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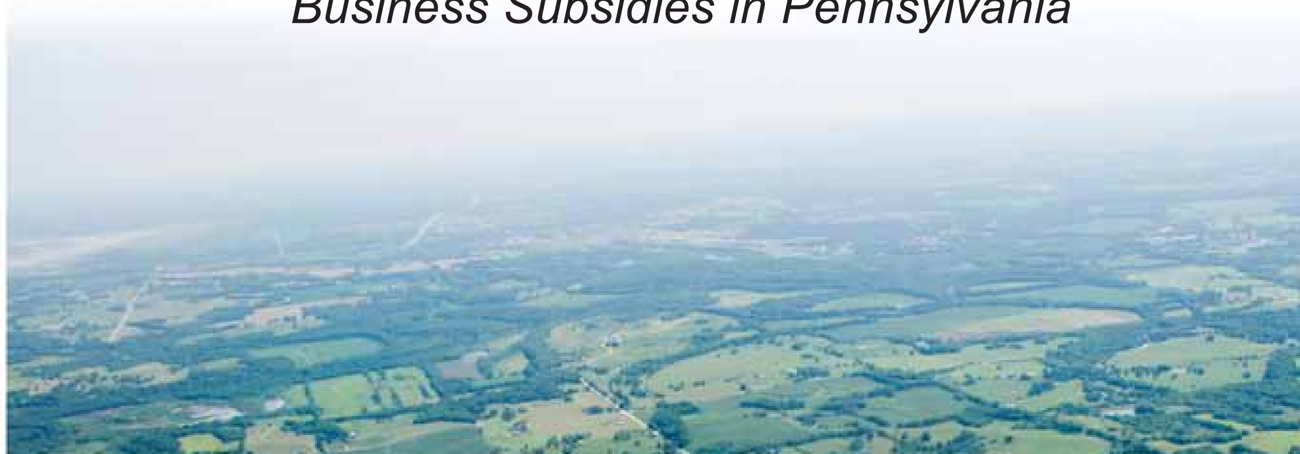
MAKING SMARTER STATE INVESTMENTS

The Geographic Distribution of Business Subsidies in Pennsylvania



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Keystone Research Center

About The Keystone Research Center

The Keystone Research Center (KRC) was founded in 1996 to broaden public discussion on strategies to achieve a more prosperous and equitable Pennsylvania economy. Since its creation, KRC has become a leading source of independent analysis of Pennsylvania's economy and public policy. Most of KRC's original research is available at **www.keystoneresearch.org**. KRC welcomes questions or other inquiries about its work.

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Executive Summary

The state of Pennsylvania currently gives out roughly $300 million dollars each year to attract businesses to Pennsylvania or retain existing ones. This report raises the question: does Pennsylvania invest these subsidies in the right places? The report analyzes where subsidies given out by three of the largest Pennsylvania business subsidy programs go, including the extent to which they go to older communities with existing infrastructure versus outlying communities.

This report replicates a 2003 study in which, as a subcontractor to the Brookings Institution, Keystone Research Center undertook the first-ever systematic examination of the geographical distribution of Pennsylvania business subsidies.[1] The earlier study analyzed subsidies given out in the nearly five years from July 1998 to May 2003. The present study covers a similar period of time, the five-and-a-half years from May 2003 to November 2008.

As before, we focus on three of the most important Pennsylvania Department of Community and Economic Development (DCED) business assistance programs: the Opportunity Grant Program (OGP), the Infrastructure Development Program (IDP), and the Pennsylvania Industrial Development Authority (PIDA) program.

In this new period, we track 1157 subsidies worth a total of $631.1 million. Our previous study examined 1333 business subsidies worth $719.5 million.

Our analysis examines dollars received by what Brookings defined as “older Pennsylvania” and “outer townships.” As the label implies, older Pennsylvania includes older municipalities, established for the most part before the 20th Century—cities, boroughs, and first-class townships. Outer townships, or newer parts of Pennsylvania, are the larger, less dense, second-class townships that comprise the rest of the state.

Continuing earlier trends, from 2000 to 2008 older Pennsylvania lost population, shrinking by about 320,000 people, or 4.4%. Meanwhile, outer areas gained 400,000 people (7.8%) in the same period. By 2008, 56% of the state’s population resided in older Pennsylvania, down from 58% in 2000.

Along with this statewide report, our new analysis of the geographical distribution of business subsidies includes two other components: short reports that highlight where subsidies go in Pennsylvania’s nine largest metropolitan areas; and an online interactive map showing the location of each business site receiving a subsidy, along with other available information on that subsidy. The map, accessible at www.keystoneresearchmap.org, also provides summary reports on all subsidies distributed to a municipality, metropolitan area, or school district. Interested readers can check out the reports for their part of the state and also user-defined maps for any region which interests them.

Only individuals at the regional level—such as economic developers, land-use planners, and advocates for smart growth—have the local knowledge needed to interpret and use the data here to greatest advantage. In every part of Pennsylvania, we hope our new data and subsidy map will be the start—more properly, a deepening—of the conversation about wise use of scarce public investments to strengthen communities, bolster regional economies, and protect natural assets. We hope these data whet people’s appetites for routine public disclosure of more comprehensive information that enable Pennsylvania to institutionalize smart investments.

