Midwest and Great Lakes Economic Development Summit
PENNSYLANIA STATE REPORT

Economic Development Strategy

Since the 1950s, when rates of joblessness in NE PA mining regions were on a par with the Great Depression, Pennsylvania's economic development approach has used subsidies to recruit new businesses to the Commonwealth. In the 1980s, Pennsylvania began to embrace new economic development tactics consistent with a new emphasis on "growing its own" businesses. The Commonwealth created the Ben Franklin Technology Partnership program to incubate new technology companies and promote the transfer of ideas from universities into industry. It later created Industrial Resource Centers (these IRCs are PA's Manufacturing Extension Partnerships (MEPs)) to improve the efficiency of small and medium-sized businesses. Since 2003, the Rendell administration, working with the state legislature, has strengthened two new dimensions of economic development outlined below—(1) investing in regional assets including those in urban cores and (2) investing in key industry clusters. Both of these new dimensions also strengthen the technology development and "grow PA's own" dimensions of state economic development efforts that began with the Ben Franklin program. In strengthening the spatial, industry, and technology dimensions of economic development, PA has reshaped and reduced its emphasis on, but not abandoned, subsidies to individual businesses.

1. Promoting Older Towns and Urban Cores. Beginning with the $2.1 billion 2004 economic stimulus program, the Commonwealth established a range of new programs to revitalize the state's urban cores and, in some cases, also to strengthen regional economies. These programs provide resources for brownfield redevelopment, for Main Street and Elm Street revitalization, and for infrastructure. Investments that target urban centers also include the creation of 29 Keystone Innovation Zone (KIZs). KIZs foster collaboration between university- and industry-based researchers and engineers, in many cases linked with a particular industry and ordinarily in urban areas where the concentration of researchers and engineers tends to be highest (e.g., in downtown Lancaster, the KIZ links together Franklin and Marshall College, Lancaster General Hospital, and bio-medical research businesses).

To improve its administration of community development assistance, again in a way likely to help revitalize older communities, the Commonwealth created "Community Action Teams" (CATs). These teams coordinate delivery of public assistance from multiple programs and encourage more holistic approaches to community development. The Rendell administration has also developed the "Keystone Investment Principles" that express the Commonwealth's intent to focus infrastructure, community development, and economic development investments on already developed areas.

2. Building on Industrial Strength. Informed in part by IBM research, the Commonwealth has sought to make industrial recruitment efforts less reactive and base them on an understanding of the industrial strengths of each economic region. Coordination across economic development programs is provided for large-scale industrial recruitment efforts (now more selective and strategic) by the Governors' Action Team (GAT).

Economic development also has an increasing explicit "industry" focus, illustrated by:

- The KIZ program;
- Industry focused workforce development initiatives (see below)
- Three regional "life science greenhouse" industry cluster initiatives;
- The state's renewable energy initiatives (see below);
- Tourism initiatives to brand and market the state's natural resource assets in rural regions (e.g., the "Pennsylvania Wilds," which covers 12 counties in North Central Pennsylvania, and contains the largest elk herd in the Northeast as well as backpacking trails, bike paths, and trout fishing streams).
- The Film Production Grant Program.

Also targeting an industry, the Governor has proposed $500 million in investments in bio-medical research and commercialization (the Jonas Salk Legacy Fund) using Pennsylvania's Tobacco Settlement Fund revenues. The funds would seek to attract world-class researchers to Pennsylvania by funding bioscience research labs at the commonwealth's leading colleges, universities and academic medical centers.

<u>Basic assumptions about the state role in development</u>: Guiding the Commonwealth's recent initiatives in high technology is the view that there is a role for state investment at multiple stages in the evolution of new industries: investment in basic research; translating research knowledge into commercial applications; increasing access of new businesses to venture capital; and then accessing the executive talent needed to guide companies beyond the scale most entrepreneurs can manage effectively.

