

PA WORKS

Job Creation and Investment to Move Pennsylvania Forward

Job creation is the number one issue for Senate Democrats. We must adopt policies and programs at every level of government to grow Pennsylvania's economy. **PA WORKS** is the first step to achieving that goal.

PA WORKS is a comprehensive 6-point strategy designed to stimulate Pennsylvania's economy and move business and industry forward as we continue to recover from the deepest economic recession since the Great Depression.

The plan focuses on 6 core areas: Small Business, Workforce Training, Critical State Investments, Clean and Green Energy, Infrastructure Investment, and Tax Fairness. **PA WORKS** uses innovative ideas that will incentivize job creation, promote a business-friendly environment, and expand business opportunity.

PA WORKS will spur the creation over 28,000 jobs and leverage over \$2 billion in new private investment. **PA WORKS** will result in more than \$150 million in general fund savings.

We believe we must look at every issue through the "job creation lens." We are mindful of Pennsylvania's current budget challenges and fiscal realities. Consequently, **PA WORKS** was crafted to avoid new spending while increasing efficiency and eliminating redundancy in state government.

The initiatives proposed in **PA WORKS** rely exclusively on increased utilization of existing funding sources, most notably the more than \$500 million remaining unspent by the Commonwealth Finance Authority. The plan uses creative approaches to leverage federal and private resources, and new dedicated funds generated through the creation of a fairer, more equitable and competitive tax system. The funding sources are coupled with policies promoting cost effective approaches that maintain successful programs already in place, while consolidating and streamlining existing programs.

THE 6-POINT PLAN

1. Put Small Business First

Senate Democrats understand that small business is the lifeblood of Pennsylvania's economy. We are friends of small business and want to encourage small business development because we know a thriving small business sector is essential to Pennsylvania's economic recovery. The "Put Small Business First" component of **PA WORKS** is a 5-bill package that encourages small business creation and expansion.

- **Small Business First ("SBF") Fund** – The Small Business First loan program is a popular and successful DCED loan program. By increasing maximum loan amounts and repayment periods and decreasing maximum interest rates for all SBF loans, we can generate more small business investment.

- **Increase Access to Capital** – The Second Stage Loan Guarantee Program was created as part of Governor Rendell's economic stimulus package in 2004. Restricted to life science, advanced technology, and manufacturing projects in years 2 through 7 of development, the program has been vastly underutilized since its creation. By loosening the restrictions and refocusing the program, we can ensure that the funding originally allocated to the program is not lying stagnant.

A reconstituted \$50 million Small Business Investment Guarantee Program would provide a needed catalyst to spur private banks and other commercial lenders to provide access to capital for small business. Eligible small businesses could obtain a guarantee of up to 100% of the principal amount of the loan, up to \$2,000,000, to encourage lending in what remains a tight credit market. The plan expands eligibility to local governmental agencies that make loans and opens the program to all industry sectors.

- **Empower the Small Business Council** – Small business is often adversely affected by governmental regulation. The Small Business Council was created to give small business a voice. Senate Democrats want to make that voice stronger by increasing the powers and duties of the Small Business Council so it can positively impact the small business climate in this Commonwealth. All executive agencies submitting proposed rulemakings to the Independent Regulatory Review Commission will be required to submit the proposed rulemaking to the Council. The Council will review the proposed rulemakings and provide comments, recommendations, objections, etc. as permitted under the Regulatory Review Act. Additionally, the Council will be required to meet with each executive agency at least once every two years to review the agency's policies and regulations and make recommendations regarding additions, deletion or amendment of the regulations.

- **Make Neighborhood Assistance Act Tax Credits More Accessible** – Small businesses are the economic engines that power our neighborhoods. The Neighborhood Assistance Act Tax Credit program should be expanded to provide small businesses and non-profit groups increased access to the program by permitting claimants to claim credits against employee payroll taxes.

- **Modernizing the Commonwealth’s procurement process to promote participation by small and disadvantaged businesses** – Our plan would modernize the Procurement Code to promote small and disadvantaged business participation in government contracting. Establishment of small business reserves, a statewide bonding program, a mentor-protégé program, and other targeted initiatives will increase the ability of small and disadvantaged business to compete for government contracts. A similar plan, HB 2149, passed the House overwhelmingly at the end of last session.

2. Workforce Training

A recent Department of Education report found that only twenty percent of our current workforce holds the skills that sixty percent of our 21st century economy will require. If we want to compete in a national and global economy a well-trained workforce is essential. When companies make location decisions a trained workforce is often as important as tax climate or any other individual factor. The workforce training component of **PA WORKS** is a 4-bill package designed to create a world-class workforce in Pennsylvania.

