastructural, or natural assets) that attract top companies, top managers, or highly skilled professionals. Another third-wave approach invests in specialized groups of companies—industry clusters—within which a region may have a current or potential advantage.

Box 1. Three Waves of Economic Development Strategy

Each generation or wave of state economic development strategies emphasizes a core set of ideas about how state and local officials could and should stimulate economic growth and job creation, along with an accompanying set of public policies. Explicit policies intended to attract manufacturing plants seem to have begun in Mississippi in the late 1930s.[3] Other states have chased federal government facilities, including defense plants, prisons, and military bases. In the past decade, southern states account for many of the most high-profile subsidy deals, recruiting new auto and auto parts plants to Kentucky, Alabama, South Carolina, and elsewhere.

The objective of "chasing" is to attract outsiders to the state—employers who will create new jobs for local residents. The objective of second-wave strategies is to "Grow-Your-Own." Instead of relying solely on recruitment of firms from the outside, practitioners seek to spur development by encouraging the formation of new firms and the growth and retention of existing firms. Second-generation strategies often focus on technology-based sectors, such as computers and telecommunications (Austin, Texas, in the 1980s) or biotechnology (San Diego in the 1990s). Policies may begin with chasing—e.g., Austin put together an attractive package of incentives to land the microelectronics R&D consortium Sematech—but extend to support for business incubators, state venture capital funds, export assistance, technical assistance and technology transfer, and firm-specific training.

The third generation of economic development practice began to take shape during and after the recession of the early 1990s. Because it is still emerging, third-generation practice can be difficult to distinguish from the second-wave approach. A central feature of third-generation practice is a focus above the level of the individual firm. One component of this approach is investment in "regional assets" that benefit many firms, which may be educational, cultural, infrastructural (e.g., an airport), or natural. A second component of third-generation approaches has been efforts to strengthen industry clusters and flexible manufacturing networks, with the goal of triggering or strengthening self-reinforcing dynamic growth within the clusters. Industry cluster investments can be rationalized based on the idea that they build industry-specific "public goods" (institutions or initiatives that benefit multiple firms at once) such as joint marketing efforts (e.g., furniture fairs) and Pennsylvania's new industry-specific training partnerships. Effective industry cluster initiatives strengthen enabling structures for technology diffusion and technological learning.[4] They accelerate through peer interaction the development of creative new ideas and the diffusion of existing best practices—in other words, they foster innovation.

One caveat with respect to waves is that practitioners who embrace ideas of the second and third wave do not necessarily abandon the tactics associated with earlier waves. What takes place instead is an expansion of the repertoire of economic development tactics along with a shift in emphasis towards newer directions.

In Pennsylvania, traditional industrial recruitment as an economic development strategy began in 1956 with the establishment of the Pennsylvania Industrial Development Authority (PIDA), which responded to sudden and drastic job losses in Pennsylvania's mining sector (a core industry at the time). Today, we identify 11 Traditional Subsidy programs in Pennsylvania. Though all of these programs are run slightly differently, most disbursement decisions are made at the state level, either by agency staff or a program-specific board or, for programs financed by the Commonwealth Financing Authority, by a seven-member board that includes representatives designated by the four legislative caucuses and the executive branch (http://www.newpa.com/find-and-apply-for-funding/commonwealth-financing-authority/index.aspx). In the case of a major attraction deal, the request for funds may be initiated at the state level and overseen by a "Governor's Action Team" that puts together a package of assistance from multiple programs and also coordinates the state sales pitch. For smaller deals, requests for funds often are initiated at the local level and are processed or assisted by local industrial development corporations.

In the 1980s, Pennsylvania became one of the leaders of second-wave Grow-Your-Own strategies when it established the Ben Franklin Technology Partnership Program under Governor Richard Thornburgh and then the Industrial Resource Centers (IRCs) under Governor Robert P. Casey. With the Commonwealth in a deep recession and facing growing competition from Japanese imports, the 1982 Ben Franklin program sought to overcome a perceived deficiency in the transfer of technology to industry by Pennsylvania's world-class university-based engineering and science institutions.[5] Pennsylvania's IRCs, created in 1988, provide "manufacturing extension" services—technical assistance—to small- and medium-sized manufacturers.

In the last decade, the state has developed a few third-wave programs that invest in industry clusters and regional and community assets. Examples include:

- the state's training grants to industry partnerships, which seek to strengthen Pennsylvania's higher-wage, competitive industry clusters through skills development and other workforce investments that benefit multiple firms;[6]
- the Main Street and Elm Street programs which seek to revitalize the downtowns of older communities; and
- the "Pennsylvania Wilds" program, which aims to promote the tourism industry through improving the natural assets and amenities in a swath of North Central Pennsylvania that caters to outdoor recreation.

3 The typology in this box is adapted from Stephen A. Herzenberg, Suzi Teegarden, and Howard Wial (2005). *Creating Regional Advantage in Rural Appalachia: Towards a Strategic Response to Global Economic Restructuring.* Report prepared for the Appalachian Regional Commission. Online at http://www.arc.gov/images/reports/2006/keystone2005/keystonereport.pdf. The typology is a modification of that originally presented by Andrew W. Isserman (1994). "State Economic Development Policy and Practice in the United States: A Survey Article" International Regional Science Review, (1994), 16, 49–100.

4 Howard Wial (1995). "Rethinking the Microeconomic Foundations of Worker Representation and Its Regulation," *Proceedings of the 47th Annual Meeting,* Industrial Relations Research Association, Madison, WI: IRRA, 414–421.

5 For a fascinating and highly readable history of the successful advocacy to land a Ben Franklin Technology Partners regional office in the Lehigh Valley, see Sean Safford (2009), *Why the Garden Club Couldn't Save Youngstown: The Transformation of the Rust Belt,* Cambridge, MA: Harvard University Press.

6 For analyses of how Industry Partnerships fit with industry-specific revitalization strategies, see the *Workforce Choices* reports at http://www.portal.state.pa.us/portal/server.pt?open=514&objID=575508&mode=2

7 In his testimony on the 2010 budget before the House Appropriations Committee, DCED Secretary George Cornelius pointed to Virginia's proposed doubling of a "Governor's Opportunity Fund"—despite the recession—as a reason for Pennsylvania to maintain its own adequate attraction and retention subsidies. Online at http://wallaby.telicon.com/pa/library/2010/20100216tn.pdf

Despite the rise of Grow-Your-Own and Regional, Community, and Industry Programs, traditional industrial attraction and retention subsidies remain major components of Pennsylvania economic development strategy. Politicians and economic development entities are reluctant to abandon Traditional Subsidies, equating this to "unilateral disarmament" in the competition for jobs. As a result, the "war between the states" and the "war between the localities" continue, and businesses and site location consultants play communities off against each other to maximize incentives.[7]

The more subsidies grow, the more the economic benefits shrink for the state or community that "wins" the fight for a particular company. This competition continues despite strong evidence that state and local subsidies and taxes are small compared with the total costs most businesses face, and that factors other than subsidies (such as proximity to customers and suppliers, transportation infrastructure, and workforce skills) drive location decisions.[8] This competition also continues despite the fact that it is often difficult to answer the "but for" question—what the business would have done "but for" the incentive. When businesses would have chosen their final location anyway, the incentives are, literally, a giveaway.

8 See, for example, Greg Leroy (2005), *The Great American Jobs Scam: Corporate Tax Dodging and the Myth of Job Creation.* San Francisco, CA: Berrett-Koehler.

Trends in Pennsylvania Economic Development Assistance Over Time

Using the idea of three distinct waves of economic development practice, we categorize Pennsylvania economic development programs into four different groups.

1. Traditional Subsidies: These subsidies induce businesses to move to, stay in, or expand in Pennsylvania.

2. Grow-Your-Own Programs: These programs help existing Pennsylvania companies grow by subsidizing their research and development, innovation and product commercialization (e.g., the life science and digital greenhouses), worker training, or expansion within the renewable energy or energy efficiency sectors.

3. Regional, Community, and Industry Programs: These programs benefit multiple businesses by investing in regional/community assets (e.g., cultural and educational institutions, attractive natural and recreational sites, or brownfield redevelopment—turning a liability into a potential asset), and industry-cluster initiatives (e.g., farmers' markets, industry training partnerships).

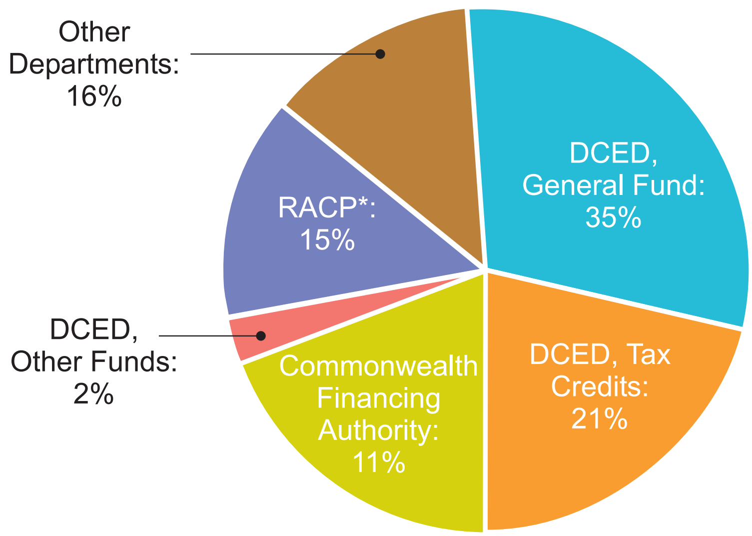
4. Discretionary Subsidies: These funds ordinarily subsidize nonprofit entities, including local governments, school districts, and fire companies.

As noted when we described the scope of this report, to keep our subject manageable, we exclude some components of state government spending pivotal to long-term economic growth, such as investments in transportation, other infrastructure, and education. Instead, we focus more narrowly on the repertoire of investments that leading economic development practitioners currently regard as central to their mission. (Based on our definition, we could have left "discretionary subsidies" out of our analysis. We decided to keep them in because they account for significant money and because their inclusion permits readers to see how much these programs have been cut in the last two years.)

One final note before we examine spending trends: Once we established our four categories, we still had to exercise judgment in deciding which state programs to include and into which category to place each program. In the text below, we note a few cases in which we considered classifying programs differently. We hope our analysis stimulates more explicit discussion about how to classify programs and, in conjunction with that, more discussion on the merits of Grow-Your-Own Programs, Regional, Community, and Industry Programs, and Traditional Subsidies.

In 2008–09, all programs in our four categories accounted for a combined $1.07 billion in state spending or lost tax revenue. As Figure 1 demonstrates, counting General Fund Appropriations, Tax Credits, and "Other Funds" (such as the Tobacco Settlement Fund, or the Growing Greener Bond Fund) DCED accounts for 58% of economic development assistance. Another 11% of economic development funds are funneled through the Commonwealth Financing Authority, which DCED also staffs. Both "Other Departments" and the Redevelopment Assistance Capital Program (RACP, the state's capital budget) accounted for about 15–16% of the total.

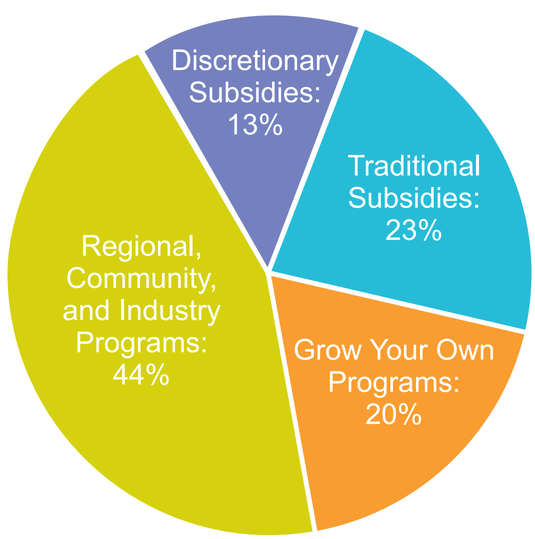
Figure 1. Pennsylvania Economic Development Assistance by Department and Funding Source, 2008-09



**Note*. Redevelopment Assistance Capital Program
Sources. Tables 1-4

Figure 2 shows that 44% of economic development funding in 2008–09 was spent on Regional, Community, and Industry Programs. Traditional Subsidies accounted for 23%, Grow-Your-Own Programs 20%, and Discretionary Subsidies 13%.