Another guiding assumption (mostly implicit) is a strong belief in investment in "public goods," including the infrastructure of older communities and also workforce initiatives linked to skill needs of industry. The idea that state government might have a pivotal role in helping key industries adjust to global competition—what might be termed "state leadership" in the economy (and used to be called industry policy)—has not yet crystallized. There has also so far been little increase in investment in state research and policy capacity (inside government, higher education, or non-profits) that might better support more sophisticated place-based and industry-specific economic development strategies.

(For another overview of PA economic development policy and practice, as well as manufacturing and renewable energy initiatives, with recommendations for the future, see http://keystoneresearch.org/agenda/backgroundpdf/Invest_in_good_jobs.pdf.)

Manufacturing

Pennsylvania lost one out of every five of its manufacturing jobs from mid-2000 to the end of 2003, a total of 175,000 jobs. PA retains 646,000 manufacturing jobs (as of May 2008) and manufacturing remains critical to many PA economic regions: the York, Lancaster, and Reading/Berks metro areas are among the most dependent in the

Great Lakes region on manufacturing; in rural PA, manufacturing remains the backbone of the non-college educated middle class (for details, see www.keystoneresearch.org/ruralpa/index.php).

In response to manufacturing job loss from 2000 to 2003, the Commonwealth convened a March 2004 manufacturing summit with business leaders, union representatives, and legislators. Following the summit, the administration unveiled an explicit strategy for manufacturing, *Manufacturing Innovation* (http://www.newpa.com/default.aspx?id=72). The strategy was framed by the analysis in a report by Deloitte consulting that maintained that too many PA manufacturers are trapped in commodity markets subject to intense global price pressures (online at www.teampa.com/docs/MFG_Report.pdf). The organizing theme of the new state Manufacturing Innovation strategy was that existing economic and workforce development assistance should help Pennsylvania producers target non-commodity markets.

The state's Manufacturing Innovation strategy emphasizes retention and upgrading more strongly than it does attraction. In the workforce area (see below) and, to some extent, in distributing economic development dollars, state dollars are targeted to regional industry strengths. Except for weak wage standards (e.g., businesses must pay more than 50% of the minimum wage to receive certain grants), firms are not denied assistance,

- **Market positioning and strategic planning assistance/coordination with MEPs**: $5 million in additional resources annually to Industrial Resource Centers to provide strategic planning assistance to help small companies target non-commodity markets in which growth and high profits are possible. As do the Manufacturing Extension Partnerships in other states, PA's IRC's already provided technical assistance to small and midsize manufacturers on process improvements, technology upgrades, and succession planning. PA's IRCs are also partners in a number of manufacturing workforce training partnerships. We are not aware, however, of examples of deep coordination of MEP and workforce training assistance to help firms with competitive potential to become "high road."
- **Manufacturing workforce training partnerships**: about $5 million per year beginning in 2004-05 for "manufacturing training consortia" ("Industry Partnerships" in PA jargon) that aggregate and address the training and workforce needs of business in key advanced manufacturing sub-clusters. The Commonwealth currently has 23 "employer driven" Advanced Materials and Diversified Manufacturing Industry Partnerships, as well as other partnerships in industry clusters that include both manufacturing and non-manufacturing firms in a supply chain (e.g., agriculture and food processing; lumber, wood, and paper). Partnership grants are given out in an increasingly competitive process with the key criteria for awards being the potential impact on innovation, industry growth and other business outcomes, and worker outcomes. In the workforce area, state dollars are targeted to industry clusters in which PA has a competitive advantage (so, for example, apparel is *not* a targeted industry cluster). Within the targeted clusters, the businesses that come together to receive state industry partnership training dollars are probably not a random sample but are, on average, more productive and higher wage.

