

This research brief presents Pennsylvania economic development incentives for fiscal years (FY) 2014-15 through FY 2019-20. The brief divides economic development into four categories: tax credits, state spending or grants, job training programs and state loan programs. The dollar amounts reported in the table for each category are estimates of the total incentives claimed or awarded for each fiscal year.

The estimates represent a mix of conventions and data sources. Most tax credit data were provided by the Department of Revenue and reflect the utilization of tax credits (i.e., the application against tax liability). Data on state spending, grants and loans are from the Department of Community and Economic Development. Information on certain tax credits and spending programs that was not available from either agency was sourced from the Executive Budget or estimates by the IFO. For recent years, estimates from these sources may reflect total credits awarded or the program cap.

Tax Credits

In FY 2019-20 **\$588.7 million** of economic development incentives were used or awarded through tax credit programs in the Commonwealth, an increase of \$76.2 million over the prior year. (See table on page 3.) A few program highlights:

- Taxpayers claimed \$174.8 million in **Educational Improvement Tax Credits (EITC)**, increasing \$23.9 million over the prior fiscal year. Act 16 of 2019 increased the program cap from \$160.0 million to \$185.0 million. Credits are available to eligible businesses that contribute to an educational scholarship or improvement organization.
- Utilization of the **Film Production Tax Credit** (\$63.0 million) has been stable over the last six years with a slight increase in FY 2019-20. The program was created to incentivize film and television production in Pennsylvania and has been modified numerous times. Most recently, Act 13 of 2019 increased the annual program cap to \$70.0 million.
- The amount claimed for the **Tax Credit for New Jobs** decreased considerably to \$3.0 million in FY 2019-20 after three years of full utilization (\$10.1 million). Act 13 of 2019 eliminated the program and credits are no longer awarded as of June 30, 2020.
- Act 66 of 2020 created the **Local Resource Manufacturing Tax Credit**. The credit (capped at \$26.7 million in annual awards) is intended to encourage investment in Pennsylvania manufacturing facilities that use dry natural gas in the production of petrochemicals and fertilizers. The program becomes effective January 1, 2024.
- As part of the tax credit reviews required by Act 48 of 2017, the IFO is reviewing the Neighborhood Assistance Program, Resource Enhancement and Protections Program, Entertainment and Economic Enhancement, Video Game Production and Keystone Special Development Zones tax credits. Reports will be available to the public in January 2021.

State Spending or Grants

In FY 2019-20, **\$481.1 million** was spent or allocated for economic development projects, a decrease of \$133.0 million from the prior year. Notable programs include:

- Distributions from the **Pennsylvania Race Horse Development Fund** (\$231.7 million) were largely unchanged compared to the prior fiscal year. These funds support the Pennsylvania horse-racing industry through purse prizes, race horse award programs and horseman's organizations.
- **Redevelopment Assistance Capital Program** payments (\$139.6 million) decreased by \$33.2 million from the prior fiscal year. The Office of the Budget awards these funds for the acquisition and construction of local economic, cultural, civic, recreational and historical improvement projects. In CY 2019, 220 projects were awarded almost \$284 million in future commitments. Awards for CY 2020 have not been announced as of this date.
- Projects funded from the **Gaming, Economic Development and Tourism Fund** (\$25.5 million) declined significantly (-\$70.0 million) over the prior fiscal year. Part of this outcome occurs because the number of projects that are funded annually were reduced beginning in FY 2019-20. Funded projects support economic development and tourism programs in Philadelphia and Allegheny county.
- The Commonwealth Finance Authority (CFA) administers the **Business in Our Sites** program, awarding grants and loans for non-residential or recreational site development projects. FY 2019-20 awards (\$10.0 million) were \$40.0 million less than the prior year.

Job Training Programs

In FY 2019-20, the Commonwealth spent **\$44.1 million** on programs dedicated to job training and workforce development. This was an increase of \$3.9 million over the prior fiscal year.

