Presentation to the Performance-Based Budget Board

Tax Credit Reviews

Historic Preservation
Film Production
New Jobs

January 24, 2019

IFO Independent Fiscal Office

Act 48 of 2017 – Tax Credit Duties

The tax credit review:

- Identify the purpose for which the tax credit was established.
- Is the credit accomplishing its legislative intent?
- Could it be more effectively implemented by other methods?

The tax credit plan:

- Statute: evaluate tax credits and develop performance measures.
- IFO: (1) findings, (2) recommendations and (3) key decision points.

Year 1 review schedule:

- Historic Preservation Tax Credit (HPTC).
- Film Production Tax Credit (FPTC).
- New Jobs Tax Credit (JCTC).

Tax Credit Methodology

Meet with stakeholders and agency staff.

- Request data from agencies: DCED, DOR, PHMC.
- Agencies review draft reports.
- All invited to submit comments.

Review relevant studies over past decade.

- Government, academic and industry.
- Benchmark PA tax credit to other states.

If useful, perform an economic impact analysis.

- FPTC: large ($65 million) and good data are available.
- JCTC: ($10 million) simplified analysis, data less clear.
- HPTC: too small ($3 million) in current form.

Key Factors for All Tax Credits

What share of activity actually incentivized by credit?

- FPTC: studies use 85% to 100%. Some note it could be lower.
- JCTC: studies find very low share: ~5%.
- HPTC: incentivizes small projects but not larger ones.

Credits need not incentivize all recipients.

- If less than 100% incentivized, can still have positive effects.
- FPTC: a 4:1 leverage ratio, but 40% of qualified spend leaves state.
- HPTC: large, long-term positive spillover effects.

Analyses must include state balanced budget.

- Many studies ignore. Included in all IFO tax credit reviews.

Background - Historic Preservation

32 states have a historic preservation tax credit.

- PA is on the very low end at $3 million per annum.
- 13 states offer uncapped amounts: MO ($154m); VA/LA (~$90m).

Stakeholders note process generally works well.

- Main concern: predictable dates for allocations each year.
- Credit is oversubscribed every year. Not predictable.
- They note that credit must offset at least 5% costs to be effective.

Multiple constraints imply small allocations.

- $3m annual cap. $500k project cap. Regional considerations.
- DCED only allocates maximum of $250k per project.

Findings and Recommendations - HPTC

Main findings for HPTC:

- Incentivizes small projects but not mid-size and large.
- Across all projects, offsets ~1% of total costs.
- Large positive spillover effects: economic, social, environmental.

Recommendations for HPTC:

- Consider increasing credit but use scoring system to award credits to improve targeting. Lottery system used currently.
- Separate allocation pools for small and large projects.
- Use same allocation dates each year. Possibly twice per year.
- Make the tax credit refundable and transferable.
- Track projects that were approved but did not receive a credit.

Background - Job Creation

25 states have a broad-based jobs tax credit.

- Many different varieties. Difficult to compare across states.
- Overall, PA is less generous than most other states.

Roughly three quarters awarded by Gov. Action Team.

- May be part of a larger package. Hard to know marginal impact.
- GAT awards are 3 year commitments.

Nearly all research finds small impact from jobs tax credit.

- Most firms would create jobs regardless.
- Research finds that job creation is driven by product demand.
- Offsets roughly 1% to 3% of overall new job cost to employer.
- Recipients refer to tax credit as an "accounting function."

Findings and Recommendations - JCTC

Main findings for JCTC:

- Under plausible assumptions, a negative net ROI.
- No firms use higher vet / unemployed tax credit ($2,500).
- Credit level ($1,000) and duration (1 or 3 years) insufficient to incentivize job creation.

Recommendations for JCTC:

- Reprogram the tax credit to a different form or purpose.
- Track number of out-of-state versus in-state firms.
- Make tax credit refundable to help small firms.
- Allow higher veterans' and unemployed credit ($2,500) to be traded for regular credit ($1,000).

Background - Film Production

32 states incentivize film-television productions.

- PA offers a "mid-range" credit at $65 million.
- GA ($533m), NY ($420m) and CA ($330m) dominate industry.
- Base credit rates range from 20% to 30%.
- Many states give higher rates for resident labor.

Productions are highly mobile and consider credits.

- Many states to choose from. Sensitive to credit amount offered.

Current credit is not sufficient to "grow the industry."

- Too much competition from other states. Rather, it retains jobs.
- Recipients view the tax credit as uncertain due to excess demand.

