



*Presentation to the
Performance-Based Budget Board*

Annual Tax Credit Reviews

Manufacturing
PA Resource Manufacturing
Rural Jobs and Investment
Waterfront Development

January 10, 2023

Tax Credit Reviews for Year 5

Statute: Did the tax credits accomplish their legislative intent?

- Manufacturing – **Unlikely** due to low level of incentive, but not yet possible to assess reliably
- All Others – **Minimal data**, not yet possible to assess reliably

Credits do not include a formal economic impact analysis

- Most credits not enacted until 2016 and impacted by COVID
- Programs still in early stages of implementation, minimal data available
- Resource Manufacturing Tax Credit enacted in 2012, but no credits issued

#1 Manufacturing

Tax credits offered to approved firms engaged in manufacturing

- Increase payroll by >\$1 million through creation of new full-time jobs
- New jobs/increased payroll must be maintained for 5 years
- Jobs must meet or exceed minimum wage requirements and include employer-provided health benefits

Tax credit: maximum 5% higher payroll from newly created jobs

- Capped at \$4 million annually
- Awarded on a first-come, first-served basis

#1 Manufacturing

\$1.6 million in tax credits authorized by DCED for FY 21-22

- 5 approved applicants in 3 counties (Allegheny, Luzerne, Lycoming)
- Firms anticipate creating 415 new jobs | average wage = \$86,000
- Total payroll expected to increase by \$31.7 million over base year
- Plan to invest \$3.5 billion of private capital in creation of new jobs

Recommendations

- Reprogram tax credit funds for another purpose | credit equal to 5% of new payroll for 1 year unlikely to incentivize creation of a 5-year job
- Example: \$85,000 wage + \$25,000 benefits: max credit offsets 4% cost in 1 year
- DCED should compile and track detailed program performance metrics if tax credit is retained (e.g., cost of provided benefits, jobs retained at 3 and 5 years)

#2 PA Resource Manufacturing

Credit = \$2.10 per barrel of ethane used to manufacture ethylene

- Ethane = a component of natural gas
- Large petrochemical facilities “steam crack” ethane to produce ethylene
- Ethylene = primary raw material used in polyethylene
- Polyethylene is most widely used plastic in the world

Requirements

- Firms must invest >\$1.0 billion in PA facility, create 2,500 jobs during construction
- Purchases of ethane after December 31, 2016 and before January 1, 2043
- No annual tax credit cap

#2 PA Resource Manufacturing

First PA steam cracker plant began operations November 2022

- Projected to use 100,000 barrels of ethane per day | \$76.7m in annual tax credits
- 600 direct FTEs | 3,600 total FTEs (assumes fully developed supply chain)
- Wage income of \$282m = \$9m in additional PIT revenue
- Unclear if tax credit deciding factor in location decision | other incentives used

Recommendations

- Credit should be subject to annual cap | limits impact on state revenues
- Sale of credits: relax requirements | potential for significant leakage (e.g., 5%-10% leakage = \$4m-\$8m per year)
- DCED should compile and track performance metrics prior to 2028 report

#3 Rural Jobs and Investment

Purpose: Invest in rural businesses that have difficulty accessing capital

- DCED grants \$50m in investment authority | \$30m in tax credits
- Funds raise \$50m in capital to invest in rural businesses (debt/equity investments)
- Fund/investors receive: tax credits + repayment of debt + interest/fees/equity
- Funds may exit program after 7 years

Requirements

- Tax credit capped at \$30m | \$6m per annum over 5-year period (years 3-7)
- A fund cannot invest >20% of investment authority in a single rural business
- Funds have until 2024 to invest \$50m in approved rural businesses
- A fund must generate 250 new/retained jobs to avoid repayment (current allocations)

#3 Rural Jobs and Investment

Preliminary results

- 4 approved rural growth funds | \$50m total investment authority | \$30m tax credits
- \$7.3m deployed to 4 rural businesses in 4 counties (Adams, Berks, Luzerne and Mercer)
- 106 jobs created or retained
- Unclear from reports whether firms had sufficient time to fully deploy new capital

Recommendations

- More effective as DCED loan program | repaid loans could be continuously recycled to fund additional rural businesses
- Impact of existing program should be evaluated before more funds allocated | evaluations of similar programs in other states find significant concerns regarding program effectiveness

#4 Waterfront Development

Purpose: Improve waterfront municipalities for residents and visitors

- Credit = 75% of business contribution to waterfront organizations/projects
- Previous cap at \$1.5m annually | increase to \$5m for FY 22-23
- Demand exceeded available credits for FY 21-22 and FY 22-23

Preliminary results

- \$3.2m in tax credits have been awarded (through FY 21-22)
- Only \$0.9m in contributions expended (through FY 20-21)
- 1 project has been completed (completion report filed)

#4 Waterfront Development

Economic impact

- Economic benefits reported in narrative format | no consistent metrics
- For FY 21-22, \$1.1m in planned contributions denied credit | \$1.0m donated regardless
- Positive noneconomic spillover effects from projects could be significant

Recommendations

- Key performance metrics should be developed, compiled and tracked
- Impose cap on awards to a business for contributions to a single organization