



House Bill 453 Printer's Number 2410 *Business and Economic Development*

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(Note: This document will be updated as more information becomes available)

The House Republican budget proposal to take \$630.5 million from special funds to help balance the General Fund budget would impact an assortment of funds that broadly support economic development and business retention across Pennsylvania. A total of \$91.4 million would be taken from 11 special funds that support initiatives ranging from infrastructure investments for local communities to grants for minority-led businesses to technical support for technology start-ups.

While a small portion of these funds is supported by taxpayer revenues transferred from the state's General Fund as part of the budget process, the overwhelming majority of these funds are supported through specific fees, initial bond offerings, loan program repayments, and interest on fund balances. The role of each of these funds targeted by the House Republican work group varies; however, raiding these funds would have significant, negative consequences across the commonwealth with regards to community improvements, business development, and job creation.

The following analysis reflects the House Republican proposal as adopted by the House in HB453 PN2410. This proposal has changed since the Republican press conference on Sept. 5. Since then, Republicans have reduced the transfers from the Machinery and Equipment Loan Fund and the Ben Franklin Technology Development Authority Fund but the consequences remain problematic.

Machinery and Equipment Loan Fund (MELF)

- Amount identified: \$40 million.
- Non-recurring
- Description: The Machinery and Equipment Loan Fund, or MELF, supports low-interest loans for the acquisition and installation of machinery and equipment for eligible businesses in the manufacturing, industrial, agricultural, mining, information technology, and biotechnology fields. Since passage of Act 161 of 2014, the Pennsylvania Industrial Development Authority has administered MELF alongside existing business financing programs.
- Impact: The 2014/15 budget transferred \$85 million to the General Fund – a slight reduction based on a veto by Gov. Corbett from the \$100 million enacted by the legislature – from MELF. This placed the fund in a bad position with respect to cash flow, along with limiting the ability to issue new loans. The proposed raid of an addition \$49 million mirrors a proposal from House Republicans during Gov. Wolf's first budget, and would preclude any new loans from being made from MELF.

Impact on the People

- MELF is an important financing tool that encourages Pennsylvania businesses to invest in machinery and equipment to ensure their competitiveness.
- Loans through MELF require company commitments to retain at least one full-time job for every \$35,000 borrowed and create at least one full-time job for every \$50,000 borrowed.
- MELF already experienced the transfer of \$85 million out of the fund in 2014/15. The additional raid on remaining funds proposed by House Republicans would severely limit or preclude the issuance of future loans, thus removing a resource for businesses looking to grow and compete.

Balances

- Since the initial capitalization of MELF, revenue to the fund has come from loan repayments and interest earnings.
- As of Sept. 1, the fund's balance is \$61.1 million.
- This balance does not reflect any future or multi-year project commitments.
- MELF does not have a surplus of \$61.1 million available to transfer, as it has outstanding loan commitments and loan requests in process. (This space will be updated with an accurate summary of cash flow and disbursements when received from department.)

Small Business First Fund

- Amount identified: \$11 million.
- Non-recurring
- Description: Act 67 of 1996 created the Small Business First Fund and replaced the Air Quality Improvement, Storage Tank Loan, and the Pennsylvania Capital Loan funds. Small Business First provides loans to small businesses (100 employees or less) for activities including facilities construction, equipment purchases, working capital, and improvements to comply with environmental regulations. As with the Machinery and Equipment Loan Fund, the administration of this fund was transferred to the Pennsylvania Industrial Development Authority under Act 161 of 2014.
- Impact: The 2014/15 budget transferred \$95 million from the Small Business First Fund to the General Fund – a slight reduction based on a veto by Gov. Corbett from the \$100 million enacted by the legislature. Similar to MELF, this recent transfer limited the fund's cash flow placing in jeopardy its mission to provide low-interest financing to small businesses.

