



*Presentation to the
Performance-Based Budget Board*

**PBB Addendums
Updated Keystone Special
Development Zone Tax Credit Review**

September 28, 2021

IFO Independent Fiscal Office

PBB Addendum Requests

Pennsylvania Department of Transportation

- **Activity 12 – Administration:** Human Resources measures related to career development and recruitment

Department of Human Services

- **Activity 2 (CCW), Activity 7 (Community ID/Autism Programs) and Activity 11 (County MH Programs):** Staff turnover and average wages for contracted or third-party direct care workers that provide care to individuals served through child welfare, intellectual disabilities and mental health services programs

Department of Military and Veterans Affairs

- **Activity 1 – Veterans Homes:** (1) Average costs per resident in private nursing/skilled nursing homes and (2) Average costs per individual for private care in the community

PBB Addendum Requests

Pennsylvania State Police

- **Activity 2 – Criminal Law Enforcement and Crime Prevention:** Percentage of state police troopers involved in direct law enforcement activities
- **Activity 4 – Gaming and Liquor Enforcement:** Overtime costs for liquor and gaming enforcement personnel
- **Activity 6 – Records and Information Management:** (1) Average customer wait time per request and (2) Average customer wait time for PICS requests by day of the week
- **Activity 10 – Administration and Support:** (1) Civilian staff turnover rate and (2) Percentage of overtime costs for training and hearings and trials

Keystone Special Development Zones (KSDZ)

Incentivizes private investment in former industrial sites

- \$2,100 credit per new FTE in zone | July 1, 2012 - June 30, 2035
- Can claim credit up to 10 years | must maintain zone operations for 5 years
- No aggregate program dollar cap or per firm cap | \$4.3 million in credits (2020)
- 2 designated KSDZs | Aliquippa and Bethlehem (2 firms participate, 6 in zone)
- Program data (2020): 2,049 direct jobs, \$102 million wages, avg wage \$50k

11 states offer some form of Brownfield Redevelopment Credit

- Roughly half offer credits that offset a share of direct remediation costs
- PA and DE offer job tax credits to increase attractiveness of site
- PA only state to base tax credit on job creation only

KSDZ Economic Impact Challenges

Program currently has a small number of participants

- No research exists that links a job creation tax credit to brownfield investment
- More data needed to facilitate a formal economic analysis
- Alternative: “break even” analysis | standard approach used by many states
- What share of jobs need to be incentivized by the credit to break even?
- Some jobs that receive credit may have occurred regardless

Gross ROI = 1.0 implies credit “breaks even” or is self-financed

- New state tax revenues attributable to tax credit = tax credit paid
- Only count new economic activity induced by the credit
- Credit must be the decisive factor in the location decision
- Excludes other benefits: positive spillovers, enhanced property tax revenues

Keystone Special Development Zones (KSDZ)

Summary of findings based on input from participants

- Tax credit is one of many factors that affected the location decision
- Other factors: geographic location, workforce, infrastructure
- To be fully self-financed, roughly **39 percent** of tax credit dollars must go to firms where the credit is the decisive factor in the location decision
- At this time, IFO unable to reliably estimate the true incentivization parameter and whether the breakeven threshold is met
- Can be revisited for next round of tax credit reviews

Keystone Special Development Zones (KSDZ)

Recommendations

- Implement program/project caps | limits potential tax impact
- Front loading credits enhances value and could increase participation
 - Current: \$2,100 over 10 years (\$21,000)
 - Alternates: \$3,000 over 7 years | \$4,000 over 5 years
 - Same clawback provisions could apply (must be in zone 5 years)
 - After 5 years, firms have likely established a long-term presence
- Move application due date out 15-30 days | more time to compile payroll data
- Formal documentation of baseline employment | ensures all jobs are new (no current abuse, a safeguard recommendation)