- The Department of Labor and Industry spent \$12.6 million on job training programs. These funds primarily support the **Apprenticeship and Training Office** and **Industry Partnerships** program. The programs facilitate on-the-job training and industry cohorts sharing best practices.
- Spending on **Partnerships for Regional Economic Performance** increased by \$5.0 million over FY 2018-19. This program supports regional economic development projects through partnerships with Local Development Districts, Small Business Development Centers and other entities, assisting businesses through workforce, market and real-estate development efforts.

State Loan Programs

In FY 2019-20, the Commonwealth issued **\$98.6 million** in loans for economic development. Loans issued through the **PIDA Loan Program** (\$24.4 million) and the **Machinery and Equipment Loan Program** (\$4.7 million) fell a combined \$20.6 million in FY 2019-20. **Small Business First Loans** (\$68.1 million) increased \$60.0 million over the prior year due to the creation of the COVID-19 Working Capital Access Program. This program lent \$61.0 million to support small businesses (less than 100 full-time employees) that were adversely impacted by the COVID-19 pandemic and mitigation measures.

Tax Credits and Economic Development Incentives

	Utilized or Awarded (\$ millions)					
	14-15	15-16	16-17	17-18	18-19	19-20
Tax Credit						
Educational Improvement	\$98.9	\$98.9	\$116.8	\$129.4	\$150.9	\$174.8
Keystone Opportunity Zone (KOZ)	80.2	98.4	78.0	92.1	95.1	84.3
Film Production	60.0	41.2	60.0	60.4	60.9	63.0
Neighborhood Improvement Zone (NIZ)	39.6	24.2	56.4	45.6	40.5	61.1
Research and Development	64.2	61.0	61.1	45.2	43.6	46.9
Educational Opportunity Scholarship	32.6	32.6	32.6	32.6	32.6	33.6
Neighborhood Assistance Programs	18.0	18.0	18.0	18.0	18.0	18.0
Coal Refuse Energy and Reclamation	0.0	0.0	5.4	8.8	9.8	17.1
Keystone Innovation Zone (KIZ)	25.0	24.8	21.1	16.0	15.3	15.1
City Revitalization and Improve. Zone (CRIZ)	0.0	0.0	3.6	3.9	7.2	8.1
Entertainment and Economic Enhancement	0.0	0.0	0.0	0.0	5.6	8.0
Computer Data Center Equipment Incentive	0.0	0.0	0.0	0.0	2.0	7.0
Rural Jobs and Investment	0.0	0.0	0.0	0.0	0.0	6.0
Resource Enhancement and Protection	5.3	5.2	5.4	5.4	5.4	5.6
Historic Preservation Incentive	3.0	3.0	3.0	3.0	3.0	5.0
Brewers' Tax Credit	0.0	0.0	0.0	0.0	4.9	5.0
Manufacturing Tax Credit	0.0	0.0	0.0	0.0	0.0	4.0
Tax Credit for New Jobs	5.8	6.5	10.1	10.1	10.1	3.0
Mobile Telecomm. Broadband Investment	0.0	0.2	0.2	4.2	4.6	3.0
Mixed-Use Development	0.0	0.0	0.0	2.0	2.0	3.0
Waterfront Development	0.0	0.0	0.0	0.0	0.0	1.5
Video Game Production	0.0	0.0	0.0	0.3	1.0	1.0
Innovate in PA	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	14.6
Subtotal	432.6	414.1	471.7	477.0	512.5	588.7

Note: Innovate in PA - In July 2015, \$100 million in insurance premiums tax credits were purchased by qualified insurance companies. The credits may be utilized to offset tax year liabilities for 2016 and thereafter, in an amount not to exceed \$20 million annually. The net amount transferred to DCED was \$85.4 million. For the purpose of the table, the differential between tax credits sold and monies received is shown in the final year to reflect the full amount of the tax credit claim, although not all claims have yet been made against tax liability.