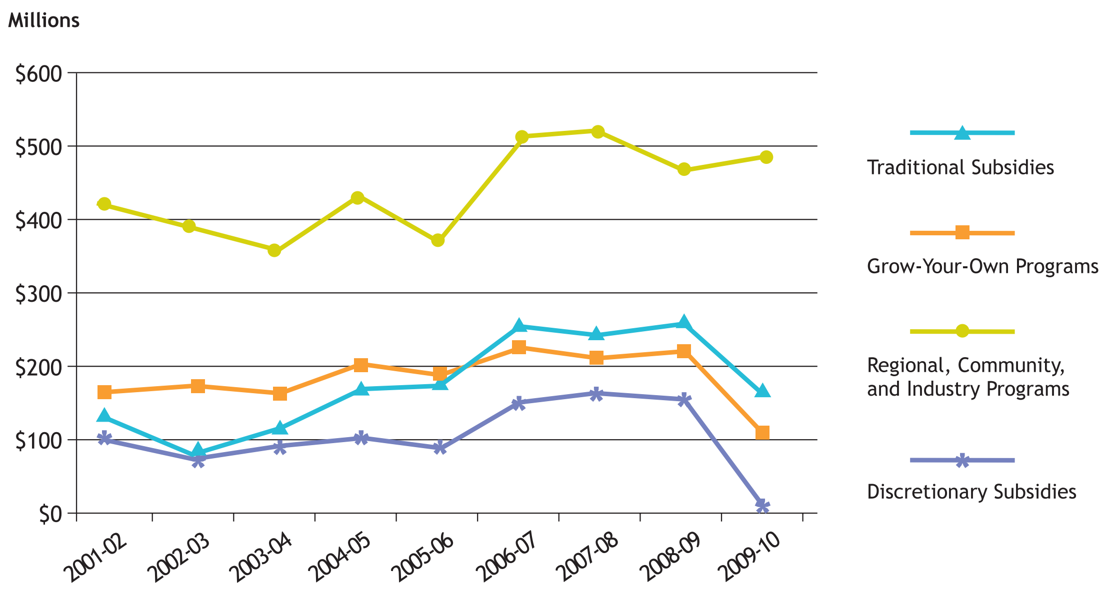
Figure 2. Pennsylvania Economic Development Assistance Broken Down into Four Types, 2008-09



Sources. Tables 1-4

Figure 3 shows the trends over time in spending within the four categories. From FY 2001–02 to 2008–09, economic development assistance in all four categories trended upwards. Assistance then plummeted in the 2009–10 budget except in the Regional, Community, and Industry Programs category. The governor's request for 2010–11 would, for the most part, maintain recent cuts.

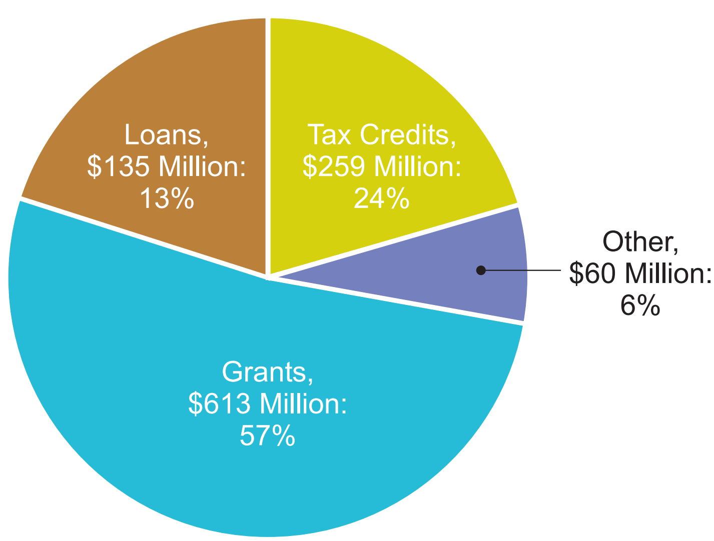
Figure 3. Pennsylvania Economic Development Assistance in Four Categories, 2001-02 to 2009-10



Sources. Tables 1-4

In FY 2008–09, more than half of the taxpayer dollars spent on economic development financed grants, and another 24% tax credits. Less than 15% were allocated to loan funds. (Since a dollar of state subsidy to a loan fund may finance $10 to $20 of loans, of course, total assistance in the form of loans was a much higher share of the total.)

Figure 4. More Than Half of the $1.07 Billion Pennsylvania Spent on Economic Development in 2008-09 Was in the Form of Grants



**Note*. "Other" includes business subsidy programs that do not fit the grant, loan, or tax credit category such as loan guarantee programs.
Sources. Tables 1-4

Traditional Subsidies

Table 1 shows spending on Traditional Subsidies from FY 2001–2002 through 2009–2010. In 2008–09 Pennsylvania spent $242 million on Traditional Subsidies.[9] This dipped by 32%, to $164 million, in the 2009–10 budget. The increase in spending on Traditional Subsidies from only $90 million in 2002–03 to $242 million in 2008–09 was driven by the Film Production Tax Credit, the expansion of the Keystone Opportunity Zone program, and the First Industries Tourism Agriculture and Tourism program. Virtually all individual programs have seen significant cuts from their peak funding level.

Table 1: Annual Authorized Spending for Traditional Subsidies, 2001-02 to 2010-11 (Figures in $ Thousands)

Program	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Film Production Tax Credit [a]	$0	$0	$0	$0	$10,000	$0	$74,900	$74,300	$42,000	$60,000
Keystone Opportunity Zone [b]	$14,200	$9,900	$13,200	$38,000	$40,400	$38,600	$39,000	$58,900	$21,000	$18,800
First Industries Agriculture and Tourism (Loans and Planning Grants & MELF) [c]	$0	$0	$0	$0	$28,905	$28,905	$28,905	$28,905	$28,905	N/A
Infrastructure and Facility Improvement Program	$0	$0	$0	$5,000	$5,000	$15,000	$20,000	$25,500	$28,000	$30,000
Infrastructure Development Program	$29,905	$29,350	$25,000	$25,000	$22,500	$22,500	$22,500	$21,000	$15,000	$19,000
Job Creation Tax Credit [a]	$22,500	$22,500	$22,500	$21,300	$22,500	$22,500	$20,000	$20,400	$11,300	$10,100
Opportunity Grant Program	$35,000	$28,000	$50,000	$50,000	$49,000	$49,000	$25,000	$13,268	$18,268	$25,000
Film Grant Program	$0	$0	$0	$0	$0	$10,000	$5,000	$0	$0	$0
General Fund Transfers to Pennsylvania Industrial Development Authority	$13,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
Small Business First: Loans [d]	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Transfers to Machinery (MELF) [e]	$0	$0	$0	$0	$0	$73,934	$0	$0	$0	$0
TOTAL	**$114,605**	**$89,750**	**$110,700**	**$139,300**	**$178,305**	**$260,439**	**$235,305**	**$242,273**	**$164,473**	**N/A**

a Amounts for 2008—09 and prior years are based on actual usage. Amounts for 2009-10 and 2010—11 reflect the program cap. Program caps are lower than past credit usage; therefore, the program cap is utilized in place of an average of past credit usage.

b Program amounts appear to be based on past credit usage. Amounts for 2009—10 and 2010—11 reflect the program cap, which is used because it is lower than past credit usage.

c The First Industries Fund is financed through $150 million in bond proceeds from the Commonwealth Financing Authority. Thus, annual program totals are not available in the *Commonwealth of Pennsylvania Governor's Executive Budget*. The CFA document, "Commonwealth Financing Authority Approved Projects (excluding H20 and Energy Programs)," dated 3/4/10, and available on the CFA website, was used to obtain fiscal-year totals. First Industries Loan Guarantees were excluded from this total. Program totals are obtained by taking cumulative amount approved and dividing by number of years the program has been approving projects, which, according to Richard Overmoyer of GSP Consulting, is five, starting FY 2005—06.

d Small Business First annually makes low-interest loans to small businesses. As these funds are revolving loans, we do not include them in this analysis. During the 2001-02 to 2010-11 period, Small Business First did not receive transfers from the General Fund or other non-revolving fund programs.

e Act 22 of 2004 requires the Commonwealth Financing Authority to transfer $75 million in bond proceeds to the Department of Community and Economic Development for deposit in the Machinery and Equipment Loan Fund. This is reflected in the *Commonwealth of Pennsylvania Governor's Executive Budget 2004-05* and *2005-06* under "Available" and "Estimate"; however, not in the *Commonwealth of Pennsylvania Governor's Executive Budget 2006-07*. In the *Commonwealth of Pennsylvania Governor's Executive Budget 2006-07*, an amount for $73,934 (thousands) appears under "Miscellaneous."

Source. Except where noted, spending levels come from the *Commonwealth of Pennsylvania Governor's Executive Budget 2003-04, 2004-05, 2005-06, 2006-07, 2007-08, 2008-09, 2009-10,* and *2010-11*.

9 For revolving loan funds, such as the Pennsylvania Industrial Development Authority Fund and Machinery Equipment and Loan Fund in Table 1, we record budget transfers to these funds not the amount of loans these programs give out each year. The reason is that we are analyzing and comparing the cost of different programs to the state not the scale of their assistance to businesses.

Grow-Your-Own Programs

In FY 2007-08, Pennsylvania spent a total of $214 million on this category of programs. By FY 2009-10, this total had been slashed almost exactly in half. Table 2 shows the funding history of Grow-Your-Own Programs since 2001–02. The five largest programs each received at least $10 million every year from 2001–02 to 2008–09. As a group, these programs accounted for 70% of total spending on all Grow-Your-Own Programs in 2008–09. These five programs included Pennsylvania's two most renowned Grow-Your-Own Programs, the Ben Franklin Technology Partnership and the Industrial Resource Center program. Two other large Grow-Your-Own Programs are the Research and Development Tax Credit and the Employment Incentive Payments Tax Credit. The latter subsidizes the hiring of public assistance recipients or individuals receiving vocational rehabilitation assistance. The fifth large Grow-Your-Own Program is Customized Job Training (CJT). While CJT grants are sometimes packaged with Opportunity Grants and other subsidies to attract new companies to Pennsylvania, other CJT funds train the workforce of existing companies. For the latter reason, we classify CJT as a Grow-Your-Own Program.

Table 2: Annual Authorized Spending for Grow-Your-Own Programs, 2001-02 to 2010-11 (Figures in $ Thousands)

Program	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
General Fund Transfer to Ben Franklin Technology Development Authority Fund	$51,937	$53,397	$53,500	$53,000	$50,300	$50,200	$51,700	$50,700	$20,000	$20,000
Research and Development Tax Credit [a]	$15,000	$15,000	$15,000	$30,000	$30,000	$40,000	$40,000	$40,000	$20,000	$18,000
Employment Incentive Payments Tax Credit [a]	$25,000	$25,000	$25,000	$24,900	$25,000	$25,000	$25,000	$25,000	$12,500	$0
Customized Job Training Program (Guaranteed Free Training Included)	$37,500	$37,000	$32,500	$32,500	$30,000	$30,000	$22,500	$18,240	$9,000	$11,000
Industrial Resource Centers	$11,203	$11,203	$10,200	$15,200	$15,200	$15,200	$15,200	$14,100	$7,650	$6,885
New PA Venture Capital Investment Program [b]	$0	$0	$0	$0	$10,130	$10,130	$10,130	$10,130	$10,130	N/A
Keystone Innovation Zone Tax Credit [c]	$0	$0	$0	$0	$0	$6,000	$6,900	$9,600	$7,500	$7,500
Rail Freight Assistance	$4,890	$4,089	$4,250	$8,500	$8,500	$10,500	$11,000	$9,153	$8,500	$9,500
Energy Harvest Grants [d]	$0	$0	$0	$5,000	$5,000	$6,000	$5,000	$7,100	$0	$0
Small Business Development Centers	$6,000	$6,000	$6,400	$6,750	$6,750	$8,000	$7,376	$6,788	$4,000	$3,600
Alternate Fuels Incentive Grants [e]	$0	$0	$0	$0	$0	$0	$0	$6,500	$7,000	$6,000
Life Sciences Greenhouse	$0	$0	$0	$0	$0	$3,000	$3,000	$3,000	$3,000	$3,000
Minority Business Development Projects	$0	$0	$1,000	$2,000	$2,000	$3,000	$3,000	$2,600	$1,000	$0
Digital and Robotic Technology	$0	$0	$0	$0	$0	$3,500	$2,500	$1,700	$224	$0
Crop Insurance	$0	$1,200	$2,000	$2,000	$1,000	$3,000	$1,500	$1,146	$600	$1,000
Emergency Tax Credit (Brewers) [f]	$300	$300	$300	$1,000	$1,200	$1,000	$1,100	$1,100	$0	$0
Transfers to Pennsylvania Energy Development Fund	$0	$0	$0	$10,000	$42	$0	$0	$0	$0	$0
Small Business First: Community Economic Development Loans [g]	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Small Business First: EDA Loans [g]	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

