

Senate Appropriations Committee budget hearing with DCED (BH)

3/5/18, 3:00 p.m., Hearing Room 1 North Office Building

The committee held a budget hearing with the Department of Community and Economic Development (DCED) represented by Secretary Dennis Davin, deputy secretary for business financing Scott Dunkelberger, and deputy secretary of administration Carol Kilko.

Sen. Scavello discussed Pennsylvania being a finalist for the new Amazon headquarters and wondered how that is playing out. Sec. Davin said having two cities as finalists is great for Pennsylvania and reflects the positive business environment in the state. He stated DCED touts the advantages of being in Pennsylvania with particular benefits from the removal of the Capital Stock and Franchise Tax (CSFT), investments in ports, discussions on reducing the Corporate Net Income Tax (CNIT), and overall being "in a very good position" to appeal to Amazon. On PA First, Sen. Scavello noted there is an extra \$5 million in the budget for that and wondered what its impact is on job creation. Sec. Davin explained it has a tremendous impact by funding job creation activities and a good portion is for the WEDnetPA program, also noting the increase comes after a \$5 million decrease last year. Sen. Scavello then asked about work by DCED in Pittsburgh for distressed communities. Sec. Davin said that visit was in relation to Amazon's speech technology work, unrelated to the new headquarters, and on helping third class cities, highlighted a focus on both community projects and economic development projects together in a comprehensive way to get good news in the cities along with the maximum benefit and funding. He said DCED needs to work harder and smarter with their money. Sen. Scavello discussed a cut to marketing and tourism in the governor's budget of \$8.8 million. Sec. Davin noted \$4 million is pretty consistent with last year's budget after accounting for increases last year from legislative initiatives, admitting the \$4 million is "probably not enough" but will be used in the best way it can while also looking for a sustained funding means, with a 3 to 1 ratio on dollars spent and received for tourism. Sen. Scavello wondered if specific organizations are promoted and if the local and regional tourism levels can be improved. Sec. Davin quipped absolutely and one consistent brand is needed throughout the state as some areas do not receive a lot of attention. Sen. Scavello asked for a walkthrough of DCED workforce development programs. Kilko explained WEDnetPA works with companies to increase funding as well as implement training programs in a collaborative effort with the Department of Labor and Industry (L&I) to make sure all funding available is coordinated in an efficient manner.

Sen. Costa discussed the removal of Pittsburgh from Act 47, and on legislation making changes to the Act 47 program, asked if remaining communities fully understand what is next for them if they do not remove themselves. Sec. Davin stated "we think that they do" in all 18 cities currently under the act but there will be tough decisions to make. He highlighted the importance of early intervention to prevent other cities from entering the program and emphasized education on ramifications of that program is critical. He added for all cities that came out of Act 47 it was very emotional because of what they had to go through and DCED wants to make sure cities have the proper tools to get out. Sen. Costa then discussed the Film Tax Credit Program wondering what modifications should be made to attract that business into the future. Sec. Davin voiced his support for the credit saying Pennsylvania has seen a benefit from it economically as well as the attention received from seeing the city in a film, but commented a sustained funding source is needed to keep it going as there are projects coming soon, and a better story of the benefit of the program must be told.

Sen. Yaw wondered what DCED is doing to coordinate open jobs with an area, noting 250 open jobs in his district. Sec. Davin responded that is the single biggest task in economic development in matching jobs with the appropriate people, mentioning initiatives in manufacturing such as Manufacturing PA to utilize specific training programs for the specific needs of area companies. He said getting people to those areas won't happen overnight and some areas need to be improved such as Wi-Fi access, along with adequate training in those areas to attract young people. He also highlighted apprenticeship programs and work with L&I to ensure coordination to train people for jobs that are already available. Sen. Yaw agreed with the importance of communication and broadband access, saying the issue also carries over to health care to attract doctors to certain areas. Lastly he asked how the success of a program is measured in DCED. Sec. Davin quipped "we are doing that all the time" such as in Manufacturing PA with examining what funds lead to results, training, and progress. He said the other part is ensuring the Department of Education (PDE) is making students career-ready which requires further coordination between agencies to prepare, train, and empower individuals for work.