Acknowledging the limits of our own ability to interpret local nuances, the rest of this report summarize the key findings observable based on comparison with our earlier analysis and based on comparison of different regions within the state.

1 Dennis Bellafiore, Stephen Herzenberg, Megan Myer, and Allan Rothrock, *Economic Development Subsidies in Pennsylvania: Do They Fuel Sprawl?* (Harrisburg: Keystone Research Center, 2003), online at **www.keystoneresearch.org/subsidies**. Readers can find in this original study additional detail on the economic development programs analyzed, the municipality types used in the analysis, and other background information.

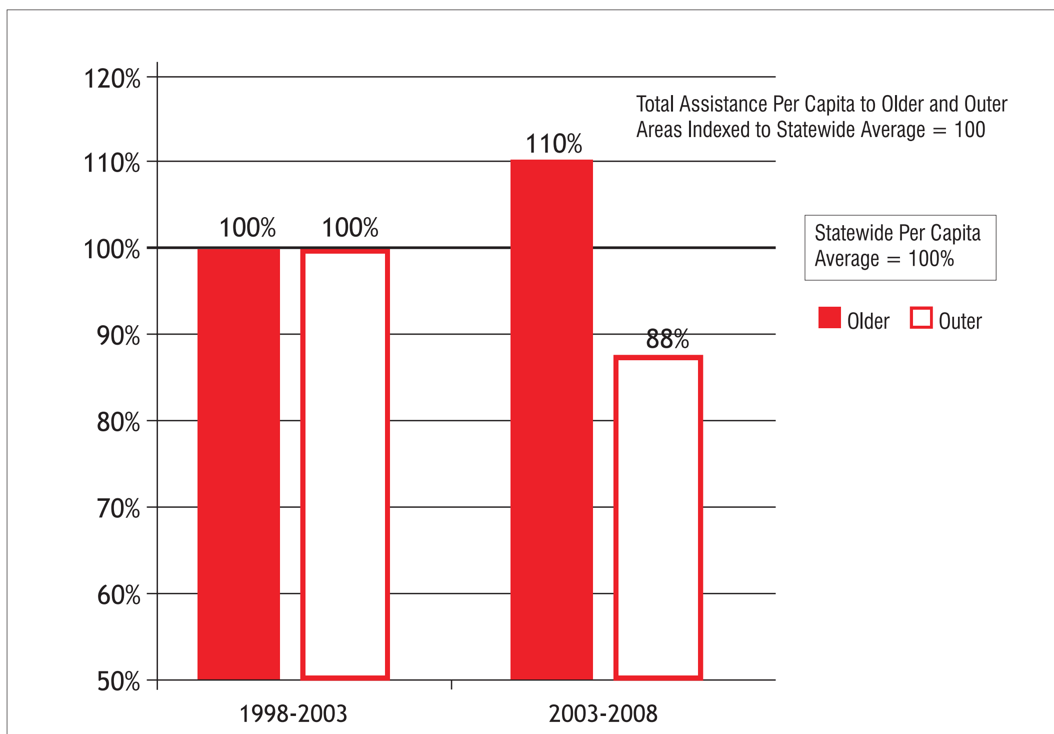
Findings: More Business Subsidies Now Go to Older Pennsylvania

Our previous analysis found that the geographic distribution of business subsidies was literally all over the map: from 1998 to 2003, Pennsylvania gave equal per capita subsidy amounts to outer areas and to older areas, about $58 per person. Our new analysis shows that Pennsylvania business subsidies distributed from 2003 to 2008 focus somewhat more on older communities.

Finding 1: More business subsidies per capita now go to older Pennsylvania.

- From 2003 to 2008, on a per capita basis, older areas received $1.25 for every $1 outer areas received.
- Compared to the statewide average, older Pennsylvania now receives 110% of the statewide average per capita compared to 88% for outer Pennsylvania (Figure 1). From 1998 to 2003, both older and outer Pennsylvania received exactly the statewide per capita average.

Figure 1. Older Pennsylvania Receives More Business Subsidies (Grants Plus Loans) in Recent Period Than in Prior Period