- **Consolidate job training programs** – Pennsylvania needs a “one-stop” system for workforce investment and education services. By consolidating all job training programs under the Department of Labor and Industry, we can refocus training and education programs to align skills training with industry employment needs. Consolidation would include Vocational Education Programs, Youth Development Institutions, Corrections Education & Training, and New Directions for public assistance recipients. The restructuring would allow Pennsylvania to fully leverage federal subsidies through the Workforce Investment Act, Vocational Rehabilitation, Perkins Act, TANF welfare to work programs, and Social Service Block Grant subsidies to directly invest in employer directed training programs.

- **Create “Train to Work PA”** -- Train-to-Work PA is an individual employer-driven program coordinated through the Workforce Investment Board in the Department of Labor and Industry. Priority for Train-to-Work PA will be for those applicants who are currently receiving Unemployment Compensation benefits. Modeled after the Successful Georgia Works program, we invest federal dislocated worker funds to partially subsidize wages for on the job training opportunities leading to permanent employment. The Department has a waiver in place from the Federal Department of Labor to use dislocated worker funds for this purpose.

- **Create a “Shared Work” Program** – Modeled after Missouri’s successful program, this Department of Labor and Industry program would enable employers to avoid layoffs by reducing hours and wages for employees while allowing employees to collect a portion of unemployment compensation to make up for these reduced hours and wages.

- **Create Green Jobs Workforce Training Grants** – Pennsylvania has already become a world leader in clean energy investment. To grow these investments we need a properly trained clean energy workforce. This bill allocates \$15 million over 3 years to Department of Labor and Industry for grants to eligible entities to offer job training in “green” industries. Funds for this program are reallocated from unused funds related to Pollution Control Technology Projects, originally funded at \$25 million pursuant to Special Session Act 1 of 2008.

3. Critical Investments to Create Jobs

Pennsylvania has funded a number of successful programs to create jobs and grow our economy. Many of these investments have been critical in transforming our economy into what it is today, a regional leader, emerging from the deep economic recession in much better shape than most other states. Now, we must take a new and careful look at our entire investment portfolio. We need to identify what works and find the necessary resources to sustain those investment programs. We must also identify what doesn't work and eliminate or refocus those programs. This component of **PA WORKS** is a 4-bill package that builds on our success to sustain the momentum we have generated.

- **Re-capitalize Business In Our Sites** – Business in Our Sites is a Commonwealth Financing Authority infrastructure investment program designed to create shovel ready sites for new development. Our plan proposes a fresh \$75,000,000 re-capitalization of this successful program by reallocating previously authorized CFA funds from underutilized program accounts.

- **Create the PA WORKS Fund** - The **PA WORKS** Fund would allow Pennsylvania to continue to make targeted investments in well-established programs with clear records of success. Revolving loan funds, including the Pennsylvania Industrial Development Authority's (PIDA) fund that provides land and building financing, and the Machinery and Equipment Loan Fund (MELF), continue to provide essential capital for new and expanding business investments. To complement these programs our plan would capitalize the **PA WORKS** Fund with \$80 million from a dedicated funding source to maintain critical state investment programs. The funds would be reallocated annually as follows:

1. \$30 million grant program. Consolidate the Opportunity Grant, Customized Job Training, and Infrastructure Development Program into a single program. Funds could be used for any form of investment including working capital, infrastructure, or training assistance.

2. \$25 million for technology & manufacturing investment, including \$15 million earmarked for direct grants to Ben Franklin Technology Partners and \$7 million for Industrial Resource Centers.

3. \$10 million for local development agencies

4. \$10 million for local tourist promotion.

5. \$5 million for International trade and investment assistance.

- **Revamp Job Creation Tax Credit Program** – Job creation tax credits are a proven incentive in attracting and retaining businesses. Senate Democrats would increase the amount of the credit from \$1,000 to \$2,000 for a new job or to \$4,000 for a new job filled by an individual on extended unemployment. We would also add a definition of “small business” and lower the job creation requirements from 25 or a 20% increase in workforce over 3 years to 10 or a 10%

increase in workforce over 3 years for small business, and increase the total money available for the credit from \$22,500,000 to \$25,000,000.

- **Give Taxpayers a Return on Successful Investment** – Many businesses that receive grants through existing state programs go on to be successful. Because Pennsylvania taxpayers were initial partners in this business investment, We propose that the taxpayer see a return on their investment by requiring successful businesses that received state grants to repay the subsidy in future years based on a formula tied to measurable increases in gross profits.

4. Clean and Green Energy

Pennsylvania is primed to become a world leader in clean and green energy. Our prior investments, coupled with the efforts of our world-class educational institutions, have positioned Pennsylvania at the forefront of many emerging energy sectors. Industry leaders including Plextronics for solar research, Gamesa in wind energy development, Westinghouse in nuclear R&D, and the burgeoning Marcellus Shale industry offer untold potential for new jobs and commerce. The “Clean and Green Energy” component of **PA WORKS** is a package of initiatives designed to seize Pennsylvania’s opportunity to become a world energy leader.