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Small Business First: Pollution Prevention Loans[g]	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
New PA Venture Guarantee Program[h]	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Second Stage Loan Program[h]	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Transfers to Minority Business Development	$0	$0	$200	$0	$0	$0	$0	$0	$0	$0
TOTAL	**$157,330**	**$158,689**	**$155,850**	**$207,480**	**$191,622**	**$223,030**	**$213,906**	**$211,083**	**$112,529**	**N/A**

a Amounts for 2008-09 and prior years are based on actual usage. Amounts for 2009-10 and 2010—11 reflect the program cap. Program caps are lower than past credit usage; therefore, the program cap is utilized in place of an average of past credit usage.

b The New PA Venture Capital Investment Program is financed through $60 million in bond proceeds from the Commonwealth Financing Authority. Thus, annual program totals are not available in the *Commonwealth of Pennsylvania Governor's Executive Budget*. The CFA document, "Commonwealth Financing Authority Approved Projects (excluding H20 and Energy Programs)," dated 3/4/10, and available on the CFA website, was used to obtain fiscal-year totals. Program totals are obtained by taking cumulative amount approved and dividing by number of years the program has been approving projects, which, according to Richard Overmoyer is five, starting FY 2005—06.

c KIZ Program cap for in the *Commonwealth of Pennsylvania Governor's Executive Budget 2009-10* is significantly higher than past credit usage; therefore, an average of past credit usage is utilized rather than the program cap.

d For 2004-05 through 2007-08, data for Energy Harvest is obtained from each *Commonwealth of Pennsylvania Governor's Executive Budget* for those years, Department of Environmental Protection Summaries under "Sustainable Energy." Not consistent with data from Kerry Campbell, Division of Energy Policy and Technology Deployment, at Pennsylvania Department of Environmental Protection, which states that the program disbursed $7.1 million in 2008-09. For 2008-09 and 2009-10, data is obtained from Kerry Campbell.

e Data was obtained from an Alternative Fuels Incentive Grant document titled "FAQs," dated 10/02/09 and available online at <http://www.depweb.state.pa.us/enintech/cwp/view.asp?a=1412&q=502176>. Unclear if totals are based on calendar year or fiscal year.

f Amounts for Emergency Tax Credit appear to reflect program caps rather than past credit usage.

g Small Business First makes low-interest loans annually to small businesses. As these funds are revolving loans, we do not include them in this analysis. During the 2001-02 to 2010-11 period, Small Business First did not receive transfers from the General Fund or other non-revolving fund programs.

h These programs are loan guarantee programs. Therefore, though the Commonwealth has not disbursed any funds to date, it has guaranteed $197,500,000 for New PA Venture and $2,685,000 for the Second State Loan Program as of March 4, 2010.

Source. Except where noted, spending levels come from the *Commonwealth of Pennsylvania Governor's Executive Budget 2003-04, 2004-05, 2005-06, 2006-07, 2007-08, 2008-09, 2009-10,* and *2010-11*.

Regional, Community, and Industry Programs

This category accounts for 44% of all economic development dollars distributed in FY 2008–09, $468 million.The largest program, the Regional Assistance Capital Program (RACP), provides matching funds for local capital projects, such as stadia, convention centers, and healthcare facility improvements. Local governments and businesses provide the balance of the funding for projects. RACP funding has varied from $163 to $284 million depending on the year.

The next-largest programs in this category, Business in Our Sites and Building PA, were established by the state economic stimulus program in 2004-05 and pay for business site or real estate development. These two programs fall on the border between Traditional Subsidies and community and regional development programs. Looking forward, these programs have now spent their original economic stimulus bond allocations and could shrink to zero in the upcoming budget.

Three other Regional, Community, and Industry Programs have reached $20 million in at least one year:

- the Agricultural Conservation Easement Purchase Fund enables state, county and local governments to purchase conservation easements (sometimes called development rights) from owners of quality farmland, keeping the land from being developed;
- the state's Industry Partnership and Industry Partnership Training programs provide funds to identify and meet the common training needs of groups of businesses with overlapping skill needs in Pennsylvania's key regional industries. Funding for Industry Partnerships and Industry Partnership Training equaled $20 million beginning in 2005–06 but was cut to $9.2 million in the 2009–10 budget; and
- the Gaming Subsidy to the Pennsylvania Breeders Fund provides subsidies to increase horse-race purses and other incentives to encourage owners to race Pennsylvania-bred horses in Pennsylvania.

Table 3. Spending for Regional, Community, and Industry Programs, 2001-02 to 2010-11 (Figures in $ Thousands)

Program	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Redevelopment Assistance Capital Program (RACP) [a]	$284,000	$263,040	$199,379	$273,257	$163,054	$249,252	$218,040	$167,124	$269,306	$241,056
Business In Our Sites Grants [b]	$0	$0	$0	$0	$20,000	$20,000	$20,000	$20,000	$20,000	N/A
Business in Our Sites Loans [b]	$0	$0	$0	$0	$40,000	$40,000	$40,000	$40,000	$40,000	N/A
Building PA (Loans and Grants) [b]	$0	$0	$0	$0	$0	$15,160	$15,160	$15,160	$15,160	N/A
Transfers to Agricultural Conservation Easement Purchase Fund	$34,115	$20,485	$49,670	$36,985	$31,164	$28,490	$27,408	$26,951	$31,139	$25,394
Gaming Subsidy to Pennsylvania Breeders Fund [c]	$9,586	$9,979	$8,411	$8,345	$7,134	$8,973	$16,085	$21,545	$18,415	$22,000
Neighborhood Assistance Tax Credit [d]	$18,000	$18,000	$18,000	$13,500	$13,500	$16,000	$17,000	$17,700	$9,000	$8,100
Industry Partnership Training Activities	$2,500	$2,240	$2,250	$2,250	$17,025	$17,025	$17,025	$15,754	$7,200	$6,500
PennPORTS	$11,733	$14,053	$15,246	$16,112	$18,800	$20,302	$17,250	$15,535	$9,402	$9,354
Community and Regional Development	$0	$0	$0	$0	$0	$0	$16,400	$14,900	$0	$0
Main Street Downtown Redevelopment	$0	$0	$0	$0	$0	$3,599	$15,234	$13,973	$7,840	$9,354
Gaming Subsidy to Sire Stakes Fund [c]	$6,171	$4,260	$4,288	$4,139	$3,825	$5,435	$5,428	$11,209	$12,961	$12,961
Community Conservation Grants (C2P2)	$6,193	$7,500	$11,125	$6,250	$11,260	$12,620	$8,572	$9,999	$7,875	$7,193
Resource Enhancement and Protection Tax Credit [d]	$0	$0	$0	$0	$0	$0	$3,200	$9,100	$5,000	$4,500
Heritage Parks Grants	$1,950	$5,250	$6,950	$2,950	$5,350	$8,200	$9,610	$7,668	$0	$0
Gaming Subsidy to PA Standardbred Breeders Development Fund	$0	$0	$0	$0	$0	$0	$5,781	$7,574	$7,311	$9,282
Tourist Promotion Assistance	$11,500	$11,500	$11,000	$11,000	$11,000	$11,000	$15,588	$6,677	$8,000	$5,750
Local Development Districts	$5,640	$5,640	$5,640	$5,640	$5,050	$6,140	$6,140	$5,606	$3,300	$2,970
Cultural Expositions and Exhibitions	$0	$0	$0	$0	$0	$11,725	$6,345	$5,500	$0	$0
Industry Partnerships	$0	$0	$0	$0	$5,000	$5,000	$5,000	$4,613	$2,000	$1,710
Industrial Development Assistance	$4,500	$4,500	$3,500	$4,500	$4,150	$4,500	$4,326	$3,922	$1,556	$1,540
Payments to PA Fairs	$4,399	$4,400	$3,400	$4,385	$4,369	$4,000	$4,000	$3,617	$2,000	$0
Weed and Seed	$2,326	$3,510	$3,390	$3,340	$3,423	$3,677	$3,185	$3,020	$1,153	$450
Business Retention and Expansion Program (BREP) [e]	$0	$0	$3,996	$3,617	$4,746	$7,021	$1,426	$2,848	$1,000	$990
Marketing to Attract Business (Market Access Grants Included)	$5,500	$4,830	$2,898	$2,423	$3,985	$3,985	$3,491	$2,593	$895	$886
First Class Cities Economic Development District Tax Credit [f]	$0	$0	$0	$0	$2,200	$2,500	$2,800	$2,500	$2,500	$2,500
Tourism: Accredited Zoos	$1,000	$2,000	$2,000	$2,000	$2,000	$2,250	$2,250	$1,900	$1,200	$0
Goods Movement and Intermodal Coordination	$0	$0	$0	$0	$0	$0	$2,000	$1,600	$250	$247
Transfers to Broadband Outreach	$0	$0	$0	$0	$0	$2,303	$2,475	$1,197	$1,009	$1,009
Recycling Market Infrastructure Grants [g]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$1,000	$1,200	N/A
Community Action Team	$0	$0	$0	$0	$0	$0	$1,000	$644	$309	$306
Agile Manufacturing	$0	$750	$750	$750	$750	$743	$750	$600	$300	$0
Keystone Innovation Zone Innovation Grants	$0	$0	$0	$3,300	$2,000	$2,000	$2,000	$543	$0	$0
Product Promotion and Marketing Grant	$950	$950	$850	$850	$850	$850	$850	$518	$0	$0
Fay-Penn	$700	$400	$400	$500	$600	$600	$600	$500	$300	$0
Marketing to Attract Film Business	$734	$679	$597	$600	$600	$600	$610	$489	$0	$0
Composting Infrastructure Development Grants [g]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$400	$0	N/A
PA Nutrient Management Plan Implementation Grants	$282	$295	$284	$250	$320	$395	$367	$368	$314	$311
Powdered Metals	$200	$200	$200	$200	$100	$200	$200	$192	$150	$0
PENNTAP	$300	$300	$300	$300	$300	$300	$75	$65	$0	$0
Tax Increment Financing Guarantee (TIF) [h]	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
TOTAL	**$412,279**	**$389,261**	**$359,524**	**$412,443**	**$386,605**	**$518,895**	**$520,721**	**$467,803**	**$488,045**	**N/A**

a According to the “Capitol Program Budget Summary” in the *Commonwealth of Pennsylvania Governor’s Executive Budget* these data presented for this program are fiscal-year estimates of expenditures for capital projects. Actual expenditures usually occur over several fiscal years since design, acquisition, and construction of a project are not generally completed during the fiscal year in which the project is initiated. The estimated expenditures determine the amount of current revenue appropriations required in each fiscal year.

b These programs are financed through bond proceeds of the Commonwealth Financing Authority. Thus, annual program totals are not detailed in the *Commonwealth of Pennsylvania Governor’s Executive Budget*. Annual program totals are calculated by dividing the amount authorized in the *Commonwealth of Pennsylvania Governor’s Executive Budget 2006-07* by the number of years the program has been operating, which, according to Rich Overmoyer of GSP Consulting is five, starting FY 2005—06. According to the document “Commonwealth Financing Authority Approved Projects (excluding H20 and Energy Programs),” dated 3/4/10, and available on the CFA website, these programs have approved amounts exceeding these initial figures. The cause for this discrepancy is unknown. The smaller amounts found in the 2006—2007 budget are used. For Building PA, data was obtained from Theresa Elliott, Deputy Press Secretary of DCED, March 8, 2010. This amount represents projects funded, not allocated to fund mangers which is used on the online CFA document referenced above.

c Program is not included in *Commonwealth of Pennsylvania Governor’s Executive Budget 2004-05*. Therefore, for FY 2002—03, the “Available” estimate from *Commonwealth of Pennsylvania Governor’s Executive Budget 2003-04* is used.

d Amounts for 2008–09 are based on actual usage. Amounts for 2009–10 and 2010—11 reflect the program cap. The program cap is lower than past credit usage; therefore, the program cap is utilized in place of an average of past credit usage.

e The Business Retention and Expansion Program enhances the growth of existing businesses by strengthening collaboration among various public, private, state and local economic development organizations. This program also has a grants component which is included in Discretionary Subsidies. Amounts are calculated by taking the amounts found in the Commonwealth of Pennsylvania Governor’s Executive Budget and subtracting the amounts spent fiscally on BREP community revitalization grants detailed on the Investment Tracker.

f Amounts appear to reflect program caps rather than past credit usage. Program is not included in *Commonwealth of Pennsylvania Governor’s Executive Budget 2010–11*. Therefore, for fiscal years 2008–09 and 2009–10, amounts are based on averages from prior program years.

g Data is not available for 2001–02 through 2007–08. For 2008–09 and 2009–10 data was obtained from Recycling Fund Advisory Committee documents notably “Recycling Fund Shutdown Plan” from December 2009 meeting available at <http://www.dep.state.pa.us/dep/subject/advcoun/Recycle/Recycle.htm>. Program is facing sunset provision and awaiting reauthorization, therefore funding for 2010–11 is not available, Tom Rathbun, Pennsylvania Department of Environmental Protection, Press Office.

h This program is a loan guarantee program. Therefore, though the Commonwealth has not disbursed any funds, as of March 4, 2010, it has guaranteed $44,911,970.