Sen. Blake thanked DCED for their responsiveness to the legislature as well as input given to the Senate Finance Committee for their initiatives, specifically mentioning conversations around a potential base realignment and closure (BRAC). Sec. Davin agreed a BRAC would be significant and Pennsylvania must be ready to defend the value of the state's bases. Sen. Blake then discussed Innovate PA which he said raised \$85 million net for the Benjamin Franklin Technology Partners and commended DCED for the rapid disbursement of the funds, saying it was important to recover losses from the recession in venture capital rankings. He also touched on career readiness and being encouraged from those efforts, but highlighted the need for a career readiness council as established in [SB 714](#) to disburse further grants. He also touched on municipal pension feedback needed from the department with respect to distressed pensions, also taking time to advocate for action on [SB 234](#) which would authorize assessments for energy improvements in districts designated by municipalities. Lastly Sen. Blake asked for an update on the Office of International Business Development (OIBD). Sec. Davin responded Pennsylvania is doing really well with getting the word out especially with support from trade representatives from various countries.

Sen. Martin revisited Pittsburgh coming out of act 47 and wondered if anyone entered in the last year, which Sec. Davin said Hazleton. He believed Clairton served the longest time under the designation, and noted the change in legislation pushed cities to get out of the program even though there are hard decisions that have to be made to do so. He added there are infrastructure issues in third class cities which lost population over the years and at the federal level community grants for such issues have decreased. Sen. Martin agreed local programs can be key to turn around cities and next on a reduction in tourism funding, commented we are in an age where to attract business to the state "breaks from the treasury" are needed to compete. He said that leads to a business of awarding credits for certain industries and taxes on others and wondered how picking winners and losers would affect the health of Pennsylvania and its business climate, while tourism funding which benefit Pennsylvania businesses is reduced. Sec. Davin clarified the governor is not cutting that line item at all as the additional amount last year was from legislative initiatives that went away, but reiterated dedicated funding for tourism and marketing is needed. On tax credits, he responded the administration does not want to pick winners and losers but wants to work with businesses who want to come to Pennsylvania, with the governor's intent to work on the underlying infrastructure such as ports and roads and reduce CNIT to attract business. "I think we are on the right track," he added, mentioning Pennsylvania's effective tax rate is up 4.5 percent right now in line with national averages. Sen. Martin commented if a break is given to one area the tax pressure falls to everybody else and the state must be wary of that, lastly asking about the federal Opportunity Zone Program and if

Pennsylvania is looking to do that. Sec. Davin said they will take advantage of anything out there, but on Opportunity Zones, questions remain around what that program means. He said work is ongoing with the Pennsylvania Housing Finance Agency (PHFA) to identify areas around the state, as 1,200 areas qualify and 299 can be selected. He reiterated there are still questions around what will happen with the program but the federal government is likely open to extensions on deadlines.

Chairman Browne interjected a statewide investment platform for tourism has been a struggle and switching from a direct appropriation model to an incremental increase model which, which doesn't always work, could work in this case considering the data and results tracking that is kept on tourism.

Sen. Argall referenced bringing people to his district in Pottsville through increased development, but also mentioned things he is "not so proud of" and challenges that create an interest in the federal Opportunity Zones Program with a March 22 deadline, wondering if Pennsylvania will be entering the program. Sec. Davin said Pennsylvania will be entering the program but is considering asking for an extension to make sure the best information is gathered to determine which cities will benefit the most and conduct selection in a fairer way. He restated there are 1,200 zones that qualify and 25 percent or 299 of those can be named, which the governor will recommend to the Treasury and go from there. Dunkelberger added the program will develop funds to invest in those zones and however long you keep that money in those funds preferential treatment will grow. He said the trick is to name the zone where there will be private investment which will make things happen quicker. Sec. Davin refuted questions from Sen. Argall stating that areas that will see investment regardless of the program will be avoided, saying the department is still trying to understand the details of the program and want to benefit areas that have opportunity and could be helped even more by the program.