- **High Performance Building Program** – The Alternative Energy Investment Act (Act 1 of 2008 – Special Session) created a \$25,000,000 program to encourage the construction of “green” buildings and the renovation of existing buildings into “green” buildings. However, due to the restrictiveness of the program, it has been vastly underutilized and money remains untouched in the fund.

Senate Democrats propose loosening those restrictions by expanding the program to allow all businesses to be eligible for funding and to allow businesses to use funds for construction or renovation of a high performance building for any business use.

- **Marcellus Shale** – The Marcellus Shale industry has exploded in Pennsylvania. It has generated thousands of good-paying, family-sustaining jobs. Senate Democrats want to promote the burgeoning industry while at the same time protecting Pennsylvania’s taxpayers and environment. We propose enacting a comprehensive Marcellus Shale Safety Plan to provide important environmental protections to allow drilling to proceed safely. We also propose assessing a fair and reasonable tax or impact fee on the Marcellus Shale drilling industry to provide revenue for mitigating local community impacts, for environmental programs, and for commonwealth tax payers.

- **Build Synergies between Educational Institutions, Government, and Clean Energy Industries** – Pennsylvania’s higher education institutions are some of the best in the world and must continue to partner with energy industry research and development efforts. Later this Spring, Senate Democrats will announce plans for a Clean & Green Energy Summit where representatives of our major academic research institutions, energy industry leaders, and state and local economic development officials can exchange ideas and chart a course to make the necessary investments to grow our emerging energy industry sectors.

- **ESCO Investment Plan** – Develop new financial incentives for smaller municipalities and rural communities to make energy efficiency investments through Energy Saving Contracts that will finance improvements through future utility savings.

- **Solar & Natural Gas Supply Chain initiatives** – Create solar and natural gas supply chain support through our local Industrial Resource Center network to enhance Marcellus shale and solar investment opportunities, modeled after the successful wind energy initiative already established.

5. Infrastructure Investment

Infrastructure investment is critical to creating jobs and stimulating the economy. For Pennsylvania to move forward, we must invest. We must put shovels in the ground. Our transportation infrastructure is in need of serious repair. Our water and sewer systems are old and outdated. Our gas utility lines are failing and we need to upgrade our communications technology.

Some of these things can be addressed immediately. We should explore public-private partnerships, tolling, and bonding as short-term solutions to our transportation funding woes. The Commonwealth Financing Authority should act in April to release the remaining \$172 million of H2O funding for water and sewer projects.

During the coming months Senate Democrats will be working with private industry leaders, our federal counterparts in Washington, local government officials, and key stakeholders to understand critical infrastructure funding needs and identify logical funding options to address this essential building block for future job creation and development.

6. Tax Fairness

An improved business tax climate is essential to Pennsylvania's economic recovery. Reducing corporate tax rates and implementing principles of tax fairness will make Pennsylvania a more business-friendly, competitive state. The "Tax Fairness" component of **PA WORKS** is a package of common-sense reforms to our tax code that will stimulate economic growth and business development.

- **Reduce the CNI to 7.5%** – The Delaware Loophole continues to provide an unfair tax advantage for certain corporations doing business in the commonwealth at the expense of all other Pennsylvania businesses. Its continued exploitation prevents the General Assembly from reducing the state's 9.99% Corporate Net Income (CNI) rate, the second highest in the nation. Senate Democrats propose closing the loophole by implementing combined reporting to require state tax returns to be filed consistent with federal returns to recoup lost revenue. Those savings would be used to reduce the CNI to 7.5%.

- **Increase the Single Sales Factor** – The single sales factor is a method for dividing business income among states for the purpose of taxation. We propose increasing the single

sales factor to 100% to give home based Pennsylvania corporations more favorable tax treatment for their PA sales.

- **Increase Net Operating Loss (NOL) ceiling** – The NOL is an important tool for new and early-stage businesses that may have suffered losses in their early years of development. Senate Democrats propose increasing the ceiling for NOL claims from \$3 to \$5 million and from 20% to 25% of taxable income.

- **Explore Other Options to Modernize the Tax System** – The Capital Stock and Franchise Tax is an onerous tax that is currently being phased out. Senate Democrats propose delaying the phase-out until January 1, 2013 and using \$80M in realized revenues to capitalize the **PA WORKS** Fund. When the phase-out is complete in 2015, we propose replacing it with an Alternative Minimum Tax at a rate that generates \$80M in revenue, roughly equal to current minimum tax, to continue the investment in the **PA WORKS** Fund and insure that all businesses continue to make at least some modest annual business tax payment.

Other states such as Ohio have recently addressed the tax fairness issue by making even more drastic changes to their business tax system by instituting a transaction-based rather than a profit-based business tax system. While such an overhaul would take time to implement responsibly, this system and other tax models deserve serious study in an effort to reform our tax code and create a fairer, more affordable, and competitive business tax climate here in Pennsylvania.