Source. Except where noted, spending levels come from the *Commonwealth of Pennsylvania Governor’s Executive Budget 2003-04, 2004-05, 2005-06, 2006-07, 2007-08, 2008-09, 2009-10,* and *2010-11*.

Discretionary Subsidies

Our final category of economic development program is grants made by state governments to local nonprofits and other institutions. In the vernacular of Harrisburg, these are called “Walking Around Money,” or WAMs. These programs use General Fund dollars to help local groups fulfill their missions, but there is little oversight or accountability regarding how funds are distributed. Figure 5 shows that in 2008–09, the two largest discretionary subsidy programs were the $40 million Community Conservation and Employment Program and the $40 million Community Revitalization Program.

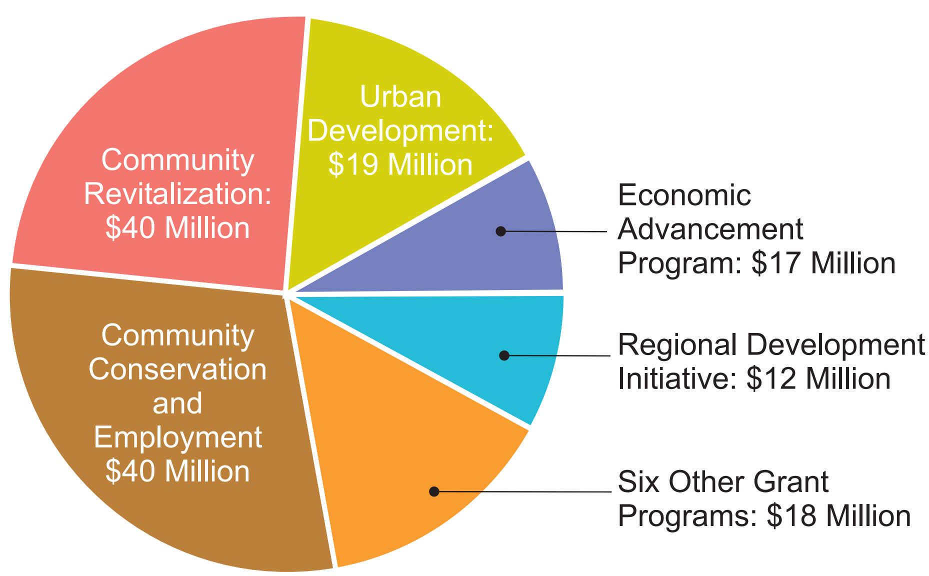
Table 4. Annual Authorized Spending for Discretionary Subsidies, 2001-02 to 2010-11 (Figures in $ Thousands)

Program	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Community Conservation and Employment (Community Services Block Grant)	$5,500	$7,000	$20,999	$24,869	$15,000	$29,000	$44,000	$40,000	$0	$0
Community Revitalization	$84,660	$70,000	$50,000	$51,800	$56,754	$44,300	$40,220	$39,550	$0	$0
Urban Development	$10,000	$9,500	$8,500	$8,500	$7,000	$18,900	$20,110	$18,750	$0	$0
Economic Advancement Program (EAP)	$0	$0	$0	$0	$0	$0	$18,000	$16,800	$0	$0
Regional Development Initiative	$0	$0	$0	$300	$900	$19,370	$13,500	$12,000	$0	$0
Economic Growth and Development Assistance	$0	$0	$0	$2,500	$1,000	$7,000	$7,000	$6,200	$0	$0
Business Retention and Expansion: Community Revitalization Grants [a]	$0	$0	$0	$3,670	$7,530	$7,558	$1,800	$100	$4,050	N/A
Community and Municipal Facilities Assistance	$0	$0	$0	$2,500	$2,500	$6,000	$5,800	$5,500	$0	$0
Cultural Activities	$0	$0	$0	$0	$0	$9,175	$4,000	$3,400	$0	$0
Community and Business Assistance	$0	$0	$2,300	$2,500	$2,500	$5,125	$2,744	$2,000	$0	$0
Manufacturing and Business Assistance	$1,500	$3,000	$2,500	$2,500	$2,500	$3,000	$1,000	$900	$0	$0
TOTAL	**$101,660**	**$89,500**	**$84,299**	**$99,139**	**$95,684**	**$149,428**	**$158,174**	**$145,200**	**$4,050**	**N/A**

a Amounts obtained from fiscal-year based inquiries of the Investment Tracker conducted in March 2010. In 2009-10, the grants in this program exceeded the budget appropriation. We assume a carryover amount of $4,050,000 from 2006-07 through 2009-10 which was used to fund the grants in 2009-10.

Source. Except where noted, spending levels come from the *Commonwealth of Pennsylvania Governor's Executive Budget 2003-04, 2004-05, 2005-06, 2006-07, 2007-08, 2008-09, 2009-10,* and *2010-11*.

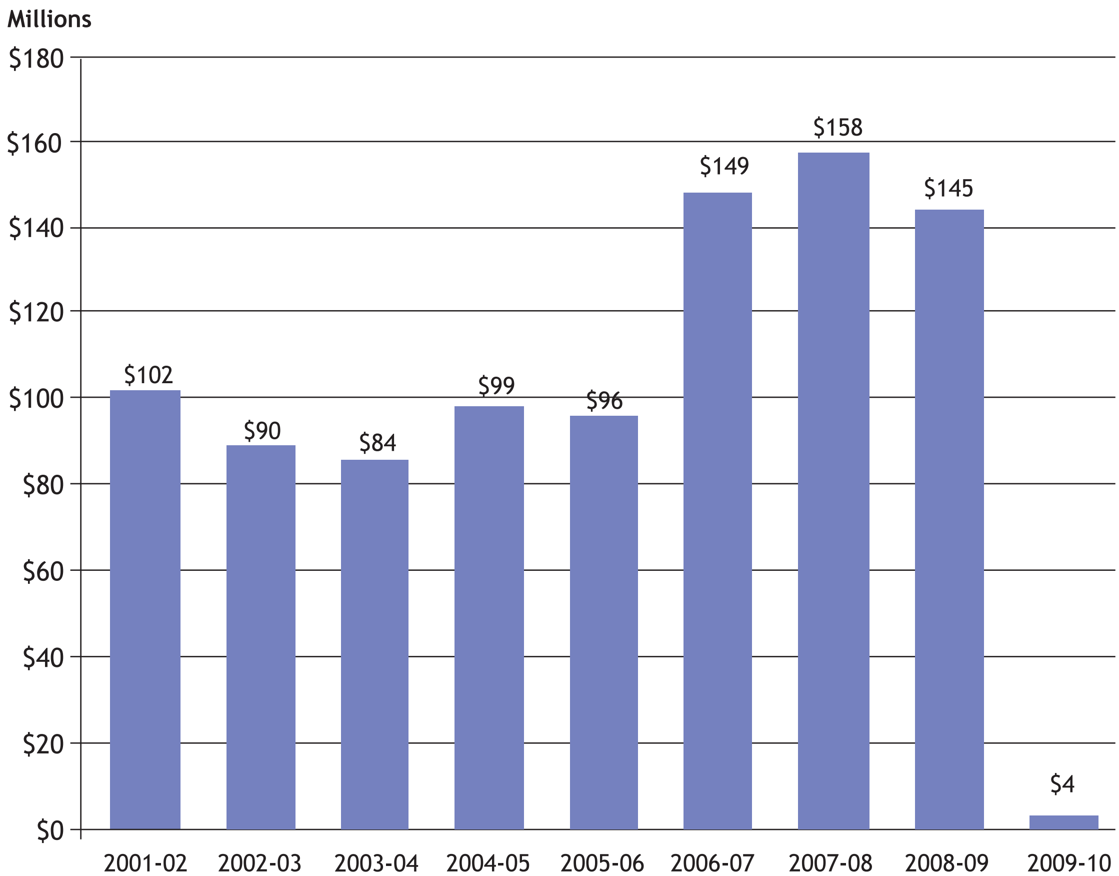
Figure 5. Discretionary Subsidies by Program, 2008-09



Sources. Table 4

As Figure 6 demonstrates, after increasing sharply in 2006–06, and peaking 2007–08, this category was virtually wiped out due to budgetary shortfalls in FY 2009–10.[10]

Figure 6. Pennsylvania Distributed Nearly $1 Billion in Discretionary Subsidies in the Last Decade



Sources. Table 4

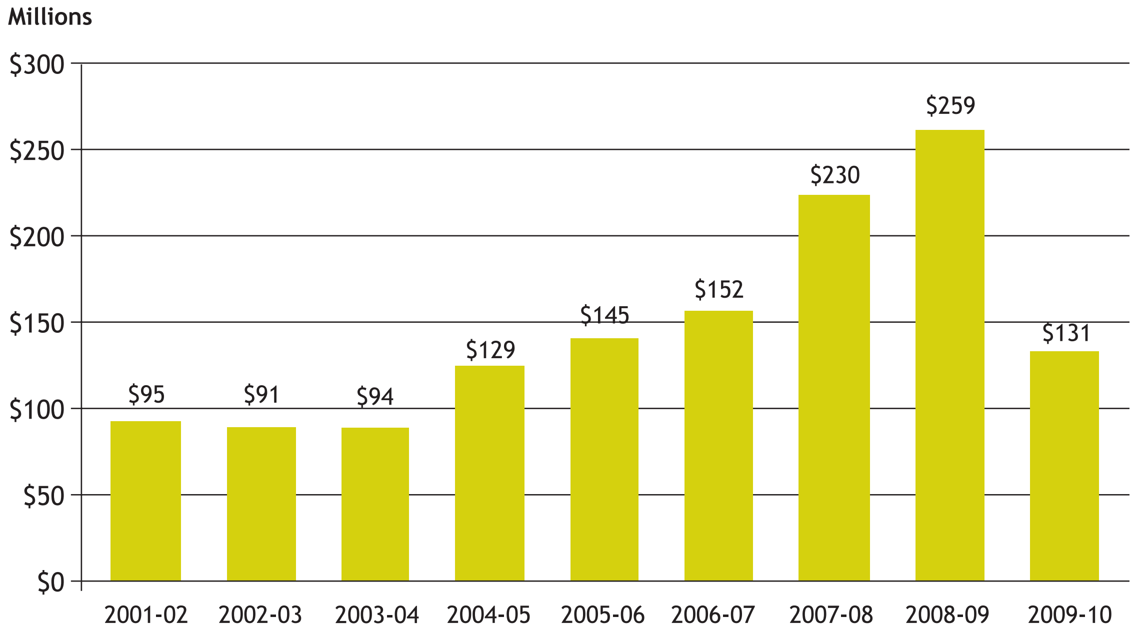
Proliferating Tax Credits

As Figure 7 shows, until the FY 2009–10 budget, tax credits to businesses had been growing over time.[11] Between 2001–02 and 2008–09, tax credits rose from $95 million to $259 million. Even adjusting for inflation, this is more than a doubling. Then tax credits decreased substantially in the 2009–10 budget, due to the decline in the Film Production Tax Credit to $42 million from a high of $75 million in 2008–09 (Table 1); the decline in the Research and Development Tax Credit by $20 million (Table 2); and declines of over $10 million in the Job Creation Tax Credit (Table 1) and the Employment Incentive Payments Tax Credit (also Table 2).

10 Table 4 and Figure 2 provide funding totals only for the 11 Discretionary Subsidy programs specifically listed in Table 4. These programs were categorized as Discretionary Subsidy Programs based on the kinds of recipients of the program as seen on the Pennsylvania Department of Community and Economic Development's "Investment Tracker." Table 4 and Figure 2 do not display the grand total of all WAMs across all Departments and all legislative accounts.

11 For some state tax credits (e.g., the Research and Development Tax Credit), the maximum cost is known, as the total credit is capped. In other cases, such as the KOZ program, the cost is an estimate.