- **A *statewide* PA Manufacturing Workforce Partnership**, made up of private sector manufacturers, industry partnerships, also formed in 2003 and 2004. This partnerships helped focus the state's manufacturing training partnerships on incumbent worker training but has yet coalesced into an effective vehicle for policy development and consensus building on how to strengthen the state's support for manufacturing workforce development;
- **Capital assistance**: increases in financial assistance available for manufacturers, including working capital and grants and loans for up-to-date technology and equipment;
- **a new Manufacturing Ombudsmen** within the Department of Community and Economic Development (DCED) to help manufacturing stakeholders cut through red tape in state government and solve problems involving state agencies;
- **a Governor's Office of Fair Trade** was established in DCED in order to assist manufacturers in making unfair trade claims. The Office also advocates in DC for fairer trade policies on behalf of Pennsylvania's manufacturers;
- **Expanded layoff aversion:** the extension beyond Western Pennsylvania of a layoff aversion program, the Strategic Early Warning Network (SEWN), operated by the Steel Valley Authority (SVA). SEWN combines monitoring to identify vulnerable manufacturers in danger of closing or major layoffs, with assessment of manufacturers' financial and market viability, followed when warranted by efforts to find new owners or financing or to modernize operations. SVA also collaborated with the Commonwealth on a more recent auto initiative which targeted layoff aversion assistance at companies in the auto sector supply chain.
- **Keystone Innovation Zones** (described above).

Since the end of 2003, PA has lost another 50,000 manufacturing jobs—a slower rate than previously but still too rapid. The effort to strengthen the capacity of PA's advanced manufacturing clusters to thrive in a global economy remains a work in progress.

Workforce

Pennsylvania's workforce development system has undergone a massive reform effort since the beginning of Governor Rendell's administration. (For more detail, go to http://www.paworkforce.state.pa.us/about/cwp/view.asp?a=471&q=152120.)

Pennsylvania's Industry Clusters–-A starting assumption was that workforce programs needed to connect to the demand side of the economy. To enable this connection, the state convened leading Workforce Investment Board (WIB) directors (who already had practical experience bringing regional industries together to identify training needs) and data specialists in the Department of Labor and Industry to define "*targeted* industry clusters" that should be the priority for the state's workforce investments—i.e., industries in which Pennsylvania was competitive and had opportunities for growth and in which most jobs paid family sustaining wages and/or offered career ladders into family sustaining jobs. Pennsylvania's workforce development strategy currently focuses on 11 industry clusters and 7 sub-clusters (for more information and to access the award-winning 2004 industry cluster book that profiled the initial clusters defined by the Commonwealth, see http://www.paworkstats.state.pa.us/gsipub/index.asp?docid=407).

High-Priority Occupations—A second step in focusing workforce investments on jobs with a future in critical industries was to define "high priority occupations" in each targeted industry. These high priority occupations are identified, first, using data (is there evidence of skill shortages in the occupation based on recent employment and wage trends, occupational unemployment, and the annual ratio of people trained for the occupation to the number of openings); and second, based on the input of Industry Partnerships and other economic and workforce stakeholders (since the data is often poor and out of date). The high priority occupations have become the focus for career awareness, occupational education and training by community colleges and career and technical schools, and other training funds across Pennsylvania workforce agencies.

Industry Partnerships (IPs)—The foundation of Pennsylvania's new workforce strategy is investment ($5 million per year) in organizing and strengthening new *institutions*—Industry Partnerships—that provide an ongoing mechanism for coordination between, on the one hand, groups of employers with overlapping skill needs and, on the other hand, educators, trainers, and other service providers. (Another $15 million per year goes to training and related services distributed through Industry Partnerships.) Seed-funded by the state, Industry Partnerships that bring together employers in targeted clusters—and labor where possible—can achieve economies of scale and scope in the delivery of training and education. (For the current guidelines for Industry Partnerships grants, go to http://www.paworkforce.state.pa.us/about/lib/about/pdf/skilled_workforce_budget_support/ip_-_final_guidelines.pdf.)

IPs work closely with local schools, youth councils, community colleges and technical schools, to help students focus on the in-demand, high-skill jobs of today's global economy. IPs can develop curricula, certificate programs, skill standards, articulation agreements, career ladders—and other infrastructure of an industry-wide labor market that functions better for employers and workers. Perhaps most important, IPs can help identify and address the human capital challenges, technological trends, and global competition facing the Commonwealth's employers. At least in theory, IPs can help spread best human resource practices, spur innovation, help increase business efficiency and productivity—and yes, help more business get to the high road.