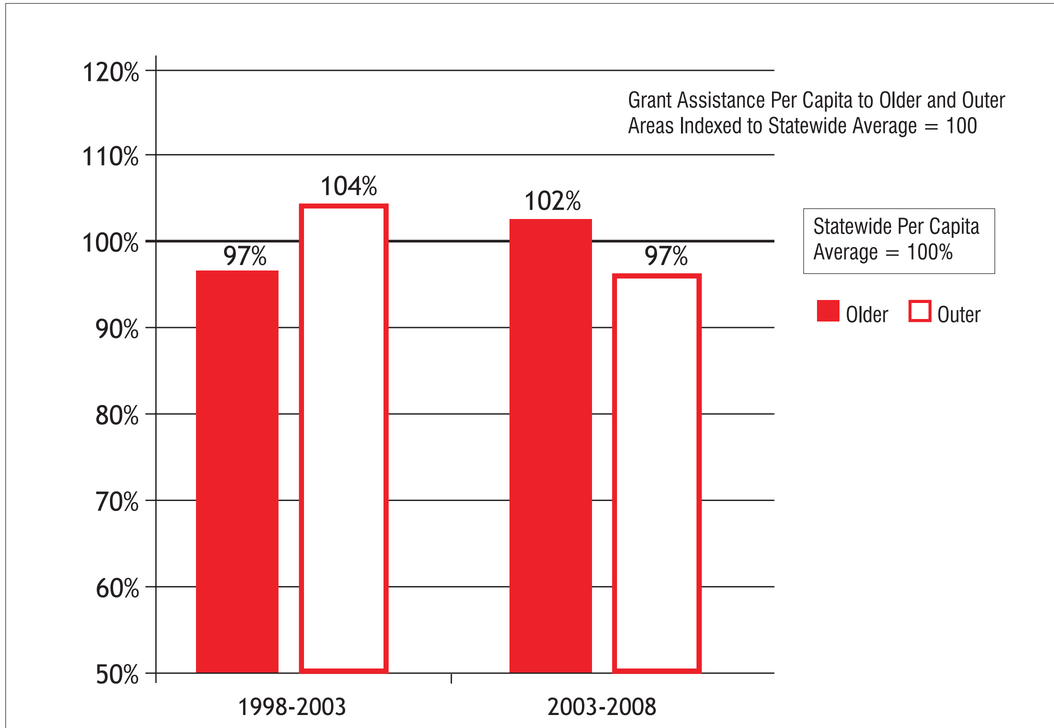


Source. Keystone Research Center (KRC), based on Department of Community and Economic Development (DCED) data, U.S. Census Data 2008 estimate available at http://www.census.gov/popest/cities/SUB-EST2008-5.html, other information from the Internet, and selected telephone confirmations of site addresses and municipalities

Finding 2: For both grants and loans considered separately, older communities now receive a higher share of assistance than in the earlier period.

Total business subsidy assistance is made up of grant plus loan assistance. Grant assistance is the most valuable because it doesn't have to be repaid.

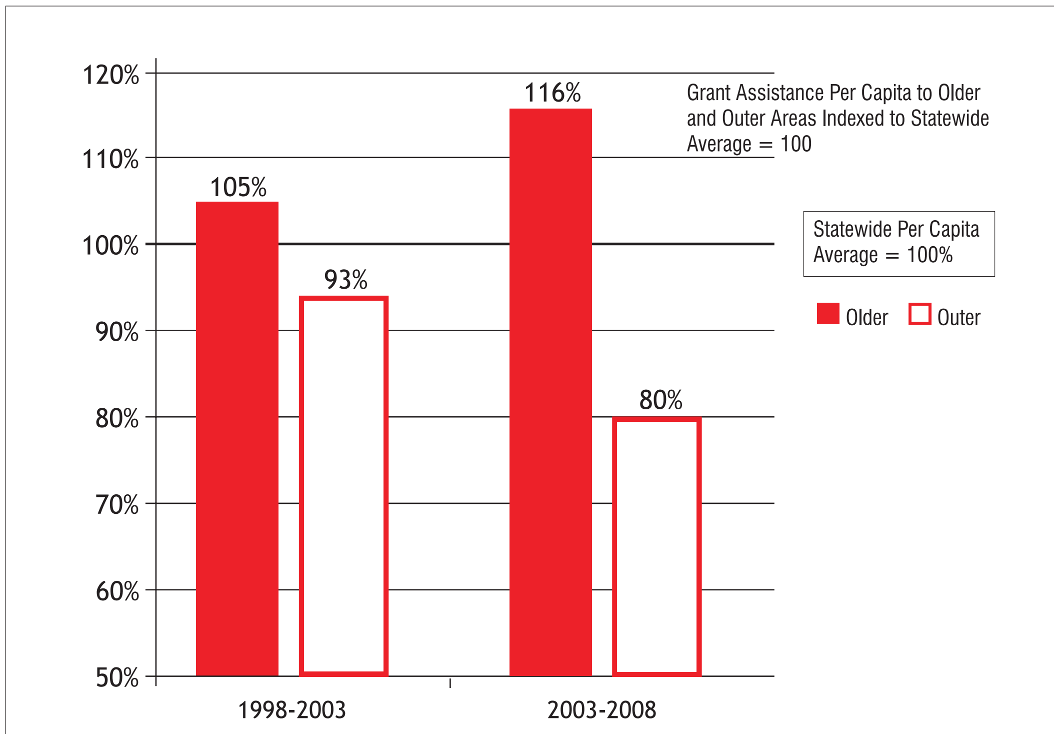
Figure 2. Older Pennsylvania Receives Slightly More Grant Dollars in Recent Period Than in Prior Period



Source. KRC, based on DCED data, U.S. Census Data 2008 estimate, other information from the Internet, and selected telephone confirmations of site addresses and municipalities

- In the earlier period (Figure 2), more grant assistance per capita went to outer areas. Now the reverse is true. Grant dollars per capita to older areas increased from 97% of the statewide average in the earlier period to 103% in the newer period (Figure 2). In dollar terms from 2003 to 2008, older areas received $23.47 per person in grants and outer areas received $22.10.
- Loan assistance to older communities increased from 105% of the statewide average in 1998 to 2003 to 116% in 2003-2008) (Figure 3). This means that older areas now receive almost one-and-a-half times as much per capita loan assistance as outer areas.

Figure 3. Older Pennsylvania Receives Substantially More Loan Dollars in Recent Period Than in Prior Period



Source. KRC, based on DCED data, U.S. Census Data 2008 estimate, other information from the Internet, and selected telephone confirmations of site addresses and municipalities

Finding 3: (a) Smaller metro areas and rural regions receive more business subsidies per capita and (b) these parts of the state also focus their investments more than large metro areas.