Sen. Street indicated complex manufacturing is one of the fastest growing industries in the world and still requires human input, such as the tanker ship building projects in the Philadelphia Navy Yard and electronic assembly. He wondered if Pennsylvania will position itself to take advantage of that. Sec. Davin responded "absolutely" and DCED is focusing on businesses' needs for a properly trained workforce such as Manufacturing PA, working with research universities, and getting younger people into manufacturing establishments to explore education outlets other than a four year degree. Sen. Street thanked Sec. Davin for those efforts and called for strategic partnerships with the Pennsylvania State System of Higher Education (PASSHE) schools to prepare for jobs that are coming as well as market the state to businesses.

Chairman Browne commented changing people's attitudes towards what manufacturing is relevant as it is often misunderstood along with changes in space and workforce needed for those businesses.

Sen. Baker discussed coordination between the business and community side for program support and requested information on how much is distributed annually to each side along with a breakdown by area, communicating frustration from smaller communities in not being considered in the same way as large cities. Sec. Davin said that would be provided and referenced various programs which are applied differently throughout the state. Sen. Baker then discussed the CNIT rate and the governor's plan to bring it down to 7.99 percent and wondered if that is being looked at in conjunction with the Department of Revenue (DOR) enacting changes relating to not being able to claim depreciation unless the assets are sold and establishing combined reporting, wondering how that would affect DCED efforts

to attract companies due to potential negative business effects. Sec. Davin explained combined reporting is about "leveling the playing field." On the other two, he added in regard to Amazon "we're in pretty good shape" and they know what is happening and still selected two Pennsylvania cities. Sen. Baker opined we will have to see what happens and communicated frustration from small communities with respect to establishing resources for high demand jobs through adult education programs. Kilko agreed career technology education is an important measure such as programs in Johnstown focused on adults which she described as "truly a model" to look into in other areas. Sen. Baker agreed that looking to the future, high priority areas need to be looked at differently in rural areas.

Sen. Ward thanked Sec. Davin for his assistance in Westmoreland County and discussed the Residential Universal Services Program for low income individuals, wondering if there is a shortage of resources in that area considering a proposal to raise rates on commercial industrial gas and oil use. Sec. Davin responded he would have to look and provide further information.

Sen. Schwank said DCED "represents the lifeblood of our communities in terms of jobs" and opportunities for the next generation and on the Opportunity Zones Program, wondered if that replaced the Markets Tax Credit Program. Dunkelberger indicated it is separate and the new market program has not gone away. Sen. Schwank added that program is significant to her district and on older adult learning for reentry to the workforce, stated a focus on lifelong learning is important. She brought up consolidation and services sharing, wondering where DCED is on that. Sec. Davin said there is funding available to get communities to think about program sharing saying he believes "it has to happen" in various ways, specifically highlighting police merging, and reiterating support for shared services to save costs. Sen. Schwank replied sometimes it can be about saving programs that individual areas cannot afford, and opined municipal assistance decreases must be reexamined to help communities work together and ensure continuation of programs. She lastly asked that the Wolf administration continue with a holistic approach on the economic and community side and continue assistance in that respect.

Sen. Vulakovich wondered if the Opportunity Zone Program is too new to understand yet. Sec. Davin responded "yes and no" as he is not sure the federal government fully understands the project yet, reiterating previous data figures of 299 possible designations but saying the federal government could come up with some new things yet. Sen. Vulakovich referenced projects in his district and some businesses not being able to afford to stay and looking for more affordable facilities, wondering if that would be part of that program. Sec. Davin said low income and adjacent communities can potentially utilize the program which must be thought through by the department to ensure maximum benefit goes to those areas that need it. Sen. Vulakovich then moved to workforce development wondering what impact trade unions have on the issue. Sec. Davin noted they have a "great positive impact." Kilko added they work with the apprenticeship and manufacturing programs and do great work in training. She also added they are looking to address the lack of people coming into the trades to create a more robust program. Sen. Vulakovich referenced a change in thought from needing a college education to a more positive light of career training, evidenced by a glass manufacturing plant in his district which the trades are getting applications from their workers.