Figure 7. The Cost of Economic Development Tax Credits Increased 273% in Pennsylvania From 2001-02 to 2008-09



Sources. Tables 1- 4

Cuts in the 2009-10 Budget

With state revenues declining during the recession, total spending on economic development across all four of our categories fell from $1.13 billion in the 2007–08 budget to $769 million in the 2009–10, a 32% decline. Over this period:

- Funding for Discretionary Subsidies absorbed nearly 40% of this drop, $141 million.
- Traditional Subsidies absorbed a cut of $71 million, or 30%.
- Grow-Your-Own Programs experienced a cut of $101 million, or 47%. This overall decline reflected reductions of $32 million in the Ben Franklin Program, cuts of $32.5 million in the two major Grow-Your-Own tax credits, a decline of $13.5 million in funding for Customized Job Training, and a decline of $7.6 million in state funding for Industrial Resource Centers
- Regional, Community, and Industry Programs absorbed the smallest cuts, only $33 million, or 6%.

These spending cuts, which are likely to persist in at least the next two budgets, represent an opportunity of sorts. State policymakers have an opportunity to step back from 50 years of incremental and often ad-hoc expansion of economic development programs, and to implement a strategic updating of the state's economic development approach. With that longer-term goal in mind, we now turn to a discussion of the targeting and accountability of the oldest portion of Pennsylvania's economic development portfolio: Traditional Subsidy Programs.

Targeting and Accountability of Pennsylvania Traditional Subsidies

Most companies don't receive subsidies when they first open or expand an operation. This fact makes many conservatives suspicious of Traditional Subsidies as a distortion of the free market. Fear also exists that political manipulation influences the distribution of Traditional Subsidies, awards being driven by campaign contributions and not just by what makes economic sense for the state.[12]

A final concern with Traditional Subsidies stems from the experience of past subsidy deals gone sour. In 1978, for example, Governor Milton Shapp and local officials crafted an incentive package worth nearly $100 million to attract a Volkswagen plant to New Stanton, Pennsylvania, only to see the plant shut down 10 years later when the tax incentives ran out.[13] In 2004, Dell received $279 million in state and local subsidies to locate a new assembly plant in North Carolina. In October, 2009, the company announced it would close the plant.[14] Late last year, Harley-Davidson in York County, Pennsylvania, received a commitment of $15 million in state assistance while cutting its workforce from about 2,000 to 1,000.[15]

Given theoretical concerns and practical experience, it is critical that Pennsylvania intelligently target its Traditional Subsidies and also ensure transparency and accountability when companies receive subsidies. To assess the targeting and accountability of Pennsylvania Traditional Subsidy Programs, we reviewed performance audits of economic development programs conducted in the past decade. In addition, we examined the program guidelines of nine different programs: the Opportunity Grant Program, the Pennsylvania Industrial Development Authority, the Infrastructure Development Program, the Job Creation Tax Credit, the Machinery & Equipment Loan Fund, the Infrastructure & Facilities Improvement Program, the Keystone Opportunity Zone Program, the Film Production Tax Credit, and the Customized Job Training (CJT) program. The first eight of these programs were classified earlier as Traditional Subsidy Programs. While we classified CJT as a Grow-Your-Own Program, we also noted that it is partly used as a component of Traditional Subsidy Programs. Hence, we evaluated the targeting and accountability of the CJT program along with the other eight programs.

As a group, these nine programs offer subsidies to businesses for costs such as site development, plant construction, equipment purchase, infrastructure development, production costs, or worker training.

12 To see who has received subsidies from Pennsylvania economic development programs, go to the Investment Tracker at http://www.dced.state.pa.us/investmenttracker/

13 See John Holusha, "Volkswagen to Shut U.S. Plant," The New York Times, November 21, 1987; and Robin Acton, "Local Workers Recall East Huntingdon Plant Closing," Pittsburgh Tribune-Review, August 24, 2008.

14 For details on the Dell case and other recent case studies, see Greg LeRoy (2010), Growing Pennsylvania's High-Tech Economy: Choosing Effective Investments (Washington, DC: Good Jobs First. Online at www.goodjobsfirst.org/pdf/PAhightech2010%20-%20FINAL.pdf

15 Patriot-News, "Harley-Davidson Announces It'll Keep Plant in York County," December 03, 2009. Online at http://www.pennlive.com/midstate/index.ssf/2009/12/harley-davidson_says_itll_keep.html

Are Traditional Subsidies Well Targeted (by Industry, Location, and Job Quality)?

Nationally, best economic-development practice emphasizes the importance of targeting Traditional Subsidies using three criteria: industry, job quality, and community/location.

1. Industry: Subsidies should go to companies in industry sectors in which economic regions have actual or potential competitive strength. Conversely, subsidies should not go to businesses in industries within which regions have little prospect of competitive strength, because this also means regions do not have the specialized skills, suppliers, or other supports needed to attract a critical mass of businesses in the industry. Attracting an isolated branch plant that does not reinforce any "agglomeration economies" diminishes the prospect that public subsidies will generate a virtuous circle of self-reinforcing growth within the sector.
2. Job quality: Subsidies should go to jobs that pay family-supporting wages and that pay decently by the norms for their industry and location.
3. Community/location: Subsidy programs should give higher priority to jobs in older communities with high unemployment, existing infrastructure, and close proximity to public transit, and, therefore, easy accessibility to low-income people. They should discourage subsidies in sites that chew up scarce land and might reinforce the outward movement of people and jobs.

One of the potential benefits of establishing specific industry, location, and job-quality criteria is that it makes it easier for state and local economic development officials to become more discriminating: to say "no" or at least to offer more limited assistance if a company seeking subsidies makes little sense for the region.

At the level of economic development philosophy, these three targeting criteria are accepted by the Rendell Administration and the Department of Community and Economic Development. For example, with help from IBM, DCED has sought to base its industrial recruitment efforts on an understanding of the industrial strengths of each economic region.[16] In addition, both community/location and job quality are incorporated into "The Keystone Principles & Criteria for Growth, Investment, and Resource Conservation," (or Keystone Principles), adopted through an interagency process by the Rendell Administration on March 31, 2005, (see Box 2).

Box 2. Pennsylvania's Keystone Principles & Criteria for Growth, Investment, & Resource Conservation (or "Keystone Principles" for short)[17]

1. Redevelop First
2. Provide Efficient Infrastructure
3. Concentrate Development
4. Increase Job Opportunities
5. Foster Sustainable Businesses
6. Restore and Enhance the Environment
7. Enhance Recreational and Heritage Resources
8. Expand Housing Opportunities
9. Plan Regionally, Implement Locally
10. Be Fair

Community/location is a major component of the first three Keystone Principles: “redevelop first,” “provide efficient infrastructure” (or “fix-it-first”), and “concentrate development.” The importance of job quality is recognized in Keystone Principle 4, which notes the importance of investing in “businesses that offer good paying, high quality jobs.”

More difficult to evaluate is whether or not the idea that subsidies should be targeted by industry has been translated into actual practice, changing which companies receive state assistance. The central challenge in evaluating targeting is the lack of good and easily accessible data on the industry, location, and job quality of subsidy recipients. This lack underscores the need for greater transparency, a point we return to later.

Lacking (for the most part) data, the best we can do is to evaluate targeting based on our review of program guidelines, supplemented by interviews with DCED officials. Based on these sources, we assessed on a four-point qualitative scale (defined in Table 5) to what extent different business subsidy programs took into account industry, location, and job quality.

Table 5: Ratings Used to Evaluate Whether Traditional Subsidies Are Well Targeted by Industry, Community/Location, and Job Quality

Rating	Definition
Strong	Subsidies are restricted to projects that meet industry, community/location, or job quality requirements.
Moderate	Projects that meet industry, community/location, or job quality requirements are given substantial preference.
Limited	Projects that meet industry, community/location, or job quality requirements are given some additional consideration (e.g., job quality standards are weak or industry focus is too broad—so most companies in broad sections of the economy qualify).
None	Criteria are not mentioned at all.

Source. Keystone Research Center

Industry Targeting: The Governor’s Action Team now identifies four priority industries in the state as a whole: energy, manufacturing, life sciences, and technology.[18] Manufacturing and technology, however, are very broad categories. The industry criteria for distributing funds in most individual programs (see Table 6) are similarly broad, with the result that a very wide range of businesses would meet the criteria. The only program evaluated that has narrow targeting is the Film Tax Credit. In this case, the problem is that Pennsylvania has no demonstrable or potential competitive strength in the film industry, so it’s not clear why it is being targeted for subsidies.

To the best of our knowledge, DCED has never evaluated in detail the allocation by industry of Traditional Subsidies and how this allocation has, or hasn’t, changed based on the IBM studies and subsequent efforts to take into greater account the specific industry of subsidy applicants.

16 The IBM study considered how attractive a “prospective investor” (who is currently considering where to expand or locate its operations) in each of 11 industries would find 11 Pennsylvania’s economic regions compared to competitor regions (across the country and internationally). See IBM Business Consulting Services, Identifying Opportunities for Pennsylvania to Compete in the Global Economy—Summary Report: Action Plan for Investing in a New Pennsylvania. Online at www.newpa.com/files/ibmexternalreport05.pdf. See also Team Pennsylvania Foundation (October 2007), Pennsylvania’s Global Competitiveness Initiative: An Investor Oriented Approach to Economic Development. Available at http://www.newpa.com

17 The full text of the principles is available at http://www.newpa.com/find-and-apply-for-funding/keystone-principles/index.aspx. This same web page also includes criteria for implementing the Keystone Principles.

18 Interview with Lisa Elliot, Governor’s Action Team, August 2009.

Table 6: Assessment of Industry Targeting Criteria in Nine Pennsylvania Business Subsidy Programs

Program	Industry Criteria	Rating
Opportunity Grant Program	Agriculture, industrial activities, manufacturing, research and development, export or "any other enterprise that offers a significant economic impact… determined solely by DCED." [19]	Limited
Pennsylvania Industrial Development Authority	Manufacturing, industrial activities, agribusiness, computer or clerical operations, office buildings for national or regional headquarters, research and development, or a Keystone Innovation Zone Company.	Limited
Infrastructure Development Program	Agricultural enterprise, industrial enterprise, manufacturing, research and development, export service, or commercial enterprise.	Limited
Job Creation Tax Credit	None	Limited*
Machinery & Equipment Loan Fund	Manufacturing, industrial processes, mining, production agriculture, information technology, biotechnology, services as a medical facility, or other industrial or technology sectors as defined by the Secretary [of DCED].	Limited
Infrastructure & Facilities Improvement Program	Eligible entities include industrial enterprise, manufacturer, retail enterprise, research and development enterprise, convention center authority, hospital, or hotel.	Limited
Keystone Opportunity Zone Program	None	None
Film Production Tax Credit	Restricted to film industry.	Limited**
Customized Job Training	Priority consideration given to agribusiness, advanced manufacturing, life science, biotechnology, biopharmaceutical manufacturing and healthcare, environmental technology, alternative energy, information technology, building and construction, logistics and transportation, lumber, wood and paper. Also priority consideration given to projects addressing targeted industries defined by the Pennsylvania Department of Labor and Industry.	Limited

*This rating is based on the individual program guidelines. Discussions with DCED indicated that higher preference is given to projects in certain industries. Although this criterion remains one of five to eight factors and hence is "limited," it still seems a reasonable assessment of the weight placed on industry focus.

**Though the program is restricted to the film industry, it is rated as having limited criteria because there is no evidence that Pennsylvania has a competitive advantage in the film industry.

Source. Keystone Research Center

Community/Location. When it comes to community and location, there has been only one empirical study of where subsidies go.[20] That study (by Keystone Research Center) found that PIDA, OGP, and IDP subsidies distributed between 1998 and 2003 were all over the map, both literally and metaphorically: Second-class townships received the same per-capita assistance as did older communities (cities, boroughs, and first-class townships). Moreover, second-class townships received more per capita of the most valuable assistance—grant dollars—than did older communities. (An update of this study will be published later this spring.)

Consistent with this empirical evidence, our review of program guidelines reveals that five of the nine programs placed limited emphasis on location and one placed no emphasis on that factor (see table 7). The remaining three programs—the Pennsylvania Industrial Development Authority, the Infrastructure and Facilities Improvement

19 Pennsylvania Department of Community and Economic Development (October 2008), Opportunity Grant Program Guidelines, 2.

20 See Dennis Bellafiore, Stephen Herzenberg, Megan Myer, and Allan Rothrock (2003), Economic Development Subsidies in Pennsylvania: Do They Fuel Sprawl?, Harrisburg,PA: Keystone Research Center; background paper for the Brookings Institution Center on Urban and Metropolitan Policy report Back to Prosperity: A Competitive Agenda for Renewing Pennsylvania. In conjunction with this report, KRC also developed an online subsidy map. Both the report and the subsidy map can be accessed at www.keystoneresearchmap.org.