Looking at variations in the distribution of business subsidies within Pennsylvania, we first consider how patterns differ between the nine largest metro areas taken as a group and the “rest of the state” (smaller metro areas and rural regions). We find that:

(a) The three business assistance programs analyzed here are more generous to smaller metro areas and rural regions. From 2003 to 2008, this “rest of the state” area receives 44% more funds per capita than the nine largest metro areas as a group. From a policy point of view, this generosity is consistent with the idea than regions with higher unemployment deserve somewhat more assistance.

(b) The funds distributed to smaller metro areas and rural regions are also more focused on older areas than the funds distributed to Pennsylvania’s nine largest metro areas as a group.

- In the rest of the state, grant funds have a strong focus towards older areas—$41.52 per capita versus $23.29 per capita. By contrast, in the nine major metro areas, outer areas still receive slightly more grant assistance per capita: $21.54 versus $20.67 in the 2003 to 2008 period.
- Total assistance (grants plus loans) to older areas in the rest of the state has an even stronger focus on older Pennsylvania: $104.19 per capita versus $46.56 per capita to outer areas. These figures compare with $48.06 per capita to older areas in the nine major metro areas versus $43.38 to outer areas. Thus older parts of the rest of the state region receive more than twice the assistance per capita as older parts of the nine largest metro areas.

Our findings underscore that state policies supporting greater focusing of business subsidies are not in any way "hostile" to rural regions. Rural regions and smaller metro areas already meet a higher standard than currently in place for focusing business subsidy investments. This may be because these parts of the state face less development pressure than fast growing suburban and exurban markets.

Finding 4: Significant variation exists across major metropolitan areas in the geographical distribution of business subsidies.

We now consider variations in the distribution of business subsidies across Pennsylvania's nine largest metro areas. We find substantial differences.

- Erie and Reading stand out as metro areas in which investment of these subsidies is relatively focused. Erie and Reading (a) receive more state subsidies per capita than the statewide average, (b) direct substantially more of these resources (50% and 38% more, in Erie and Reading, respectively) on a per capita basis towards older communities, and (c) direct more grant resources, especially, to older communities.
- The Harrisburg-Lebanon-Carlisle metro area receives only roughly two-thirds of the statewide average from these programs but more of the limited grant funds received go to older communities.
- The Scranton-Wilkes-Barre-Hazleton metro area receives substantially more than the statewide per capita average from these programs but focuses its grant resource less on older communities than Erie and Reading.
- The Lehigh Valley receives about its per capita share from these programs and more than its share of grant funds. A disproportionate number of dollars, especially grant funds, go to outer parts of the Valley.
- The Pittsburgh and Philadelphia metro areas receive somewhat less than the statewide average from these programs, although Pittsburgh receives more than the statewide average of valuable grant funds. Both Pittsburgh and Philadelphia distribute comparable amounts of money to older and to outer areas, with Pittsburgh focusing its grant resources slightly better than average.
- Lancaster and York receive only about half and less than a third, respectively, of the statewide per capita average from these programs. In both metro areas, at least twice as many grant dollars per capita went to outer areas as to older areas. (Since these two areas receive only limited funds, one or two big projects can change the ratio of funds going to older versus outer areas.)

Based on our data, we ranked metro areas based on how much business subsidies are targeted to older communities. Erie ranked first, following by Reading, Harrisburg-Lebanon-Carlisle, Philadelphia, Scranton-Wilkes Barre-Hazleton, Pittsburgh and Lancaster (tied), York, and the Lehigh Valley (i.e., Allentown-Bethlehem-Easton as it is called by the Census Bureau).

Interpreting the Increased Focus of Business Subsidies

The fact that older communities from 2003 to 2008 received 25% more assistance on a per capita basis than outer areas represents a significant change in a relatively short period of time. Interviews suggest that this shift partly reflects increased buy-in within the economic development community to the idea that subsidies should focus, when possible, on already-developed areas with existing infrastructure.

State government's commitment to focusing investment on older communities is expressed explicitly in the "Keystone Principles," adopted by the interagency "Economic Development Cabinet on May 31, 2005. Some local economic developers, for their part, note that subsidies should focus on older communities that most need jobs and also note that they try to steer potential businesses to brownfield sites when they can.

Local economic developers also suggest that our analysis may underestimate how targeted investments of business subsidies are. Their reasoning is our reliance on municipality types and municipal boundaries to denote "older" and "outer" areas. Local officials contend that some parts of second-class townships are already developed and can be targets for "smart" investments (e.g., in Lancaster and York). Similarly, some parts of "older Pennsylvania" are pristine and should not be targets for subsidies.

How much economic developers embrace the idea that business subsidies should focus on older communities varies by individual and also remains a qualified one even for stronger advocates of targeting.

- Many economic developers subscribe to the view that areas must have business sites of all types available, including greenfield locations, so that businesses which will not be steered to older communities can still locate in the region.
- OGP grants—the subsidies which state officials reportedly influence most—still tilt slightly more on a per capita basis to outer Pennsylvania.
- Within the largest nine metro areas, as we have seen, outer areas still receive more grant funds on a per capita basis than older areas.