Impact on the People

- While Republicans often tout the value of small businesses, this taking of funds from the Small Business First Fund would detrimentally impact their ability to sustain and grow.
- As interest rates rise, small businesses across Pennsylvania are more likely to use – and benefit – from the low-interest loans offered through the Small Business First Fund.
- This fund was already raided in the final year of the Corbett administration. Since then, demand for financing from this fund has outpaced the returns from outstanding loan repayments and interest.

Balances

- As of Sept. 1, the fund's balance is \$28.8 million.
- This balance does not reflect any future or multi-year project commitments.
- Small Business First does not have a surplus of \$28.8 million available to transfer, as it has outstanding loan commitments and loan requests in process. This section will be updated with information from DCED.
- If this transfer happens, PIDA would likely be unable to issue any new loans to qualifying small businesses with a potential need to rescind current, existing commitments as well.

New PA Venture Capital Investment Program (CFA)

- Amount identified: \$15 million.
- Non-recurring

- Description: Administered by the Commonwealth Financing Authority, or CFA, the New Pennsylvania Venture Capital Investment Program provides loans to venture capital partnerships to encourage and augment investments in burgeoning Pennsylvania technology companies. The program, funded with \$60 million by an initial bond issuance, is targeted for early stage and “seed” companies operating in the commonwealth to increase access to vital venture capital investment.
- Impact: This program encourages the development of new, innovative companies in Pennsylvania with a matching requirement of \$3 investment in Pennsylvania companies for every \$1 awarded through the state program. Program staff have indicated that the \$60 million authorized for the program has been fully committed.

Impact on the People

- This program has clear benefits for businesses operating in the commonwealth and those who are employed by them.
- Program staff have indicated that all funds under this program have been committed.

Balances

- CFA staff have indicated that almost all available funds have been committed for use in the two major markets for this type of investment (the Pittsburgh and Philadelphia regions); however, there may be limited funds (less than \$5 million) available based on utilization outside these regions.

Ben Franklin Technology Development Authority Fund

- Amount identified: \$5 million.
- Non-recurring
- Description: Supports the Ben Franklin Technology Development Authority, or BFTDA, to provide coordinated support services to small- and medium-sized technology companies, and a limited number of low-interest loans and grants.
- Impact: This program provides capital and technical support to nurture technology start-ups in Pennsylvania, which have measurable impacts in job creation and economic activity.

Program(s)

- There are four regional Ben Franklin Technology Partners: Pittsburgh, Philadelphia, State College, and the Lehigh Valley.

Impact on the People

- BFTDA makes targeted investments in companies that have demonstrated a market value and potential for growth. In 2016, this strategy helped to create 1,383 jobs and retain 7,919 more.
- The jobs created through BFTDA loans and grants are high-skill, high-pay.
- In addition to tax revenue generated through employee salaries, these companies have seen significant private investment (\$475 million in post-BFTP financing and \$903 million in sales).
- Republicans regularly argue that programs should demonstrate a return on investment to justify their value. BFTDA and BFTP have repeatedly demonstrated their significant, quantifiable value for employees, businesses, and taxpayers.

Balances

- As of Sept. 1, the fund’s balance is \$53.3 million.
- Revenue to the fund comes from an annual transfer from the General Fund (\$14.5 million in recent years), loan repayments, tax credit sale proceeds, and interest earnings.
- The proposed transfer of \$5 million from BFTDA Fund would likely reduce support services and overall financial assistance provided across the commonwealth through each regional BFTP.
- Each of the four regional BFTP headquarters receive \$3.5 million annually that could be at jeopardy with this reduction.
- Funding for programs under BFTDA has received an additional \$29 million annually through Innovate PA; however, this additional funding will be eliminated in FY 2018/19.

Rehabilitation Center Fund

- Amount identified: \$10 million.
- Department: Labor and Industry/Office of Vocational Rehabilitation

- Description: Enterprise fund for the operation of the Hiram G. Andrews Rehabilitation Center in Johnstown, which helps Pennsylvanians with disabilities receive education, transition services, counselling, and evaluation to gain employment and live independently.