Program, and the Customized Job Training Program—emphasize location more strongly. The PIDA program, for example, offers lower interest rates on PIDA loans to counties with higher unemployment rates (e.g., Philadelphia County PIDA recipients pay lower interest rates on PIDA loans than do PIDA recipients in the suburban Philadelphia counties).

Consistent with PIDA's "moderate" community/location emphasis, our earlier empirical study found that more PIDA loan dollars (on a per capita basis) went to cities and to older communities as a group than did OGP and IDP grants.[21]

We rated the Keystone Opportunity Zone program as emphasizing location to only a limited extent despite legislative language that targets "deteriorated" areas.[22] This rating reflects the fact that state policymakers and local economic development practitioners both say that, as new KOZs have been defined, the definition of "blighted" has become broader. In the view of one official in a local Chamber of Commerce, a program that could have had a powerful impact on distressed cities if KOZs had remained tightly targeted, has been diluted (see Box 3). An LB&FC audit also concluded that KOZ designations are too broad, giving KOZ status to greenfield locations and other locations that are not blighted, but merely underutilized.[23] Before we end our discussion of KOZs, it is worth underscoring the desperate need for actual data and acknowledging that such data *might* show the distribution of KOZ tax breaks, on average across the state, to be reasonably targeted to older communities (Box 3).

Table 7. Assessment of Community/Location Targeting Criteria in Nine Pennsylvania Business Subsidy Program

Program	Community/Location Criteria	Rating
Opportunity Grant Program	"Economic conditions for the region where the project is located"[24]	Limited
Pennsylvania Industrial Development Authority	Greater award amounts for areas designated as distressed.[25] Lower loan rates applicable for areas with higher unemployment.	Moderate
Infrastructure Development Program	Special consideration for areas with adverse economic factors. [26]	Limited
Job Creation Tax Credit	DCED considers whether project addresses Keystone Principles (see p. 21).	Limited
Machinery & Equipment Loan Fund	DCED considers the "geographic impact of the project" when evaluating an application. [27]	Limited
Infrastructure & Facilities Improvement Program	DCED considers unemployment, declining population, brownfields, low to moderate household income of project location when evaluating applications.	Moderate
Keystone Opportunity Zone Program	The Legislative Budget and Finance Committee, in their June 2009 audit, found that greenfield sites have been designated as KOZ sites. The program has strong criteria on paper but has limited criteria in practice. [28]	Limited
Film Production Tax Credit	None	None
Customized Job Training	Priority consideration given to distressed areas including those with unemployment above the state average, state enterprise zone, Keystone Opportunity Zone, Keystone Innovation Zone, area with high job loss due to major plant closings, layoffs, or natural or man-made disasters.	Moderate

Source. Keystone Research Center

Box 3. A Case Study of Keystone Opportunity Zones in York County [29]

When Pennsylvania first passed its KOZ law, all KOZ parcels designated in York County fell in the city of York. These parcels included a carefully selected group of blighted and vacant commercial properties. If a property was generating minimal tax income before designation as a KOZ, the city signed payment-in-lieu-of-taxes agreements: that way, the city would not lose money but the tax incentive for further development would remain. Since the first round of KOZ designations, very few additional KOZ sites have been designated in York County.

One of the original KOZ sites in York became of the most significant private developments in the city in the last 50 years, anchored by a $30 million, 200,000 square foot new commercial development and a parking structure to support those buildings. The project brought in an estimated 200 net new jobs and the city of York will now become a "huge winner" in property taxes with the 10-year KOZ tax break now phasing out.

This was the only significant KOZ development in York County, however. One local developer notes that York County's experience puts in perspective the limits of what KOZs can do: "KOZs were touted as the most powerful economic development tool Pennsylvania has ever created and what did they produce? They were certainly a useful tool, but KOZs put the lie to the idea that there's a silver bullet. Let's get real about permanently reforming local government and tax structure. You are in a municipality with crime, low-quality education, high taxes, blight, and easily buildable land on the edge of the city. You single out taxes and then you're shocked when that doesn't work. KOZs are a finite benefit that goes away, not a permanent change in the landscape."

Job Quality: Table 8 shows that all nine programs have limited or no job-quality criteria. Examples of weak criteria include the requirement within the Job Creation Tax Credit that jobs pay at least 150% of the Federal Minimum Wage (FMW). With the federal minimum wage currently at $7.25 per hour, 150% of the minimum wage is $10.88 per hour.

Our assessment of job-quality criteria as being relatively weak is consistent with the one empirical study of the quality of jobs promised on PIDA projects. That study found that two out of every five PIDA subsidies go to companies that expect to pay less than 80% of the industry average wage in the county where the investment is applied. [30]

21 Bellafiore et al., *Economic Development Subsidies in Pennsylvania: Do They Fuel Sprawl?*

22 According to the LB&FC report, the legislation defines "deteriorated property" as "any blighted, impoverished area…that is abandoned, unsafe, vacant, undervalued, underutilized, overgrown, defective, condemned, demolished, or which contain economically undesirable land use." (p. 11)

23 Legislative Budget and Finance Committee (June 2009). *An Evaluation of the Keystone Opportunity Zone Program,* Harrisburg, PA,. 127 and 131.

24 Pennsylvania Department of Community and Economic Development (2008). *Opportunity Grant Program Guidelines,* 6.

25 Distressed areas include state enterprise zones, state Act 47 municipalities, federal empowerment zones, federal enterprise communities, brownfield sites, Keystone Opportunity Zones, and Keystone Opportunity Expansion Zones.

26 Includes, but is not limited to, enterprise zones, distressed communities, federal empowerment zones, or enterprise communities.

27 Pennsylvania Department of Community and Economic Development (February 2009). *Core Industries/Machinery and Equipment Loan Fund Program Guideline,* 6.

28 Legislative Budget and Finance Committee (June 2009). *An Evaluation of the Keystone Opportunity Zone Program,* Harrisburg, PA, 131.

29 This box is based on an interview with Eric Menzer, Senior Vice President of Wagman Construction in York County and Chair of the Board of Director of 10,000 Friends of Pennsylvania.

30 David Bradley (2002), *Many Pennsylvania Industrial Development Authority Loans Create Low-Quality Jobs,* Harrisburg, PA: Keystone Research Center

Table 8: Assessment of Job Quality Criteria in Nine Pennsylvania Business Subsidy Programs

Program	Job Quality Criteria	Rating
Opportunity Grant Program	At least 150% of the minimum wage.[31]	Limited*
Pennsylvania Industrial Development Authority	None	None
Infrastructure Development Program	None	Limited**
Job Creation Tax Credit	At least 150% of federal minimum wage excluding benefits.	Limited*
Machinery & Equipment Loan Fund	DCED considers "job quality" when evaluating an application. [32]	Limited
Infrastructure & Facilities Improvement Program	DCED considers "job quality" when evaluating an application.	Limited
Keystone Opportunity Zone Program	None	None
Film Production Tax Credit	None	None
Customized Job Training	Job quality in terms of wage level of trainees considered in evaluation process.	Limited*

* This rating is based on the individual program guidelines. Discussions with DCED indicated that higher preference is given to projects with wages from 200% to 250% of the federal minimum wage. However, this criterion remains one of five to eight factors and is not binding (as some projects that pay below 200 or 250% receive funds). Hence, "limited" still seems a reasonable assessment of the weight placed on job quality.

**Interviews revealed that wages are given consideration in practice in a manner similar to other programs with limited job quality criteria.

Source. Keystone Research Center

Accountability After Subsidies Are Distributed

The previous section considered how well business subsidies are targeted. This section will consider the current state of accountability once the state gives out subsidies. We define three dimensions of post-grant accountability:

- Public disclosure: Is basic information on subsidies publicly available?
- Monitoring: Are companies that receive subsidies monitored, and is the information companies provide to the state audited for accuracy?
- Clawbacks: Does the state recapture subsidies if companies fail to deliver promised jobs?

Our review of accountability relies on our own program reviews, on DCED interviews, and on audits of DCED programs by the Auditor General and the Legislative Budget and Finance Committee.[33]

31 The Opportunity Grant Program guidelines did not specify whether this referred to the federal minimum wage or the state minimum wage.

32 Pennsylvania Department of Community and Economic Development (February 2009). *Core Industries/ Machinery and Equipment Loan Fund Program Guidelines,* 6.

33 Office of the Auditor General (October 2007), *Opportunity Grant Program: A Special Performance Audit of The Pennsylvania Department of Community and Economic Development.* Legislative Budget and Finance Committee(June 2009), *An Evaluation of the Keystone Opportunity Zone Program,* Harrisburg, PA. Legislative Budget and Finance Committee (2000), *Department of Community and Economic Development, Economic Development Programs: A Performance Audit Report in Response to Act 1996-58,* Harrisburg, PA. The following programs were reviewed in the 2000 LB&FC Audit of DCED: Customized Job Training, Industrial Sites, Reuse Program, Infrastructure Development Program, Machinery and Equipment Loan Fund, Opportunity Grant Program, Pennsylvania Industrial Development Authority, PennPorts, Small Business Development Centers, Small Business First Loans, Team Pennsylvania, Job Creation Tax Credit, and Keystone Opportunity Zone Program.

Public Disclosure. Information disclosed on subsidies should make it possible to determine whether or not taxpayer dollars are being used effectively. In particular, were subsidies well targeted (e.g., based on industry, location, and job quality), and did companies actually create the number and quality of jobs that they promised initially? Answering these questions requires information such as the name of the company that received money, the number of jobs promised, the wages promised, whether or not the company promised to provide healthcare benefits, the address of the business site where the money was used, the industry of the company, how many jobs were actually created, and the wages and healthcare benefits actually paid. For companies relocating within Pennsylvania, the address of the previous business site should also be included. This is not a great deal of information—it could fit on a well-designed single side of paper. In addition, all information disclosed should be easy to download into a data set suitable for research and analysis.

So how does Pennsylvania's actual current practice compare to this public disclosure ideal? The answer is, better than in many states but certainly not well enough.

The state does well compared to other states because of an online "Investment Tracker" database, established during the Ridge Administration. The Investment Tracker reports all subsidies, the name of the applicant for assistance, the county, jobs existing, jobs pledged, and award amounts. As a result of the Investment Tracker, Good Jobs First, the national nonprofit clearinghouse on subsidy accountability, ranked Pennsylvania 12th in the nation for online business subsidy disclosure. (The specific criteria used by Good Jobs First to evaluate public information online were searchability, level of detail, and thoroughness.[34])

The Investment Tracker, however, does not make it possible to analyze whether subsidies were well targeted or whether companies delivered on promises. It provides no information on

- industry,
- promised wages and benefits (for most subsidies), or
- actual wages and benefits.

While the Tracker does specify a "county" for each subsidy, it is not always clear whether this is the county of the applicant for assistance or the business site where money was actually used. More importantly, there is no street address which allows pinpointing of exactly where subsidies are applied.

Disclosure is especially sparse for companies receiving tax breaks. The Investment Tracker does not specify which companies receive KOZ tax breaks from the state. Nor does it report local tax exemptions.[35] Finally, information from the Investment Tracker cannot easily be uploaded into a data set, making it difficult to analyze.

In addition to maintaining the Investment Tracker, the Commonwealth publishes an annual report for programs under the auspices of the Commonwealth Financing Authority, and DCED develops an Annual Financing Strategy with job creation figures and private investment. As with the Tracker, however, these annual reports do not analyze whether money is well targeted, distributed in accordance with the Keystone Principles, or otherwise is a good use of public funds. Rather, these reports are descriptions of the program activities, with aggregate information on variables such as jobs pledged, jobs actually reported, and private dollars leveraged. This summary information makes it difficult for the public to determine if the dollars are being used effectively.

34 Philip Mattera, Karla Walter, Julie Farb Blain and Michelle Lee (2007). *The State of Disclosure: An Evaluation of Online Public Information About Economic Development Subsidies, Procurement Contracts and Lobbying Activities,* Washington DC: Good Jobs First, 2–3.

35 Legislative Budget and Finance Committee (June 2009). An Evaluation of the Keystone Opportunity Zone Program, Harrisburg, PA, 76.

Monitoring. The adequacy of DCED monitoring of companies that receive subsidies has been most comprehensively assessed in audits of the Opportunity Grant Program by the Auditor General, and of the Keystone Opportunity Zone program by the Legislative Budget and Finance Committee (LB&FC).[36] Both of these comprehensive audits contain detailed analyses of DCED monitoring of companies that receive grants or tax breaks. We will focus here on only a few highlights.