Reinforcing the Shift to Smarter Subsidy Investments

To build on the progress documented here, we have two simple recommendations.

First, strengthen public disclosure regarding where business subsidies go. To further focus public investments, policymakers, economic developers, and land-use planners need the type of information presented in this report for all business subsidies (not just these three programs). (Ultimately, similar disclosure and transparency should exist for all state economic development, infrastructure, and transportation investments.) Currently, even though DCED provides more information online than most states, constructing the data set for just the three programs analyzed here proved time-consuming and expensive. The biggest single reason was that information on addresses of the business site receiving funds was not available online. Moreover, address information supplied by DCED in response to written requests was not always reliable. Site addresses and other essential information should be available via an online data base that is easy to download and suitable for research analysis.

Routine public release of comprehensive spatial data and its uploading to an online map would substantially enrich dialogue among economic developers, planners, other civic leaders, and the public about where funds should go. Over time, it should support wiser use of public funds.

Second, the state and regions should strengthen the preferences in the distribution of funds given to locations consistent with the Keystone Principles. Some regions, including Montgomery County, already do this with funds that they control. The state could generalize this approach by further modifying the scoring systems used to rate competing proposals for funds. Alternatively, the state could block grant business subsidy assistance to counties or regions which submit economic development plans that meet a set of criteria that ensure wise local distribution of funds. These criteria should include that regional or county plans designate growth areas and/or specify how the region will ensure focusing of subsidies on places with existing infrastructure accessible to public transit.

Introduction

Since the 1970s, debate has intensified on the causes and consequences of "sprawling" development and land-use patterns. In Pennsylvania, sprawl combines slowly growing population with the consumption of previously undeveloped land at rates that far exceed population growth. Between 1982 and 1997, for example, Pennsylvania's population grew 2.5% but its urbanized footprint grew by 47% percent.[2] Population in previously developed cities, towns, and inner suburb has declined, while poverty has become more concentrated, joblessness grown, and schools, families, and communities struggled. Other consequences of sprawl include more traffic congestion, air and water pollution, loss of critical wildlife habitat, and paved surfaces that diminish the replenishment capacity of underground water reserves (or "aquifers").

One dimension of the land-use debate concerns whether public spending on roads, infrastructure, and economic development contribute to sprawl. If they sometimes do, a follow-up question is whether public policy reform could shift the distribution of these public dollars in ways that more powerfully combat sprawl, strengthen regional economies, and revitalize older communities.

Despite increased public attention to land-use issues and the decline of older communities, little systematic data currently exist on the geographic distribution of public infrastructure and economic development spending.

This report and its 2003 predecessor begin to fill the data vacuum for Pennsylvania on the geographical distribution of business subsidies. Both reports examine projects funded by three major Pennsylvania Department of Community and Economic Development programs: the Opportunity Grant Program (OGP), the Infrastructure Development Program (IDP), and the Pennsylvania Industrial Development Authority (PIDA) Program.

This report is being released in conjunction with metropolitan-specific reports that highlight the distribution of business subsidies in nine Pennsylvania metropolitan areas. It is also being released in conjunction with an updated interactive web-based map that allows viewers to pull up user-defined maps showing subsidies in their region, county, municipality, or school district (www.keystoneresearchmap.org).

Three Business Subsidy Programs

Each year for the past decade, Pennsylvania spends about $300 million in traditional subsidies—direct grants, low-interest loans, and tax breaks that benefit individual businesses in exchange for creating or retaining jobs in Pennsylvania.[3] Three of the largest Pennsylvania business subsidy programs are the Opportunity Grant program (OGP), the Infrastructure Development program (IDP), and the Pennsylvania Industrial Development Authority (PIDA) program. On average, IDP, PIDA, and OGP accounted for about 30% of the $300 million total for traditional subsidies and about 10% of the state's entire annual spending on economic and community development of about $1 billion.

IDP, OGP, and PIDA provide assistance for projects promising specific number of new jobs created or, in a few cases, retained at a specific business location. Other major Pennsylvania economic development programs—such as Customized Job Training, Ben Franklin Technology Centers, and Industrial Resource Centers—assist existing Pennsylvania companies by subsidizing, respectively, worker training, product innovation, and operational improvements. Assistance from these "grow-your-own" programs is not directly tied to job creation or retention.

2 Brookings Institution, *Back to Prosperity: A Competitive Agenda for Renewing Pennsylvania* (Washington, DC: Brookings Institution), 2003, p. 10, online at http://www.brookings.edu/es/urban/pa/executivesummary.pdf. *Back to Prosperity* provides a comprehensive overview of sprawl and the decline of older communities over time.

3 The $300 million figure is based on state spending over the past decade in the "traditional subsidy" category. See Maria Cristina Herrera, Stephen Herzenberg, and Michael Wood, *Good Jobs, Strong Industries, a Better Pennsylvania: Towards a 21st Century State Economic Development Policy* (Harrisburg: Keystone Research Center, 2010), online at www.keystoneresearchcenter.org.

As a result of the amount of assistance OGP, IDP, and PIDA give out and the link of this assistance to job creation, they are a sensible starting point for analysis of the spatial implications of Pennsylvania economic development programs.