Conflicts

- Yes. The proposed raid of \$10 million will impact the ability of the center to carry out needed capital improvements, and may impact cash flow. Additionally, the Department of Labor and Industry reports that the Hiram G. Andrews Center, as a state-operated community rehabilitation program, is subject to federal regulations that restrict funds received by the center to vocational rehabilitation purposes only.

Impact on the People

- Pennsylvanians with disabilities working to gain employment.

Cost Shifts

- Could lead to increased fees for clients, and may move capital expense to capital budget/General Fund, or delay improvements.

Revenue source

- Revenues to the fund are primarily the fees paid by the clients of the center, though there is some federal money and other sources in the fund.

Balances

- Because all operations of the HGAC are contained within the Rehabilitation Center Fund, some cash reserve is needed to run the center. The raid could make cash flow management challenging as early as the middle of the year, based on 2016/17 collection patterns.
- Additionally, L&I indicates that the Hiram G. Andrews Rehabilitation Center is accumulating a fund balance to make capital improvements on its campus. Capital improvements of the campus have been paid for by the Rehabilitation Center Fund in the past.

Minority Business Development Fund

- Amount identified: \$1 million.
- Non-Recurring
- Description: Supports the Pennsylvania Minority Business Development Authority, or PMBDA, which provides loans to minority business enterprises and supports authority operating expenses. To qualify for a loan, a business must be wholly or majority-owned by socially or economically disadvantaged residents of the state.
- Impact: This fund is quite small, and wholly supported by revenue derived from the repayment of principal and interest on outstanding loans. The proposed transfer would severely limit, if not preclude, PMBDA's ability to issue future loans.

Impact on the People

- The Minority Business Development Fund annually supports an average of \$1 million in loans to qualifying businesses in addition to PMBDA operating costs.
- While the size of the fund and total financing available is not large, it plays an important role in supporting qualifying businesses that are solely or predominantly owned by minorities.

Balances

- As of Sept. 1, the fund's balance is \$4.2 million.
- Revenues for the Minority Business Development Fund come from loan repayments and interest.
- This revolving loan fund has already experienced a diminishing balance, and the proposed raid of \$1 million would hinder the ability to make future loan commitments.

Municipalities Financial Recovery Revolving Aid Fund

- Amount identified: \$7 million.
- Non-recurring
- Description: This fund makes loans and grants to financially distressed municipalities. Revenue comes from General Fund transfers. Fund balances have been diminishing over time. Taking \$7 million from this fund would mean significant cuts to the estimated grants and loans in 17/18.

Cost Shifts to Communities

- Cuts in aid to distressed municipalities increases their costs, triggers higher local taxes, and perpetuates the poverty cycle.
- Seventeen boroughs and small cities (generally in the eastern and western regions of the state) are in distressed status.

Local Government Capital Project Loan Fund

- Amount identified: \$2 million.
- Non-recurring
- Description: This fund helps municipal governments acquire equipment and facilities with low-interest loans. Revenue from loan repayments and interest are returned to the fund on a revolving basis.

Job Training Fund

- Amount identified: \$359,000.
- Department: Labor and Industry
- Description: Awards workforce education and job training assistance grants, with emphasis on rural counties (per statute).

Conflicts

- Some possible federal hurdles.

Programs

- While the Unemployment Compensation administration situation has recently precluded transfers to the Job Training Fund, the fund has supported a number of projects over the years in mostly rural regions, but also in some more populous areas.

Impacted Population

- Pennsylvanians who need job training, especially in rural counties.

Revenue Source

- Transfer from UC Special Administration Fund, although shortfalls for UC administration purposes have lead the department to not make transfers in recent years. No revenue was deposited in the fund in 15/16 and 16/17.

Balances

- No balance is needed in the fund. The program is stalled because of ongoing UC administration issues like the lack of Service Infrastructure and Improvement Fund (SIIF). These issues caused the transfers to be cancelled, so there is a minimal balance in the fund.

Industrial Development Fund

- Amount identified: \$47,000.
- Non-recurring
- Description: This fund is no longer active, but was used for loans to local industrial development agencies to boost economic activity in areas with high unemployment. No loan repayments are being credited to the fund.