The Strategic Development Areas, Keystone Special Development Zone, Pennsylvania Resource Manufacturing, Organ and Bone Marrow Donation, Community-Based Services, Qualified Manufacturing Innovation & Reinvestment Deduction and Beginning Farmers' tax credits are not included due to a small number of filers or zero filers. The Local Resource Manufacturing tax credit was enacted in 2020, but is not included because it does not take effect until Jan. 1, 2024. The Computer Data Center Equipment Incentive provides a tax refund.

Tax Credits and Economic Development Incentives (Con.)

	Spending (\$ millions)					
	14-15	15-16	16-17	17-18	18-19	19-20
State Spending or Grants						
PA Race Horse Development Fund	\$237.0	\$238.5	\$229.8	\$231.4	\$231.9	\$231.7
Redevel. Assistance Capital Program	238.8	193.4	221.3	234.4	172.8	139.6
Gaming, Economic Devel. & Tourism Fund	77.1	103.1	68.0	74.5	95.5	25.5
BFTDA - Challenge Grants	14.5	14.5	14.5	14.5	14.5	14.5
PA First	22.1	6.7	17.6	9.5	7.4	12.3
Infrastructure and Facilities Improvement	20.5	19.9	17.7	17.2	12.9	10.7
Business in Our Sites (CFA)	1.0	0.0	60.7	89.3	50.0	10.0
Building PA (CFA)	6.0	24.9	7.1	9.6	0.0	6.3
Office of International Business Development	6.9	6.0	5.6	5.8	6.0	5.6
PA Dairy Investment Program (CFA)	0.0	0.0	0.0	0.0	4.5	5.5
Marketing to Attract Tourists (advertising)	0.0	1.0	1.5	1.4	2.2	5.5
BFTDA - Venture Investment	1.5	0.0	10.5	11.0	6.5	*
Marketing to Attract Business	1.9	1.6	2.1	2.0	2.2	4.9
PIDA Industrial Parks	0.0	4.3	2.0	3.8	2.8	4.5
Life Sciences Greenhouses	3.0	2.6	3.1	3.3	3.0	3.0
Infrastructure and Technology Assistance	<u>1.4</u>	<u>1.4</u>	<u>1.3</u>	<u>2.1</u>	<u>1.8</u>	<u>1.5</u>
Subtotal	631.7	617.9	662.8	709.8	614.0	481.1
Jobs Training Programs						
Partnerships for Regional Economic Perf.	12.1	10.7	12.4	9.1	8.0	13.0
Labor and Industry	2.4	2.3	2.3	2.3	12.3	12.6
Manufacturing PA	0.0	0.0	0.0	12.0	12.0	12.0
WedNet	<u>8.3</u>	<u>8.0</u>	<u>8.8</u>	<u>6.7</u>	<u>7.9</u>	<u>6.5</u>
Subtotal	22.8	21.0	23.5	30.1	40.2	44.1
State Loan Programs						
Small Business First Loans	7.6	8.3	11.1	5.9	8.1	68.1
PIDA Loan Program	40.8	49.2	41.7	76.9	42.1	24.4
Machinery and Equipment Loans	19.6	5.1	4.8	3.3	7.6	4.7
Minority Business	<u>0.3</u>	<u>1.1</u>	<u>0.6</u>	<u>1.1</u>	<u>1.3</u>	<u>1.4</u>
Subtotal	68.3	63.7	58.2	87.2	59.1	98.6

Note: PA Race Horse Development Trust Fund disbursements exclude transfers to Agriculture and Farm Products Show Fund.

* FY 2019-20 values not yet released for BFTDA- Venture Investment.

Source: PA Department of Revenue, PA Department of Community and Economic Development, Comprehensive Annual Financial Reports and state accounting system.

Staff Acknowledgements

Kathleen Hall, Robyn Toth and Mathieu Taylor produced this research brief. Questions regarding this document can be directed to khall@ifo.state.pa.us, rtoth@ifo.state.pa.us or mtaylor@ifo.state.pa.us.

Office Phone: 717-230-8293

Office Website: www.ifo.state.pa.us