Forty-five percent of companies that are in IPs in Pennsylvania did not have any organized training programs before they joined the program. Today, those same companies now participate in training programs that have helped to improve the efficiency and skill levels—and boost the productivity—of their employees. In three years, Pennsylvania has grown its program to include 90 Industry Partnerships, with more than 6,100 companies as members and 53,000 employees trained. Over 70% of participating companies report increases in productivity, and over 80% of participating report increased retention rates. Wage gains for participating individuals average 13%.

Capacity Building to Support the IP strategy. One of the implementation challenges PA faces is recruiting and developing a whole new "community of practice" (group of IP coordinators) that can help IPs achieve long-term changes in business and industry outcomes—and not just become a new way for well-connected companies to pick the state's pocket. Capacity building tactics used so far include two "Industry

Partnership Academies" for a select group of 10 IP teams; "IP 101" for new IPs; a new annual self-assessment tool—"The High Performance Industry Partnership Standards"—that aims to promote "continuous improvement" of IP initiatives; and peer group meetings of IPs in particular targeted industries (e.g., health care, logistics and transportation, advanced manufacturing).

Another capacity bottleneck in the state's IP workforce strategy (not to mention a more industry focused economic development strategy) is a lack of high-quality applied industry research capacity within the state. The number of in-state researchers who "get"—and can help realize—the aspiration of the state's efforts to boost innovation and spread best practice through IP investments can be counted on the fingers of both hands (possibly one hand).

(For another overview of PA workforce development policy and practice, with recommendations for the future, see http://keystoneresearch.org/agenda/backgroundpdf/model_for_skills.pdf.)

Transportation & Logistics

Pennsylvania has the nation's fifth largest state-maintained highway system, 39,843 miles, and the third largest state-maintained bridge network, 25,327. With the average age of a state-maintained bridge being 50 years, Pennsylvania leads the nation in the highest number of structurally deficient bridges, 6,023.

Since taking office in 2003, Governor Rendell has nearly tripled investment in bridge repairs. From $259 million in bridge contracts in 2002, Governor Rendell upped that investment to just over $700 million in 2007. Since 2003, Pennsylvania spent $3.8 billion repairing 1,381 bridges. Despite this investment and because of the system's age, the number of structurally deficient bridges has grown, from 5,587 to 6,023.

The following three initiatives are examples of the work Pennsylvania is doing to align our programs to preserve our existing system and link its efforts to broader economic development goals.

Smart Transportation – Smart Transportation is a collaborative approach to supporting great communities for future generations of Pennsylvanians. The primary focus of Smart Transportation is to link land use and transportation decisions and investments. There are 10 defining themes to Smart Transportation and they include:

1. Money Counts
2. Choose Projects with a high value-to-price ratio
3. Enhance the Local Street Network
4. Look beyond Level-of-Service
5. Safety First, and maybe Safety Only
6. Accommodate all Transportation Modes
7. Leverage and Preserve Existing Investments
8. Build Towns, not Sprawl
9. Understand the Context; plan and design within the context
10. Develop local governments as strong land use partners

The Pennsylvania Department of Transportation has developed a draft Action Plan identifying six activity areas. These areas include a communications plan and related tools, a training program (external and staff training), a pilot project program (an incentive funding program is under development), revision of the Highway Occupancy Permit Process, linking transportation planning and the National Environmental Policy Act (NEPA) to improve project delivery, and the update of all Department publications. In addition to these activity areas, the Department is currently developing performance measures to track progress of the overall Smart Transportation initiative. By its nature, and as identified in the 10 themes listed above, Smart Transportation supports a "fix it first" policy and promotes the integration of transportation investments with economic development goals.

In addition, the Smart Transportation initiative links with Pennsylvania's Keystone Investment Principles, a coordinated interagency approach to fostering sustainable economic development and conservation of resources through the state's investments in Pennsylvania's diverse communities.

