



*Presentation to the  
Performance-Based Budget Board*

**Annual Tax Credit Reviews**  
**Mixed-Use Development**  
**Brewers'**  
**Coal Refuse Energy and Reclamation**  
**Educational**

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**January 24, 2022**

# Tax Credit Reviews for Year 4

## Statute: Did the tax credits accomplish their legislative intent?

- Mixed-Use – **Qualified Yes**, unclear if it actually incentivizes new units
- Brewers' – **No**, windfall to large brewers, small brewers cannot fully use
- Coal Refuse – **Mixed**, some coal burning incentivized, depends on price
- Educational – **Minimal data**, not possible to reliably assess

## Credits do not include a formal economic impact analysis

- Economic activity and jobs creation not primary goal (Educational, Coal Refuse, Mixed-Use)
- Little economic activity incentivized (Brewers')

# #1 Mixed-Use Development

## Only tax credit reviewed that includes explicit goals and purpose

- Goal: provide public funding that leverages private investment for construction or rehab
- Purpose: increase affordable housing and commercial corridor development

## Tax credits sold through auction process (\$2-\$3 million, now \$4.5 million)

- Applicants submit bids electronically | awarded to highest bidders
- Sales proceeds deposited into Community Revitalization Fund
- PHFA determines projects that receive awards | 9-15 applicants per annum

## More bidders attracted as auction amount increases

- FY 17-18 to FY 20-21: \$10.0m sold for \$8.6m (14% leakage) | same 2 bidders most yrs
- FY 21-22: \$4.5m sold for 90 cents on dollar (10% leakage) | 4 bidders
- PHFA also retains 4% of sales proceeds

# #1 Mixed-Use Development

## **16 projects awarded \$6.9 million (FY 18-19 to FY 20-21)**

- 39 original applicants | 7 denied due to lack of funds
- All projects awarded \$400k to \$500k

## **Awards used for apartments and commercial space**

- 189 apartments (most 1 bedroom) | 16 commercial spaces

## **Recommendations**

- Significant leakage in prior years (18% total) | most recent year better
- Require documentation that demonstrates state funding is needed for project
- Unclear that tax credit leverages any private investment or new development
- Other states (2) provide direct credits to developer to offset costs

# #2 Brewers'

## **Credit offsets malt beverage tax of \$2.48 per barrel**

- Based on qualified purchases of machinery/equipment up to \$200k
- No limit on production | all brewers qualify
- Credits can be carried forward 3 years | cannot be sold or transferred

## **Most years: 25-30 brewers receive ~\$2.0 million in credits**

- About half to large brewers that receive max \$200k and use immediately
- These established firms would likely invest that amount regardless
- Other half to small and very small brewers
- Very small brewers can only use 5-6% of awards in same year
- Many tax credits expire and cannot be used | significant accumulation

# #2 Brewers'

## 11 other states offer a brewers' incentive

- Most (8) place a limit on production and target smaller brewers
- Credits or rebates range from \$1.00 to \$7.50 per barrel
- Two states with no production limit offer a tiered rate, not a credit

## Recommendations

- Target smaller brewers: likely a \$200k windfall to large brewers
- Provide mechanism for smaller brewers to use: grant or refundability
- Do not allow credit to be an ongoing subsidy claimed every year

# #3 Coal Refuse Energy and Reclamation

## **Credit of \$4.00 per ton of coal refuse burned and used as ash backfill**

- Program cap raised from \$7.5m to \$10m to \$20m
- Claimed by 11-13 coal refuse generators | burn ~6-8 million tons coal refuse per annum
- 2 firms each claim max credit of \$4.4m | 4 generators closed since 2016

## **Value of tax credit much less than \$4.00 per ton coal refuse burned**

- Pro-ration due to oversubscription + leakage reduces to \$2.70 per ton in latest year
- Nearly all credits sold | ~15% leakage to sales discounts and transfer fees

## **Generators receive other non-electricity revenues in addition to tax credit**

- AEPS credits: ~\$11.0 million in 2020 prior to Tier II increase from 8.2% to 10.0%
- Capacity payments: few to several million per generator (depends on auction price)
- Host Bitcoin miners (Scrubgrass and Panther Creek) | new dynamic, impact unclear

# #3 Coal Refuse Energy and Reclamation

## Economic and environmental impacts

- Report assumes that ~20% of coal refuse burned incentivized by tax credit
- Highly dependent on wholesale electricity price and other revenues
- ~140 direct jobs generated per million ton coal refuse burned
- Remaining piles further removed from generators (higher transport costs)
- Nearly all Priority 1 piles (most hazardous) have been remediated
- DEP finds no degradation in ground and water pollution for certain pollutants

## Recommendations

- Target remaining Priority 1 and 2 piles that inflict greatest environmental harm
- Reduce 15% program leakage (grant or partial refundability)
- Base credits on average wholesale prices | roll unused credits forward



# #4 Educational Tax Credits

## Scholarships and grants (FY 19-20 data and caps)

- EITC K-12: \$135m cap | 40,720 students | \$2,310 average
- EITC Pre-K: \$12.5m cap | 6,660 students | \$1,370 average
- EOSTC: \$55m cap | 21,050 students | \$1,980 average
- Innovative Educ. Programs: \$37.5m | 1,195 grants | \$27,450 average

## Contributions made to qualified ETC non-profit organization

- Scholarships: 75% credit for 1-yr commitment, 90% for 2-yr
- Nearly all (~99%) are 2-yr commitments and receive 90% credit
- Largely same firms and entities making contributions | early enrollment
- Organizations can retain up to 20% for administrative and other costs

# #4 Educational Tax Credits

## 19 states offer tax credit for private education

- Most offer to individuals and businesses | 10 provide a 100% credit
- PA tax credit amount (\$280m) 2<sup>nd</sup> highest after Florida (\$874m)
- Nearly all allow 5-10% retention for non-program costs | PA allows 20%
- 3 have no income limits | PA is highest for states with income limit

## Awards and contributions data (FY 19-20)

- Credit limit is \$750k per firm or special purpose entity
- **EITC**: 2,210 firms awarded credits | \$175m | \$79,150 average
- **EOSTC**: 487 firms | \$52m | \$106,700 average
- \$250m in total contributions | 1,500 non-profit orgs distribute

# #4 Educational Tax Credits

## Main Findings

- Concentration: Top 10 EITC orgs receive 47% of contributions
- Little Turnover: 99% of firms under 2-yr commitment, can renew early
- Donor Waitlist (Excess Supply): \$137 million untapped | ~1,000 firms
- Modest State Savings: ~\$350 per student that switches to private school
- No Published Data: academic outcomes, income and demographics

## Recommendations

- Reduce retention for administrative and other costs to 5-10% from 20%
- Revisit early application for repeat donors (effectively excludes new donors)
- Require organizations to submit demographic, income and outcome data
- Require DCED to publish annual report of all relevant data