Findings and Recommendations - FPTC

Main findings for FPTC:

- If 90% incentivization is correct, the FPTC is a net economic gain.
- Retains roughly 1,140 jobs per annum; $135 million spending.
- Roughly 18 net jobs for each $1 million of tax credit.
- State ROI is 13.1 cents. Consistent with non-industry studies.

Recommendations for FPTC:

- Higher credit for resident labor. Bigger bang for the buck.
- Separate pools for TV, film and independent productions.
- Temporary higher credit for TV productions that relocate.
- Track productions approved, but did not receive an award.

Tax Credit Summary

Need better data on the true share incentivized.

- Administrators are in best position to track data.

Aggregate dollar caps should be retained.

- Limits state financial exposure.

Administration generally good; but some concerns.

- Speed of approval process. Predictability of tax credits.
- Transparency of awards process.

Nearly all tax credits do not "pay for themselves."

- Neither does most spending. Other criteria should also be used.

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PBB Overview and Recommendations

Department of Banking and Securities
Department of General Services

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Department of Banking and Securities

2018-19 Agency Activity Overview

Banking & Securities Activities	FTE Number	FTE Share	Expenditures Amount	Expenditures Share
Depository Applications and Examinations	66	35.5%	$9.8	28.9%
Non-Depository Licensing/Reg./Examin.	47	25.2	5.7	16.7
Securities Licensing/Reg./Examin.	39	20.9	4.4	13.0
Administration	27	14.7	12.9	38.1
Education and Outreach	7	3.8	1.2	3.4
Total	**186**	**100.0**	**34.0**	**100.0**

Note: Includes all expenditures in $ millions.

Background

- Consistent with the nationwide trend, mergers and acquisitions are causing the number of banks to decline in Pennsylvania.
- The numbers of both non-depository businesses and securities-related entities have grown each year over the last five years.
- The merger of Securities into the Department of Banking and Securities impacts historical trends in the report.
- Educational programs are shifting to professional outreach and targeted education efforts.

Recommendations

- Report percent of assets in state-chartered institutions with satisfactory CAMELS Composite ratings.
- Publish depository and non-depository institution fee schedules and provide comparison to selected other states.
- Report number and outcomes of elder financial abuse cases.
- Track outcomes for new educational outreach programs.

Department of General Services

2018-19 Agency Activity Overview

	FTE		Expenditures	
DGS Activities	**Number**	**Share**	**Amount**	**Share**
Facilities & Energy Resource Mgmt.	296	34.8%	$54.4	8.6%
Pre-Construction & Construction	109	12.8	421.1	66.4
Capitol Police	101	11.9	14.7	2.3
Publications & Media Services	79	9.3	20.1	3.2
Procurement and COSTARS	69	8.1	11.5	1.8
Administration	58	6.8	12.3	1.9
Fleet Management	41	4.8	17.5	2.8
Surplus Supplies & Operations	40	4.7	5.1	0.8
Real Estate Management	25	2.9	62.5	9.9
Risk and Insurance Management	13	1.5	12.3	1.9
Diversity, Inclusion & Small Bus. Opp.	13	1.5	1.8	0.3
Metrology	6	0.7	0.7	0.1
Total	**850**	**100.0**	**634.0**	**100.0**

Note: Includes all DGS expenditures in $ millions.

2018-19 General Fund Appropriations

DGS Activities	GGO	Rental and Municipal Charges	Utility Costs	Capitol Police Operations	Capitol Fire Protection	Excess Insurance Coverage	Total
Facilities & Energy Resource Mgmt.	$31.9	$0	$16.6	$0	$5.0	$0	**$53.5**
Real Estate Management	2.7	24.7	5.9	0	0	0	**33.3**
Capitol Police	0	0	0	13.9	0	0	**13.9**
Administration	9.8	0	0	0	0	0	**9.8**
Publications and Media Services	5.1	0	0.1	0	0	0	**5.2**
Risk and Insurance Management	1.4	0.2	0	0	0	1.3	**2.9**
Diversity, Inclusion & Small Bus. Opp.	1.8	0	0	0	0	0	**1.8**
Surplus Supplies & Operations	0.1	0	0	0	0	0	**0.1**
Procurement and COSTARS	0.1	0	0	0	0	0	**0.1**
Pre-construction and Construction	0	0.1	0	0	0	0	**0.1**
Total	**52.8**	**25.0**	**22.7**	**13.9**	**5.0**	**1.3**	**120.7**

Note: Amounts in $ millions.

Recommendations

- Review cost allocation of facility and rental expenses.
  - Incentivize agencies to use space more efficiently.
  - Allocate these costs across all funding sources.
- Develop an occupancy report for state-owned and leased office and warehouse space.
- Benchmark facilities maintenance costs.