<u>Pennsylvania Mobility Plan</u> – The Pennsylvania Mobility Plan is our statewide long-range transportation plan through 2030. It establishes a vision for Pennsylvania's multimodal transportation system, along with goals, objectives, strategies, and ultimately actions for achieving that vision.

In addition to being aligned with federal and state policies, it considers how transportation decision-making can be supportive of economic development and the environment. Specifically, goal two—to "improve quality of life by linking transportation, land use, economic development, and environmental stewardship"—is supported by four strategies which help to direct resources to support economic and community development; integrate land use and transportation; preserve natural, historical, and cultural resources; and promote energy conservation.

While the Mobility Plan does not identify specific transportation projects it helps to sharpen how we invest in and maintain our transportation system. Goal three, "develop and sustain quality transportation infrastructure," is supported by an objective to advance a program to achieve desired maintenance cycles. Goal five, "maximize the benefit of transportation investments," is supported by the objectives to improve transportation decision-making, to secure funding to preserve Pennsylvania's transportation infrastructure and to make strategic capacity improvements, and to improve project delivery to expedite project development and reduce costs.

The plan in and of itself is assumed to be a no-cost initiative. It is, instead, a guide to better coordinate decision-making throughout PennDOT and beyond. The plan's actions—nearly 90 major tasks or initiatives necessary for achieving the plan's strategies and objectives—are being executed by PennDOT. Internally, the Plan is reported on and monitored through a dashboard which is updated semi-annually. Publicly, the Plan will be reported through a bi-annual Progress Report.

<u>Accelerated Bridge Program</u> – The Accelerated Bridge Program is part of the Governor's Rebuild PA initiative that will address Pennsylvania's bridge infrastructure. It will fast-track

the repair of 1,000 of the state's structurally deficient bridges in the next three years and increase the bridge funding level from $1.1 billion a year to $1.6 billion. The increase funding will come from recommitting a larger portion of current funding to bridges and a proposed bond of $200 million a year for 10 years.

The key component of the program is the focus on SD (Structurally Deficient) bridges. To help with the project delivery of these bridges the Department will use design/build contracts, group projects by region and type and continue to streamline and improve design. In effort to make the environmental process more efficient the Department is also coordinating with all regulating agencies and the Federal Highway Administration.

This initiative was promoted as part of an economic stimulus plan to spur job creation while at the same time repairing infrastructure to make our economy stronger in the long run. Governor Rendell is part of a coalition of Governors advocating for increased national investment infrastructure.

Clean Tech & Energy Efficiency

The Commonwealth under the Rendell Administration has taken bold strides to promote the development of the "green" business sector. This includes the passage of the Alternative Energy Portfolio Standards Act in late 2004 which requires over 18% of electricity sold at retail in the Commonwealth to be generated by alternative energy sources, including wind, hydropower, biomass, and one of the most ambitious solar requirements in the country—the installation of over 860 megawatts of solar technology within 15 years. (https://www.pennfuture.org/UserFiles/AEPSFactSheetjcfinal1215.pdf) By creating a guaranteed market, the AEPS is designed to stimulate renewable and alternative energy production and job creation.

In addition, the Commonwealth itself is leading by example by purchasing 30% of electricity used by state agencies from green sources. Gov. Rendell recently announced his intentions to increase that even further to 50% by mid-2010, further increasing the market for renewable energy technologies. Gov. Rendell also directed state agencies to reduce their energy consumption by 10% in 2006. With that goal achieved, an additional 10% reduction will be achieved by implementing smart meter and load-shedding strategies that reduce usage during times of peak demand, converting to sensor lighting and increasing the use of compact fluorescent bulbs in state buildings. The state will also continue its efforts to utilize more fuel efficient vehicles including hybrids in order to reduce its consumption of conventional fuels. While reducing demand for conventional energy sources, these steps also help to stimulate the demand for green-tech solutions.

