WORKING DRAFT

EDC POLICY DISCUSSION

Topics and Themes for Discussion

- **Comprehensive Plan:** Consideration should be given (and to some degree may already be underway) to conduct an overall assessment and competitive analysis of existing state-level economic development programs. This may involve a multiple agency scan impacting all areas of the Commonwealth's focus (e.g., infrastructure, global positioning, incentives for both neighboring states and competitor countries, etc.). The goal of which would be to effectively ensure modern resources tools and delivery for the next 20 to 30-year time horizon.

- **Mixed-Use/Market Rate Housing**: There is a growing need for gap financing/patient very low interest capital that targets adaptive re-use / mixed use development in smaller urban centers. New and existing resources may be created and extensively marketed. Further policy clarification should be provided for economic development organizations to engage in housing projects.

- **Dedicated Funding Stream:** A critical need exists to identify a well-defined and dedicated funding stream for economic development activities. For instance, some states (and even some regions within Pennsylvania) have leveraged a portion of the bed tax as a funding source. Understanding the breakout between business and leisure overnight stays may provide a basis for this discussion. A best practice scan of competitor states who have established dedicated economic development investment through tools like transfer taxes, bed taxes and lottery funding for instance could be undertaken.

- **KOZ Benefits:** As is the case with New York's Empire Zone program, Pennsylvania may consider taking steps to allow for the window in which KOZ benefits are available to begin on the date of occupancy rather than during a period when raw land is undeveloped and providing no benefit.

- **Fast Track Permitting:** Thirty (30) day, fast-tracked environmental permitting of all development plans would benefit all shovel-ready land sites (zoned commercial, industrial or mixed use) that have been constructed – at least in part – with the assistance of state funds (grant or loan) and that are being actively marketed through an economic development organization, regardless of ownership of said parcel.

- **Revise Claw-back Provisions**: Though the Pennsylvania First Program is attractive, economic conditions occasionally prevent fulfillment of job and investment projections within the established three-year period. In these instances, businesses are required to return funds, relationships between businesses and local EDCs are strained, and negative media reports paint a skewed picture of Pennsylvania's business climate, discouraging candidates for expansion and relocation. Reconstituting these program funds to be awarded in much the same way as Job Creation Tax Credits (with payment taking place at the end of each year, as the company has met certain thresholds) would eliminate the need for a "claw-back" and mitigate strained relationships between involved parties.

- **Updates to the PIDA program** – See attached.

PIDA Modernization

The PIDA Loan program was established in 1955-56. The program targets loans for building, land, machinery and equipment costs as well as working capital lines of credit associated with business expansions. Over the years, there have been numerous repeals and amendments to provisions within the legislation and program guidelines. Generally, the program and its current provisions remain focused on job creation as the primary output.

Increasingly, the challenge in using the program is that many business expansions today involve high capital costs required to improve efficiency and production without necessarily creating a significant new job count. In many cases, these investments may result in a reduction in force to remain competitive and retain operations in the Commonwealth. As businesses invest in highly efficient and automated operations, generally, the employee skill set increases along with wages. More can be read here on a study on automation and its impact on Pennsylvania's economy that exemplifies the situation.

In Pennsylvania, this condition is compounded as the retirement rate increases. Employers are working hard to simply replace those individuals to remain competitive or to do more with less. All data trends point to a continued labor force participation fall off in the coming years due to retirements.

In order to better align the PIDA loan program with the current and future market environment, it is suggested that the program legislation and associated guidelines be reviewed. Though not exhaustive, below are a few specific changes and thematic redirections to consider.

- Consider changing the program name to the PA Business Retention, Expansion and Competitiveness Loan Program (PA - BREC) or to something along these lines.

- Shift the central program focus to ensure job retention and wage increase are on equal footing with new job creation. This is more of a thematic change, but would impact the overall program measures.

- Create new / expanded eligibility options which value the overall level of businesses' capital investment in lieu of new job creation. This could be based on a formula which would consider the level of overall business investment in the project against the level of PIDA participation. For example, if a business invests private funds into a project that substantially exceeds the 1:1 match requirement, the job creation / retention formula could be reduced or eliminated, based on that private investment ratio.

- Make a determination that businesses that have fully satisfied all job creation / retention obligations associated with past PIDA loans will have prospective PIDA projects viewed as new and distinct projects, subject only to the program guidelines in effect at the time, with no carry-over provisions or conditions applying. Jobs created under previously satisfied PIDA loans should count as jobs retained under businesses' prospective PIDA projects.

- Redefine language pertaining to job creation commitments so that GAT clients are deemed to be in compliance as long as they reach committed numbers at any point within the defined three year period rather than having fulfillment of the obligation determined based solely on employment figures on the third anniversary.

- Establish a 12-month interest rate on July 1st of each year to provide stability and predictability and, ultimately, to increase the program's attractiveness, demand and impact.

- Expand eligible businesses (guideline sec. B) to include medical / healthcare service providers, one of the fastest growing sectors in terms of overall employment, skill set requirements and wage in many communities in Pennsylvania and the nation. Additionally, the granting of eligibility to several new industrial categories (e.g., high value IT, professional firms, etc.) would positively impact communities' efforts to create and attract high quality, high wage jobs.

- Allow for "multi-tenant" facility building projects' eligible tenant(s) (guideline sec. D5) to include any business with some smaller percentage of retail / food and beverage (currently not permitted). This would allow the multi-tenant buildings that use PIDA to house businesses beyond just industrial, manufacturing, research and development, and agriculture, as is currently the case.

- Allow for costs associated with a building renovation project to accommodate retail and / or housing tenant(s) (which are currently not permitted) if the building is located within an urban area and is deemed to be a high value anchor building by both the CEDO and local governing municipality.

- Eliminate the additional job creation and corporate headquarter qualifiers associated with the Industrial Enterprise, as listed under the eligible businesses (guideline sec. B3). This sector should be subject to the same job creation / retention formula as all other sectors (see sec. G).

- Eliminate the "100 or fewer full time employee world-wide" language, as listed under the eligible businesses (sec. B5, B6, B7, B8 and B9).

- Increase the maximum loan amount to at least $3,000,000.

- Increase PIDA's participation rate as an incentive to promote new investment from high quality companies. In certain circumstances, PIDA should be permitted to be positioned as a sole source lender.

- Tier interest rates, based on risk and economic impact, to allow for lesser credit qualities with higher rates. Consider offering lower rates to companies / projects that are providing higher quality community / economic impact.

- Expedite turnaround time associated with commitments and allow internal authorization up to $1,000,000.

- Consider higher loan amount to jobs ratios when jobs are being created / retained in high unemployment areas and when the wages of the new jobs exceed local median income by an agreed upon amount. Also, consider providing greater benefit as it pertains to retained jobs that, if not for the project, would be lost to the community.

- Allow for costs associated with support relocation and related business interruption to be considered eligible.

- Mandate that a representative of the appropriate CEDO be notified of and invited to all loan closings and other official proceedings associated with projects under their purview.

- Guarantee no out-of-area CEDOs are permitted to finance projects in a county that already has CEDO coverage without the designated CEDO having the right of first refusal.

- Hold an annual meeting of PIDA lenders at DCED, the agenda for which would be reflective not only of issues of significance to DCED, but also of CEDOs' questions, concerns and pursuit of clarification.

We anticipate this is the start of a longer process and will help clarify points and answer questions along the way. Additional References:

http://www.metro.us/news/local-news/philadelphia/can-pennsylvania-keep-growing

https://pasdc.hbg.psu.edu/sdc/pasdc_files/researchbriefs/DetailedEstimates_2017.pdf