Both audits found that DCED relies for job creation data primarily on self-reported data from grant recipients, data that is not independently verified. Both audits also documented reporting discrepancies. LB&FC found discrepancies so great as to make it impossible for the agency to render a judgment regarding the effectiveness of the program.[37] OGP reporting, for its part, excluded companies that failed to report data from its analysis of program success, thereby inflating its estimates of the share of companies that met job-creation targets.

In response to the OGP and KOZ audits, DCED has implemented many reforms. In fact, DCED agreed to adopt 17 of the 19 recommendations in the OGP report. The department also decided to create a new internal monitoring division separate from program staff so that monitors would not have a vested interest in determining whether job creation and wage targets had been met. The director position for that monitoring division has, however, been left vacant for an extended period of time due to budget considerations and the state's hiring freeze. Thus, from the perspective of DCED staff, current monitoring is inadequate, in part because of a lack of resources for monitoring. Another factor is that greater monitoring isn't required by the legislature. As one DCED staff stated, "The statute didn't require that we collect data, so no one did, but now we are." [38]

Recapture Provisions: Recapture provisions, or "clawbacks," recover subsidies—or portions of them—when companies fail to deliver promised jobs and wage levels. There has been no recent in-depth audit of all economic development programs that would allow us to determine the current extent of recapture.

Back in 2000, the LB&FC committee conducted a departmental audit of DCED and found few instances in which the department imposed sanctions on companies that didn't deliver promised jobs. LB&FC indicated that reluctance to impose clawbacks appeared to stem from a "desire to work cooperatively with 'clients.'"

The only recent empirical evidence on recapture comes from the audits of the Opportunity Grant and KOZ Programs. As a result of the Opportunity Grant Program audit, DCED in 2007 increased its recapture to 30% of subsidies provided to companies that failed to create as many jobs as promised. This compared with 13% in the 2000 to 2005 period.[39] In the KOZ program, the Legislative Budget and Finance Committee found a situation more similar to the 2000 LB&FC audit: no clawbacks of tax benefits at all because 1) the statute does not technically require many companies to create jobs, and 2) DCED has waived the clawback provision when companies have left KOZs within five years for circumstances deemed beyond their control. [40]

Table 9 includes the recapture provisions in the program guidelines of the nine programs analyzed earlier. On paper, six other programs in addition to the KOZ and OGP program have strong recapture provisions. A majority of programs, however, also have waiver provisions which allow DCED to not seek to recapture state funds when companies fail to deliver on promises. To evaluate what happens in practice, we need actual data on the frequency and extent of recapture.

36 An Evaluation of the Keystone Opportunity Zone Program, S-3.

37 An Evaluation of the Keystone Opportunity Zone Program, 28; for discussion of the reporting problems in the Opportunity Grant program, see Opportunity Grant Program, 23–30

38 Interview with DCED staff, August 2008

39 Jack Wagner, Auditor General (October 2007). Opportunity Grant Program: A Special Performance Audit of The Pennsylvania Department of Community and Economic Development, 62–63.

40 Legislative Budget and Finance Committee (June 2009). An Evaluation of the Keystone Opportunity Zone Program, Harrisburg, PA, 84, 59–61.

Table 9. Recapture Provisions in Nine Pennsylvania Business Subsidy Programs

Program	Recapture Provision in Guidelines
Opportunity Grant Program	Businesses are liable for penalty up to the full amount plus an additional 10% of the grant amount, if the business a) relocates within five years, or b) fails to meet job projections, or c) fails to invest the required amount of private investment dollars. This penalty may be waived by DCED at its sole discretion if failure is due to circumstances outside the control of the business.
Pennsylvania Industrial Development Authority	Failure to meet the job projections may result in an increase in the interest rate.
Infrastructure Development Program	Businesses that fail to meet job projections or to invest amount specified are liable for penalty up to the full amount of the grant. DCED may waive penalty if circumstances outside the control of the recipient cause these failures. An increase in the interest rate of up to two percent (2%) above the current prime interest rate may be imposed where loans are awarded.
Job Creation Tax Credit	Businesses that relocate outside of Pennsylvania within five years shall be required to refund the credits utilized. Businesses that fail to meet job projections within three years will be required to refund the credits utilized. Penalties may be waived if DCED determines circumstances beyond the business's control caused these failures.
Machinery & Equipment Loan Fund (MELF)	Failure to meet the job projections within three years may result in an increase in the interest rate up to two percent (2%) above the current prime interest rate unless failure was due to circum stances beyond the control of the business.
Infrastructure & Facilities Improvement Program (IFIP)	The grant recipient shall be required to repay all or any portion of a grant if the project user fails to use the project for the period of time the grant recipient is receiving grants.
Keystone Opportunity Zone Program	Businesses that relocate outside of the Zone within five years may be required to refund all tax benefits received. Businesses that fail to meet the relocation obligations (job creation, capital investment, or lease obligations) will be subject to revocation of future benefits and repayment of benefits previously received.
Film Production Tax Credit	None
Customized Job Training	Businesses that (1) fail to create the number of jobs or make the amount of capital investment, or (2) relocate outside of Pennsylvania within five years of receiving the grant, or (3) fail to sub stantially carry out the training program, must refund grants unless DCED determines failure was for reasons outside the control of the company.

Source. Keystone Research Center

The Return on Investment in Grow-Your-Own Programs

In considering budget allocations for Pennsylvania's Traditional Subsidy programs, another factor that should be taken into account is whether more effective ways exist of creating jobs—for example, through Grow-Your-Own Programs and Regional, Community, and Industry Subsidies.[41] The most carefully evaluated programs in Pennsylvania in these other categories are Pennsylvania's most prominent Grow-Your-Own Programs, the Ben Franklin Technology Partnership (BFTP) and the Industrial Resource Center (IRC) program.

Most evaluations of these programs depend on "quasi-experimental" designs. These designs compare companies assisted by the BFTPs and the IRCs with a matched group of companies that did not receive program assistance, but are otherwise the same when measured by variables such as industry, firm size, and location. This quasi-experimental approach falls short of an actual controlled experiment, which would be practically and politically difficult to do because it would require randomly denying services to a control group of companies.[42] Acknowledging these limitations, the methodologies used to evaluate the BFTP and IRC programs are more rigorous than the job counts that are used to document success of Traditional Subsidy programs. These job counts ordinarily attribute all of the jobs at subsidized business sites—whether these are new or retained jobs—to the program.

Audits of Pennsylvania's Ben Franklin Technology Partnership—conducted in 1999,[43] 2003,[44] and 2009 [45] —found that companies assisted by the program boosted the Pennsylvania economy by several billion dollars. The most recent audit found that companies assisted by BFTP boosted the economy by $8.7 billion in inflation-adjusted dollars from 2002 through 2006 (or $1.74 billion per year), resulting in $517 million in additional state tax revenues.[46] With an investment of $140 million over those four years, the return on investment of state tax revenues is 3.5 to 1.[47]

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41 Bill Schweke, "Business Incentives Aren't the Only Growth Policy: A Look At Other Options." Available at http://www.cfed.org/ideas/2007/10/business_incentives_arent_the.html

42 The biggest limitations of quasi-experimental designs are what economists call "sample selection problems." If companies that receive BFTP or IRC services are systematically different than the control-group companies in ways that are not measured (and controlled for), those systematic differences rather than the program supports could account for the relative success of assisted ("treated") companies. Receiving IRC or BFTP services, for example, may signal that businesses have better information networks than typical firms do, a proxy for being a high-performance firm. If companies assisted by Grow-Your-Own Programs would have done better than typical firms anyway, then the quasi-experimental design may attribute to the program too much of the gap in business success between businesses served and other businesses.

43 Nexus Associates, Inc. (1999). *A Record of Achievement: The Economic Impact of the Ben Franklin Partnership*. Cambridge, MA.

44 Nexus Associates, Inc. (2003). *A Continuing Record of Achievement: The Economic Impact of the Ben Franklin Technology Partners*. Cambridge, MA.

45 Pennsylvania Economy League (PEL) (2009). *A Continuing Record of Achievement: The Economic Impact of the Ben Franklin Technology Partners 2002–2006,* Philadelphia, PA.

46 PEL. (2009). *A Continuing Record of Achievement,* 5.

47 PEL. (2009). *A Continuing Record of Achievement,* 6.

Audits of the IRC program in 1999 and 2004 found that the program had very positive economic impacts. In a 1999 study, Nexus Associates found that between 1988 and 1997, the IRCs increased labor productivity for IRC clients between 3.6% and 5.0% more per year compared to a comparable group of firms. IRCs boosted the state economy by an estimated $1.9 billion, resulting in $120 million in additional state tax revenues.[48] The program increased gross state product by an estimated $22 for every $1 of state funding.[49]

Pennsylvania's IRCs were also evaluated in the year 2000 as part of a national study of "manufacturing extension partnerships" (MEPs) by the National Institute of Standards and Technology.[50] NIST found that eight in 10 MEP clients improved productivity, that MEP clients increased and retained sales of nearly $10.5 billion as a result of MEP services, and created and retained 57,000 jobs in 2007 nationwide. [51]

48 Nexus Associates (October 1999). *The Pennsylvania Industrial Resource Center: Assessing the Record and Charting the Future.* Cambridge, MA.

49 A 2004 study by Deloitte was unable to update estimates of the impact of IRCs due to a lack of access to the federal database used earlier. Deloitte Consulting, LLP. (January 2004), *Manufacturing Pennsylvania's Future: Regional Strategies That Build From Current Strengths and Address Competitive Challenges,* 248.

50 Legislative Budget and Finance Committee (January 2000). *Sunset Audit of the Ben Franklin/IRC Partnership,* Harrisburg, PA, 15.

51 National Institute of Standards and Technology (February 2009). *The Manufacturing Extension Partnership, Delivering Measurable Results to Its Clients: Fiscal Year 2007 Results.* Gaithersburg, MD.

Legislative Proposals to Strengthen Accountability

Having completed an overview of Pennsylvania economic development programs, of the current state of accountability of Traditional Subsidy programs, and of the return on investment in leading Grow-Your-Own Programs, the rest of this report turns to the question of reforming Pennsylvania's economic development approach. We start our discussion with a review of proposals already advanced by Pennsylvania legislators.

In recent years, nationally and in Pennsylvania, support has been building for increased transparency and accountability across the board when government distributes taxpayer dollars. This movement has also been evident in the area of business subsidy accountability. Since FY 2003–04, the Pennsylvania Legislature has introduced and reintroduced 13 bills attempting to strengthen accountability of economic development subsidies. (For a list of these bills, their session year, and sponsor, see Appendix A.)

Seven of these legislative proposals are variations of one bill first introduced in the Pennsylvania House in 2003–04 and in the Pennsylvania Senate in 2007–08. All of these bills would enact comprehensive business subsidy accountability. They provide for:

- Either the Department of Community and Economic Development or the Department of Revenue (which entity varies depending on the bill) to submit unified economic development budgets summarizing total state and local tax reductions, and business subsidies, provided to promote economic development. Currently estimating the total amount Pennsylvania spends to promote economic development requires a great deal of effort (as we learned in producing this report). Even direct subsidies (through grants and loans) are spread over many agencies and programs. So-called "off-budget" revenues, in the form of lost tax revenues, are even harder to track down and validate, even at the state level, and simply are not available when it comes to revenue losses through local tax breaks. A unified economic development budget would remedy these basic information gaps;
- Public disclosure, for each subsidy or tax break, of the company being subsidized, its industry, jobs actually created, wages and healthcare benefits paid, and the address of the business site where the assistance is applied.
- Wage standards that would help ensure subsidies target companies with family supporting jobs.
- A limit on total assistance, from all programs, of $35,000 per job.
- Recapture of subsidies in proportion to companies' failure to deliver on promised jobs and wage levels.
- The right for individual taxpayers or organizations representing taxpayers to bring civil action to compel enforcement of the bill's provisions by a granting body.

The House and Senate legislation being reintroduced in conjunction with the release of this report further refines this basic accountability approach. For example, both revised bills include explicit provisions requiring that data collected through improved public disclosure be incorporated into a user-friendly database suitable for research and analysis by outside researchers.

Two other bills (House Bill 1697 of FY 2007–08 and House Bill 1032 of 2009–10) introduce a simpler but also lower (in most cases) “living wage” standard linked with distribution of economic development subsidies. These bills also require employer-provided healthcare with the employer paying at least 80% of the cost.[52]

Prompted by the audit of the Opportunity Grant Program by the Auditor General, Senator Jane Orie introduced legislation that would implement several of the recommendations in the Auditor General’s report to improve monitoring of and reporting on subsidy recipients. Specifically, the legislation would require annual reports from grant recipients, annual site visits, data verification, comprehensive reporting of program success and failure, penalty collection, and publication of benchmarks and performance measures of each business subsidy program on its website. [53]

House Resolution 115 of 2007 and Senate Resolution 2009-127 called on the Legislative Budget and Finance Committee to study the effectiveness of 18 of Pennsylvania’s tax credit programs. The latter resolution led to the publication of reports on the KOZ program (referenced above), the Film Tax Credit, and the Research and Development Tax Credit. These reports, in turn, contributed to the cuts in the tax credit programs in the 2009–10 budget.