The Commonwealth has also implemented numerous programs to help fund the deployment of advanced energy technologies into the marketplace, and to support green-tech business development in Pa. The Department of Environmental Protection operates grant programs providing over $25 million in funding each year to alternative energy and energy efficient projects, including the creation or expansion of green-tech manufacturing facilities here in Pa. (These funds are provided through a number of avenues, including state funding, federal funding through the State Energy Program, and the state utilities gross receipts tax.) These funding programs have also leveraged approximately $1 billion in private investment in the Commonwealth.

Through the implementation of these programs and the various policy and economic development initiatives undertaken by the Rendell Administration, the Commonwealth has attracted a number of companies to locate or expand in Pennsylvania, including world-renown firms such as Gamesa, Conergy, Iberdrola, Solar Power Industries and General Electric that have all established operations in Pennsylvania, and growing advanced energy firms like Axion Power International, Plextronics and AE Polysilicon that are building upon their respective innovations and creating new jobs.

Over the past year and a half, the Rendell Administration has worked with the state legislature to further deploy alternative energy technologies. This legislation, to be signed into law by Gov. Rendell in the coming days, calls for the investment of $665.9 million in alternative energy, of which $237.5 million will go to consumers to lower their energy costs and help them join the new energy economy, and $428.4 million will go to create jobs and expand the alternative energy sector in Pennsylvania. This initiative includes the following:

- Invest $650 million in alternative and renewable energy deployment, conservation and efficiency, and innovative research and development. Special Session House Bill 1 will include:
    - $180 million for solar energy;
    - $165 million to encourage alternative energy projects;
    - $25 million for green buildings;
    - $25 million for pollution control;
    - $40 million for emergency energy assistance;
    - $40 million to support early stage activities; and
    - $25 million for wind and geothermal.
    - Another $150 million will be available over seven years to help consumers and small businesses weatherize their homes and adopt conservation tools and offer tax credits to businesses developing and building alternative energy projects in the commonwealth.

- Increase the use of biofuels in retail gasoline and diesel fuel. House Bill 1202 will require that every gallon of diesel fuel use an increasing percentage of biodiesel as in-state production levels increase and reach defined thresholds. Additionally, gasoline must include at least 10 percent cellulosic ethanol once production reaches 350 million gallons annually. New investments will also be made in Pennsylvania's biofuel producers; up to $5.3 million will be available annually through June 2011 to encourage the production of ethanol and biodiesel.

The legislature did not yet pass Governor Rendell's proposed energy conservation and smart metering plans.

On the "green jobs" front, the states' recent Industry Partnership workforce investments have included funding for a number of renewable energy Industry Partnerships, including in Southeast PA and in Central PA. The best of these partnerships are customizing their service delivery to the unique needs of each new and emerging sub-cluster of the renewable energy industry. In some cases, this means informational and networking workshops so existing businesses can learn, for example, whether renewable energy provides them with new market opportunities. As the energy efficiency industry grows, it will mean ramping up training for energy auditors, HVAC engineers, and trades workers with expertise in green building.

The state and industry stakeholders are currently exploring the creation of a statewide Energy Industry Partnership that might provide a table for information exchange and policy development and consensus building to strengthen the economic development and job payoff from renewable energy.

Technology Commercialization and More General Use of Universities

The Department of Community and Economic Development, through the Technology Investment Office (TIO), serves as a catalyst for growth and competitiveness for Pennsylvania companies through technology-based economic development (TBED) initiatives, including funding, partnerships and support services. Funded projects of the TIO include pre-revenue, emerging and mature technology companies; universities engaged in commercializable research and development; community organizations focusing on technology infrastructure, training and facilities; and investment partners. TIO supports various programs, partners and initiatives in the biosciences, energy, manufacturing, nanotechnology, and telecommunications/information technology sectors. These TBED initiatives support entrepreneurial activities within Pennsylvania that enable companies to compete in the international marketplace and communities to build infrastructure that grows and attracts new companies and investment. This continuum of capital and services is comprehensive from ideas, to growing companies to mature manufacturing.