The Pennsylvania Industrial Development Authority (PIDA) is the “granddaddy” of all Pennsylvania traditional subsidy programs.[4] It was created in 1956 and distributes low-interest loans via local non-profit industrial development corporations (IDCs) to businesses that commit to creating and/or retaining jobs and to IDCs themselves for the development of industrial parks and multi-tenant facilities. Funds can be used for acquisition, renovation, expansion or new construction of land and building. There are three categories of PIDA loans: job creation and retention loans; multi-occupancy loans (to finance facilities that will house two or more unrelated PIDA-eligible tenants), and industrial park loans.

Loans for job creation and retention are limited to 30–50% of the land and building costs and are capped at $1.25 million for a single project. The cap is $1.75 million if the project meets a special designation such as brownfield or KOZ. Interest rates are fixed at three levels based on the level of unemployment. Businesses are eligible that engage in manufacturing; warehouse and distribution centers; agri-business; computer or clerical operation centers; office buildings used as national or regional headquarters; research and development facilities, or are a Keystone Innovation Zone (KIZ) Company.

Act 1996-116, the Infrastructure Development Act, created the **Infrastructure Development Program**, providing grants and loans for public and private infrastructure improvements. In practice, almost all IDP funds distributed are grants, which must be used for publicly owned infrastructure improvements. A typical IDP grant might help pay for water and sewer line installation, or road and rail access to a new or expanding industrial site.

Eligible businesses may engage in agricultural activities, industrial activities (e.g., warehouse and terminal facilities, certain office buildings), manufacturing, research and development, and export service industries. In addition, virtually any for-profit business is eligible for an IDP award if it is on a business site (including a retail or office site) unoccupied and unused for at least one year prior to the IDP application date.

IDP has spatial criteria that guide the allocation of subsidies. No more than 10% of the available funds are to be loaned or granted for greenfield projects not involving private companies. (The Pennsylvania Legislative Budget and Finance Committee (PLB&FC) defines greenfield property is “land which has never been used for other than agriculture, forestry, or recreation.”) Additionally, a minimum of 20% of IDP funds must be loaned or granted for projects on former industrial sites. To be eligible for assistance, the private company benefitting from the infrastructure improvements must:

- Create within five years from the project completion date a minimum of 10 full-time equivalent jobs;
- Create at least one full-time equivalent (FTE) job for every $25,000 of assistance;
- Contribute at least $2 of private match for every $1 of assistance;
- Demonstrate that the infrastructure improvements are necessary for the efficient and cost-effective operation of the company or for the successful marketing of the facility: and,
- Show that the project would not be possible without the assistance.

To see the full IDP guidelines, visit www.newpa.com.

The Job Enhancement Act of 1996 established the **Opportunity Grant Program**. The program was established for the purpose of “securing job-creating economic development projects through the preservation and expansion

4 The summary here of the PIDA, IDP, and OGP is adapted from the summary in Bellafiore et al., *Economic Development Subsidies in Pennsylvania: Do They Fuel Sprawl?* See also the current guidelines for the three programs, online at www.newpa.com. See, further, Pennsylvania Legislative Budget and Finance Committee (PLB&FC), Department of Community and Economic Development Programs: A Performance Audit in Response to Act 1996-58 (Harrisburg: PLB&FC, 2000). The discussion of PIDA is on pp. 54-70; of IDP is on pp. 28-35; and of OGP is on pp. 46-54.

of existing industry and the attraction of economic development prospects to the Commonwealth of Pennsylvania." OGP funds may be used flexibly to pay for whatever businesses need, including training, site preparation, construction, infrastructure, land acquisition, purchase of machinery and equipment, working capital, environmental assessments, and remediation of hazardous materials. OGP was created based on the idea that it suits knowledge-based firms whose intellectual property cannot serve as collateral for loans. By contrast, traditional loan programs work better for manufacturing companies that have physical capital that can be used as collateral for a loan.

The same categories of companies are eligible for OGP grants as IDP subsidies. Also eligible for OGP grants are municipalities, industrial development authorities/agencies, municipal or redevelopment authorities, and real estate developers developing business locations for more than one company. Unlike IDP, OGP has no spatial criteria which guide investments towards older areas.

OGP is often used in conjunction with the big and most publicized business recruitment and retention deals in the state. Economic development practitioners report that the identification of OGP recipients is relatively centralized, with state government officials and their key business contacts often helping to identify target companies. By contrast, industrial development corporations and other local intermediaries (lawyers, accountants) play a larger role in identifying candidates for PIDA loans. IDP is considered "in the middle" between OGP and PIDA in terms of the role of state government in identifying target companies for subsidies.

Methodology

Our analysis examines dollars received by what Brookings defined as "older Pennsylvania" and "outer townships." As the label implies, older Pennsylvania includes older municipalities, established for the most part before the 20th Century—cities, boroughs, and first-class townships. Outer townships, or newer parts of Pennsylvania, are the larger, less dense, second-class townships that comprise the rest of the state.

By definition, to become first-class townships municipalities must have a population density of at least 300 people per square mile. About 99% of first-class townships currently have at least this population density. About 13% of second-class townships also meet the density requirements to be eligible to be a first-class township but have

Our previous study analyzed subsidies distributed by OGP, IDP, and PIDA from July 1, 1998 to May 7, 2003. The present study analyzes subsidies given out from May 8, 2003 to November 17, 2008. Our newer data base was gathered from the DCED Investment Tracker (http://www.dced.state.pa.us/investmenttracker/). On two occasions we also received data directly from DCED.[5] For all but 2008, the Investment Tracker included the municipality of the business site where subsidy monies would be used. A modification to the Investment Tracker in 2008 removed the municipality of the business site. In none of the period covered was the street address of the business site listed on the Investment Tracker site.