52 PA House Bill 1032, 2009–2010 regular session

53 PA Senate Bill 697, 2009–2010 regular session

Recommendations

This report places its analysis of Pennsylvania's current economic development programs in the context of the distinct ways states have sought to stimulate job creation over the past 60 or 70 years. We suggested at the outset that the current slow economy, which has led to deep cuts in some existing economic development programs, represents an opportunity to reevaluate and update how the state invests in job creation.

In this final section of our report, the question becomes, how can the state get started on a systemic updating of economic development investments? Below we outline six ways. Implicit in the range of recommendations is that state legislation—from changes in budget priorities to transparency and accountability reforms—have an important place in a comprehensive reform. At the same time, an integrated new approach to job creation in the state cannot take place without the buy-in of economic development practitioners. For this reason, the first and the last of our six recommendations emphasize the need to engage practitioners in a dialogue about how to transcend nontargeted industrial recruitment and to implement industry- and cluster-level efforts that will grow Pennsylvania's own businesses and have a bigger bang for the buck.

1. Better Target Traditional Subsidies: Pennsylvania has taken tentative steps toward the idea that businesses that receive subsidies should meet criteria based on job quality, on whether recruited businesses make sense for the regional economy, and on whether the jobs will be in the right locations. To move further in this direction, DCED should engage economic development practitioners in the development and implementation of practical ways to give additional emphasis to community, job quality, and industry. Would practitioners, for example, favor block-granting portions of Traditional Subsidy dollars to counties or multicounty regions that submit strategic plans outlining effective targeting? DCED, the next gubernatorial administration, and the legislature should also give consideration to setting aside a portion of Traditional Subsidies for specific communities.

Montgomery County, just outside Philadelphia, recently developed a strategic economic development plan that targets funds (in this case to older communities) and that also sets aside a portion of the funds for specific communities. The county did this within a seven-year, $105-million, bond-financed county economic development plan. Of this total, $40 million is dedicated to the county's two "most-challenged" towns (Norristown and Pottstown). Almost all of the funds will focus on older communities. (The Montgomery County economic development program manual can be found online at http://www2.montcopa.org/planning/cwp/view,a,3,q,71807.asp)

2. Improve Transparency and Public Disclosure by Making the "Investment Tracker" a More Functional Tool for Analysis: The Pennsylvania Department of Community and Economic Development's "Investment Tracker" website (http://www.dced.state.pa.us/investmenttracker/) reports on more than 240 state programs. But there are critical gaps in the Investment Tracker reports: For example, information is inadequate or lacking on wages and benefits, on where the money is applied geographically, on the industry of the recipient company, and on whether companies actually deliver on promised job creation. The Tracker's format also makes it difficult to download the mountain of (flawed) information into a data set for analysis. To make the Investment Tracker a more functional tool, the state should improve its disclosure requirements and website to fill these data gaps and should fix this download flaw.

3. Create a Unified Development Budget: To complement an enhanced deal-specific disclosure system, we also recommend a Unified Development Budget (UDB), an annual report to the state legislature which catalogs and analyzes all forms of state spending for economic development, including tax breaks. The present report provides a template for a Pennsylvania UDB, the goal of which is to enable legislators to see the big picture, and the major patterns and trends in economic development spending. This makes it easier to set economic development priorities via the budget.

4. Enact Economic Development Accountability Legislation: The previous section noted that, since FY 2003–04, a growing and increasingly bipartisan and now bicameral group of Pennsylvania lawmakers has supported legislation to strengthen job quality standards and accountability (public disclosure, monitoring, and recapture of subsidy money if companies don't deliver promised job creation) when the state distributes Traditional Subsidies. With the state facing tight revenue constraints and the public concerned that lack of transparency opens the door to politicized distribution of business subsidies, now is the time to enact this accountability legislation.

5. Grow-Your-Own Businesses Rather Than Recruiting From Other States: Pennsylvania should use this time of budget cuts to shift its economic development portfolio toward Grow-Your-Own and strategic Regional, Community, and Industry Programs (which also grow Pennsylvania's own companies). Generous budgets for Traditional Subsidies play into the hands of site-selection companies that stoke the war between the states and extract public money even when companies have already made up their minds to move or to stay.

From the perspective of economic theory, moreover, it is easier to justify investments in Grow-Your-Own and Regional, Community, and Industry Programs. In the case of Grow-Your-Own Programs, the private sector invests too little in innovation because companies cannot capture all of the benefits of their innovation. Some of these benefits spill over to other (often nearby) businesses. This market failure creates a strong rationale for the public sector to invest. Regional and community assets also are appropriate targets for public investment because they are "public goods" that benefit many businesses and individuals. By contrast, handouts to individual companies too often deliver only private benefits with little or no public benefit.

6. Change the Business Model and Mindset of Economic Development Organizations: Upton Sinclair once observed, "It is difficult to get a man to understand something, when his salary depends upon his not understanding it." This statement captures, in part, the challenge of updating the state's approach to job creation when economic development organizations make money cutting Traditional Subsidy deals. A partial answer might be to give economic development organizations a stake in effective "Grow-Your-Own" approaches, including initiatives to support innovation in regional industry clusters. The paragraph below suggests one way to do that.

At present, even though we live in a global, knowledge-based "network economy," the state of Pennsylvania invests very little in helping industry clusters respond to global competition. The state could remedy this shortfall by adapting to the economic development sphere the flexible approach the Department of Labor and Industry uses to distribute Industry Partnership grants. While Industry Partnership grants support industry-specific training, an analogous economic development initiative could provide grants for upgrading technologies, developing new products, exploiting new markets, or otherwise improving performance to head off foreign competition. Successful proposals should demonstrate significant engagement of businesses in an industry cluster; the cluster's current and potential economic significance (measured by jobs, wages, investment, profits, supply-chain linkages, etc.); a specific competitive challenge or opportunity that would be addressed with grant funds; projected outcomes; and a willingness to collaborate with state evaluation and capacity-building/ peer-learning efforts.

Imagine, for example, that, over the past five years, the state had dedicated $20 million of Opportunity Grant funds annually to an Industry Center of Excellence Program. Could Pennsylvania now have a loose learning network of Industry Centers across the state (just as it has 70+ Industry Partnerships)? What would this network of Centers mean for the potential dynamism of the state? How much impact on the state's economy would have resulted from spending $20 million less for Traditional Subsidies in each of the past five years?

Another way to change the mindset of economic development practitioners might be to block-grant to entire regions economic development resources from all economic development programs. A broad block grant might help shift the balance away from Traditional Subsidies because it would confront regions with what economists call “opportunity costs”—offering big subsidies would cost regions the opportunity to invest those same resources in industry cluster or strategic community development programs. Today, when a community helps a newly recruited company win state subsidies, the region does not lose any resources for other economic development initiatives.

Pennsylvania is recognized nationally as a leader in economic development policy and practice. The state has a richer and more balanced repertoire of economic development programs than many states. The Commonwealth also has some of the nation’s most respected Grow-Your-Own Programs. Now, in the wake of the Great Recession, Pennsylvania has a chance to step to the forefront again. It has a chance to become the first state to implement a comprehensive 21st-century state economic development policy. The state’s future prosperity and quality of life depend on it.

Appendix A

Economic Development Accountability Legislation Proposed by the Pennsylvania General Assembly

Regular Session 2003-2004 House Bill 2390	An Act requiring the Department of Community and Economic Development to submit a unified economic development budget; providing for unified reporting of property tax reductions and abatements, for application for economic development subsidies, for reports, for subsidy limit and job quality standards and for recapture; establishing a private enforcement action; and providing for public record disclosure.
Prime Sponsor:	Representative SOLOBAY
Last Action:	Referred to COMMERCE AND ECONOMIC DEVELOPMENT, March 8, 2004 [House]
Regular Session 2005-2006 House Bill 146	An Act requiring the Department of Community and Economic Development to submit a unified economic development budget; providing for unified reporting of property tax reductions and abatements, for application for economic development subsidies, for reports, for subsidy limit and job quality standards and for recapture; establishing a private enforcement action; and providing for public record disclosure.
Prime Sponsor:	Representative SOLOBAY
Last Action:	Referred to FINANCE, Jan. 31, 2005 [House]
Regular Session 2005-2006 House Bill 521	An Act requiring the Department of Revenue to submit a unified economic development budget; providing for unified reporting of property tax reductions and abatements, for application for economic development subsidies, for reports, for subsidy limit and job quality standards and for recapture; establishing a private enforcement action; and providing for public record disclosure.
Prime Sponsor:	Representative LEVDANSKY
Last Action:	Referred to COMMERCE, Feb. 15, 2005 [House]
Regular Session 2007-2008 Senate Bill 784	An Act requiring the Department of Revenue to submit a unified economic development budget; providing for unified reporting of property tax reductions and abatements, for application for economic development subsidies, for reports, for subsidy limit and job quality standards and for recapture; establishing a private enforcement action; and providing for public record disclosure.
Prime Sponsor:	Senator BROWNE
Last Action:	Referred to FINANCE, May 2, 2007 [Senate]

Regular Session 2007-2008 House Bill 1697	An Act requiring economic development subsidy recipients to meet minimum standards for job quality.
Prime Sponsor:	Representative COHEN
Last Action:	Referred to LABOR RELATIONS, July 6, 2007 [House]
Regular Session 2007-2008 House Bill 175	An Act requiring the Department of Community and Economic Development to submit a unified economic development budget; providing for unified reporting of property tax reductions and abatements, for application for economic development subsidies, for reports, for subsidy limit and job quality standards and for recapture; establishing a private enforcement action; and providing for public record disclosure.
Prime Sponsor:	Representative SOLOBAY
Last Action:	Referred to COMMERCE, Feb. 1, 2007 [House]
Regular Session 2007-2008 House Bill 1554	An Act requiring companies that receive economic development subsidies to ensure that subsidies result in improved standards of living for working families.
Prime Sponsor:	Representative COHEN
Last Action:	Referred to COMMERCE, June 18, 2007 [House]
Regular Session 2007-2008 Senate Bill 1600	An Act requiring reports by certain recipients of public funds for economic development; and providing for powers and duties of the Department of Community and Economic Development.
Prime Sponsor:	Senator ORIE
Last Action:	Referred to COMMUNITY, ECONOMIC AND RECREATIONAL DEVELOPMENT, Nov. 18, 2008 [Senate]
Regular Session 2009-2010 Senate Bill 562	An Act requiring the Department of Revenue to submit a unified economic development budget; providing for unified reporting of property tax reductions and abatements, for application for economic development subsidies, for reports, for subsidy limit and job quality standards and for recapture; establishing a private enforcement action; and providing for public record disclosure.
Prime Sponsor:	Senator BROWNE
Last Action:	Referred to FINANCE, March 2, 2009 [Senate]
Regular Session 2009-2010 House Bill 1032	An Act requiring economic development subsidy recipients to meet minimum standards for job quality.
Prime Sponsor:	Representative COHEN
Last Action:	Referred to LABOR RELATIONS, March 19, 2009 [House]

Regular Session 2009-2010 House Bill 811	An Act requiring companies that receive economic development subsidies to ensure that subsidies result in improved standards of living for working families.
Prime Sponsor:	Representative COHEN
Last Action:	Referred to COMMERCE, March 9, 2009 [House]
Regular Session 2009-2010 House Bill 157	An Act requiring the Department of Community and Economic Development to submit a unified economic development budget; providing for unified reporting of property tax reductions and abatements, for application for economic development subsidies, for reports, for subsidy limit and job quality standards and for recapture; establishing a private enforcement action; and providing for public record disclosure.
Prime Sponsor:	Representative SOLOBAY
Last Action:	Referred to COMMERCE, Jan. 30, 2009 [House]
Regular Session 2009-2010 Senate Bill 697	An Act requiring reports by certain recipients of public funds for economic development; and providing for powers and duties of the Department of Community and Economic Development.
Prime Sponsor:	Senator ORIE
Last Action:	Referred to COMMUNITY, ECONOMIC AND RECREATIONAL DEVELOPMENT, March 27, 2009 [Senate]

Source. Pennsylvania General Assembly Session. Information available at http://www.legis.state.pa.us/cfdocs/legis/home/session.cfm