TIO manages 40 programs and initiatives with approximately $84 million in appropriations, $500 million in other, and an endowment of approximately $600 million. In 2007, the projects leveraged $822 million in outside funds, facilitated the creation of 329 new companies, created 10,562 jobs and retained more than 19,300 jobs. More specifically, TIO works to implement technology strategies in core industry sectors across the Commonwealth of Pennsylvania.

Productive Metros

The Department of Community and Economic Development has attempted to focus its several community development programs on the Commonwealth's "core" communities, consisting of the two large cities of Philadelphia and Pittsburgh, the 50+ smaller cities, larger boroughs and several urbanized inner ring townships.

DCED's major efforts in this regard have been the creation of the Community Action Team (CAT) to assist with the planning and implementation of mixed-use impact projects in downtowns that can recruit assistance from multiple funding streams in different Departments of state government, and the institution of cross-office review of applications for several key programs to facilitate the concentration of funding in core communities.

CAT is overseen by an inter-agency committee, and this cross-department cooperation reflects expanded interagency collaboration on urban revitalization projects. High level staff of the Departments of Transportation, Environmental Protection, Conservation and Natural Resources, and Community and Economic Development meet regularly to discuss projects in core communities. An Inter-Agency Land Use Team (IAT) addresses state investments that affect land use. The IAT is a task force of the Economic Development Cabinet.

The IAT has drafted, and the EDC has adopted, the Keystone Principles for investment. The Principles provide top-line goals for sustainability, focus on core communities and regional impact that are to be incorporated in all departments' grant and loan programs.

In addition, the Governor's budgets over several years have doubled the annual appropriation for the Housing and Redevelopment Assistance program, DCED's most flexible program to assist bricks-and-mortar urban revitalization projects. We have also initiated an Elm Street program as a companion to the Main Street program, which provides funding for façade and other improvements in residential neighborhoods adjacent to downtown commercial districts.

Revenues and Subsidies

One of the major recent changes in the Pennsylvania state revenue system is slots gaming and property tax reductions and rebates. This year, for the first time, the provisions of the Taxpayer Relief Act of 2006 were triggered, allowing payments of slots revenue to school districts for property tax reduction. Slots revenue also pays for expanded property tax rebates to senior citizens. The slots revenue, which is expected to grow to over $1 billion annually when fully phased in, shifts the balance somewhat in the state vs. local share of taxes.

In order to increase competitiveness, recent changes to the business tax system were identified. The Governor's Business Tax Reform Commission issued as report in June 2004, recommending a revenue-neutral package of reform measures in Pennsylvania business taxation. Some of the reform items have been adopted, including an overhaul of tax administration and appeal procedures. Other items, including adoption of unitary combined reporting for the Corporate Net Income Tax, remain outstanding.

In addition, a number of new tax credit programs have been added, primarily to encourage economic development. The General Assembly of Pennsylvania has extended the requirements for public disclosure of information about tax credit recipients. In general, an annual report is required for each tax credit specifying the names of credit recipients and the dollar amount received. In addition, the Department of Revenue continues to work with the Department of Community and Economic Development in order to "clawback" credits when warranted.

The Department of Revenue's mission continues to be to administer the tax laws of the Commonwealth in a fair and equitable manner. The Department of Revenue does not consciously espouse policies that advantage particular sectors or firms, except as the law requires. For example, the Tax Reform Code creates tax preferences for manufacturers in general as well as many more narrowly defined sectors. The Department of Revenue always attempts to be even-handed in its interpretation and enforcement of the statutes.

Finally, the Department of Revenue recently launched an initiative to modernize its tax processing system. The first step in this process was the Revenue Roadmap, a strategic planning effort. Beginning in fiscal 2008-09, contractors will be selected to begin work on a redesign of the computer systems. The system modernization is expected to pay dividends in the form of enhanced productivity, improved ability to react to demands for change, and increased revenue collections. This is a multi-year effort that will greatly improve the efficiency of the Department of Revenue.