To fill in missing municipality information and street addresses, KRC researchers used state and local press releases, business and industry databases, Google searches, Google map/earth, and in some cases phone calls to the business to confirm the address for existing sites or at a minimum the municipality for planned sites. The address information was geo-coded using a commercial service to arrive at the site's latitude/longitude value. Table 1 describes our database and shows that we identified the municipality of the project in 100% of the cases and the address of the business site in 83% of the cases.

5 We requested data from DCED initially because our download from the Investment Tracker was missing the address of the business site and, for 2008, the municipality of the business site. When we made our second request to DCED, we shared our now-augmented data base with the agency with the goal of having it validate the addresses and any municipalities we had filled in or changed. We found, however, that the addresses we got back from DCED were not consistently accurate. When this second set of addresses conflicted with other information that we had (some of it from the Investment Tracker, some from the first request to DCED, and some from it from our own detective work), we used web sources, occasional telephone calls, and our own judgment to settle on the address of the business site. Throughout the process, DCED was cooperative and responsive. Our exchanges with DCED convinced us that the agency has on hand almost all of the critical information needed for effective disclosure and that a modest effort to clean up the information and share it with the public in slightly more usable forms could make Pennsylvania the national leader in economic development transparency.

Table 1. Profile of KRC Data Base on IDP, OGP, and PIDA Grants and Loans, May 7, 2003 - November 17, 2008

	Infrastructure Development Program	Opportunity Grant Program	PA Industrial Development Authority Program	All Three
Number of Projects	177	630	350	1157
Amount of Assistance (millions of dollars)	$122.4	$170.6	$338.0	$631.1
Percent of Projects for which Site Address Identified	70%	88%	81%	83%
Percent of Projects for which Municipality Identified or Inferred (to nearest percent)	100%	100%	100%	100%
Percent of Assistance for which Municipality Identified or Inferred (to nearest percent)	100%	100%	100%	100%

Source. KRC, based on DCED data, other information from the Internet, and selected telephone confirmations of site addresses and municipalities

Box 1. Municipalities in Pennsylvania

This report examines the distribution of business subsidies in Pennsylvania to four types of municipalities: cities, boroughs, first-class townships and second-class townships.

According to the Pennsylvania Manual of the Department of General Services, as of 2007 there were 56 cities, 959 boroughs, 91 first-class townships and 1456 second-class townships in the Commonwealth. The number of local government units has remained fairly stable during the past few decades. However, at the time of our earlier report in 2003, there were four more boroughs and one more second-class township than there are today. Therefore, to enable comparison of data across the two periods, we used the municipal makeup of the earlier period.

Cities: There are 56 cities in Pennsylvania ranging from small towns of 800 residents to Philadelphia with over 1.5 million people. Together, 3 million people live in all the cities of Pennsylvania. About 2.7 million live in cities that fall within the state's nine largest metropolitan areas (see also Table 1).

Boroughs: There are 959 boroughs in Pennsylvania ranging from just a few residents to towns of considerable size. The population of Pennsylvania boroughs is just under 2.5 million, nearly 20% of the total state population.

First-Class Townships: The 91 first-class townships are urban areas, ordinarily located around the state's metropolitan centers—"inner ring suburbs" —with a population of 1,490,783, representing 12% of the state population.

Taken together, cities, boroughs, and first-class townships make up what we, following the Brookings Institution, call older Pennsylvania. Collectively, older Pennsylvania accounts for 56% of the state population.

Second-Class Townships: The 1,456 second-class townships in Pennsylvania are more heavily rural areas with a total population of 5,515,696 in 2008 or about 44% of the state population.

Box 2. A Web-based Business Subsidy Map

The KRC web-based map (www.keystoneresearchmap.org) constructed in conjunction with our prior report, and repopulated for this one, takes a first step towards improving transparency by combining all readily available information into a single publicly accessible and easy-to-use data set.

When we unveiled the map in 2003, Neal Pierce, in a nationally syndicated column, described the map as “a delicious example of computer-armed reform advocates not only tracking down closely held data, but making it transparent and accessible by new digital technology.”

The KRC subsidy map was also the subject of a cover story, “Sprawl of the Wild,” in the June 2004 issues of the magazine *Government Technology*. In that article, Abe Amoros, deputy press secretary for Governor Ed Rendell, said “This definitely helps us out tremendously…We need to identify what the problems are, and clearly the [Keystone GIS] map points to many troubling policies that seem to have accelerated sprawl.”

One advantage of the KRC map is that it can track down all business assistance to a company (from these three programs) because the search feature looks in all data fields in response to a request. As a result, it finds subsidies connected with a company regardless of whether the company applied for the funds. By contrast, when intermediaries such as economic development assistance agencies apply on behalf of companies. the DCED Investment Tracker may not identify those companies as receiving any assistance. For example, if you click on the 1998-2003 period on the KRC web site, and search for Sheetz, you get information on four business subsidies. On the DCED Investment Tracker entering Sheetz pulls up no information.