Sen. Vogel thanked DCED for its work in his district and talked about the Neighborhood Assistance Tax Credit Program, wondering how many received the credit last year. Sec. Davin said it would be provided and agreed it is a "tremendous program" for businesses to invest in communities and there is movement to increase that model. Sen. Vogel agreed

more money is needed and wondered about international trade and what Pennsylvania exports. Sec. Davin noted discussions with Canadian provinces are happening as Pennsylvania imports more than it exports to those areas, indicating Pennsylvania is an important trading partner for lumber, agriculture products, and manufactured components and those relationships must be maintained. Sen. Vogel asked for an update on the new Shale cracker plant. Sec. Davin said vertical construction is now going on and hundreds of millions of dollars was spent to get to that point, specifically saying "they think they are right on target" to get up and running by 2020. He noted DCED likes the project and because that was built, Pennsylvania has even more opportunities for such manufacturing. Sen. Vogel agreed it would have a trickledown effect and lastly voiced agreement on the shared services initiative to help local communities afford and maintain services.

Sen. Argall discussed small-town City Revitalization and Improvement Zones (CRIZ) and the benefit they had in his district, wondering why Gov. Wolf has not allowed new applications. Sec. Davin said that is likely continue with "a number of issues related to it" such as not being revenue neutral, businesses not seeing a benefit but getting fined if they do not submit reports, and a need for the program to be "more workable" as there are other programs that exist that can better benefit those areas. Sen. Argall commented there is a desire to "breathe new life into old towns" which drives the continued interest in CRIZ and expanding the Keystone Opportunity Zones (KOZ). Sec. Davin responded that could happen and pinned various sites around the state that benefited from the KOZ program, saying DCED is mindful of what works and what makes sense as well as maintaining areas that are already in the program through extensions if appropriate.

Chairman Hughes commented, saying the Neighborhood Assistance Program is impactful and valuable and must be expanded. He opined the broader conversation is many communities across the state are suffering because of a lack of investment which will not happen passively over time, wondering how the effort of the various DCED programs can be combined to change the dynamic and circumstance of local communities. Sec. Davin explained the DCED charge goes back to looking at communities holistically in regard to housing, infrastructure, and business development and must be utilized to make impactful investments. He added DCED does take this holistic approach seriously by looking at opportunities in conjunction with other departments to maximize funding and resources and continue a sustained investment. Chairman Hughes subsequently thanked Sec. Davin for visiting his district and delivering on those discussions and said the issue of building on investment and bringing everyone together is applicable in all varying areas of the state, saying the state must figure out how to bring everyone together to address the varying fronts.

Chairman Browne commented on Amazon, wondering what they will want from the state in terms of incentives and mentioning talks in other states of "maybe \$3 or \$4 billion." Sec. Davin responded the question is what it would take to get their attention, which has already been done as evidenced by placement on the shortlist. He indicated the next step is waiting to hear what Amazon desires which they do not know at this point and will not happen until a city is selected. He said the state must step up and show what Philadelphia and Pittsburgh have with respect to talent as that is what companies are looking for. Chairman Browne clarified an incentive package will be part of it, which Sec. Davin concurred in, but opined that is the next step after accounting for talent and the cost of living of potential sites, outlining the economic impact Amazon coming would have. He said any incentive package would have to be approved by the legislature but that length is unknown at this time.

Chairman Browne next commented on the Naval Assistance Program saying things like that should be built off of as they create local partnerships and yield results, and on the matter of partnerships and CRIZ, said the filing issues can be worked through and solved if that is the main hang-up. On the federal tax bill, Chairman Browne wondered how changes requiring corporations that receive subsidies from states to pay taxes on them would impact DCED recruitment, which he opined is not good tax policy. Sec. Davin indicated it might hurt that ability but he gets where they are coming from as an ideal discussion would not include any state subsidies and instead focus on quality investments, saying he is not sure but it "would probably make it a little more difficult" depending on how companies would react. Chairman Browne summarized the change is a statement from the federal government but the wrong thing to do.