Table 2 shows the population share in older and outer municipalities across the state’s nine largest metropolitan areas as well as statewide. In the state as a whole, there was a significant shift in population between 2000 and 2008.

- From 2000 to 2008, older areas lost 4.4% of their population (about 320,000 people) and outer areas grew by 7.8% (about 400,000 people).
- As a result, 56% of the Pennsylvania population is now in older areas versus 58% in 2000.
- The greatest percentage change in population occurred in Allentown-Bethlehem-Easton (the Lehigh Valley), which went from being 68% in older areas in 2000 to being 60% in older areas in 2008. Older areas in the Lehigh Valley lost 62,000 people while outer areas gained 52,000.

Table 2. Distribution of Population, by Municipality Type, In Nine Metropolitan Areas, 2008

A. Population (Number)

	Municipal Type					
	City	Borough	Township 1st Class		Township 2nd Class	Total
Municipal Classification	Old	Old	Old	Older PA Sub-total	Outer PA	
Allentown-Bethlehem-Easton (ABE)	205,571	127,343	84,073	416,987	281,347	698,334
Erie	110,124	28,455	3,687	142,266	136,909	279,175
Harrisburg-Lebanon-Carlisle (HLC)	71,245	121,237	141,951	334,433	325,609	660,042
Lancaster	54,626	94,846	36,294	185,766	316,604	502,370
Philadelphia	1,495,583	432,047	677,963	2,605,593	1,286,601	3,892,194
Pittsburgh	492,071	659,055	410,607	1,561,733	720,669	2,282,402
Reading	80,506	78,321	38,793	197,620	205,975	403,595
Scranton-Wilkes Barre-Hazleton (S-WB-H)	161,851	208,533	29,218	399,602	214,552	614,154
York	40,097	71,422	55,013	166,532	258,051	424,583
Nine Metros	2,711,674	1,821,259	1,477,599	6,010,532	3,746,317	9,756,849
Rest of PA	274,399	646,685	13,139	934,223	1,769,379	2,703,602
Total	2,986,073	2,467,944	1,490,738	6,944,755	5,515,696	12,460,451

B. Population (Percent Shares by Municipal Type)

	City	Borough	Township 1st Class	Older PA Sub-total	Township 2nd Class	Total
Allentown-Bethlehem-Easton (ABE)	29%	18%	12%	60%	40%	100%
Erie	39%	10%	1%	51%	49%	100%
Harrisburg-Lebanon-Carlisle (HLC)	11%	18%	22%	51%	49%	100%
Lancaster	11%	19%	7%	37%	63%	100%
Philadelphia	38%	11%	17%	67%	33%	100%
Pittsburgh	22%	29%	18%	68%	32%	100%
Reading	20%	19%	10%	49%	51%	100%
Scranton-Wilkes Barre-Hazleton (S-WB-H)	26%	34%	5%	65%	35%	100%
York	9%	17%	13%	39%	61%	100%
Nine Metros	28%	19%	15%	62%	38%	100%
Rest of PA	10%	24%	0%	35%	65%	100%
Total	24%	20%	12%	56%	44%	100%

Source. U.S. Census Data 2008 estimate available at http://www.census.gov/popest/cities/SUB-EST2008-5.html

Statewide Findings

The Geographic Distribution of Subsidy Dollars by Program

Table 3 contains summary statistics for Pennsylvania as a whole regarding the geographic distribution of economic development assistance from the IDP, OGP, and PIDA programs between May 2003 and November 2008.

Table 3. Geographic Distribution of Economic Development Assistance from the IDP, OGP, and PIDA Programs in Pennsylvania as a Whole, May 7, 2003 - November 17, 2008

Municipality Type	City	Borough	Township 1st Class		Township 2nd Class		Not Listed	All
Brookings Municipal Classification	Old	Old	Old	Older PA Sub-total	Outer PA Sub-total	Outer & Older PA		
Amount of Assistance (millions of $)								
IDP	$46	$24	$6	$77	$46	$122	$0	$122
Loan	$4	$2	$0	$6	$2	$8	$0	$8
Grant	$42	$23	$6	$71	$44	$114	$0	$114
OGP	$51	$26	$15	$92	$79	$171	$0	$171
PIDA	$135	$64	$19	$218	$120	$338	$0	$338
Loan	$115	$57	$18	$190	$111	$301	$0	$301
Industrial Park	$5	$3	$1	$9	$5	$14	$0	$14
Multi	$15	$4	$0	$19	$4	$23	$0	$23
All Three Programs	$231	$115	$40	$386	$245	$631	$0	$631
Percent of Projects								
IDP	36%	19%	3%	58%	42%	100%	0%	100%
Loan	2%	1%	0%	3%	2%	5%	0%	5%
Grant	34%	18%	3%	55%	40%	95%	0%	95%
OGP	25%	20%	10%	55%	45%	100%	0%	100%
PIDA	34%	19%	7%	61%	39%	100%	0%	100%
Loan	29%	17%	7%	53%	37%	90%	0%	90%
Industrial Park	1%	1%	0%	2%	1%	3%	0%	3%
Multi	4%	1%	0%	5%	1%	6%	0%	6%
All Three Programs	29%	20%	8%	57%	43%	100%	0%	100%
Percent of Assistance								
IDP	38%	20%	5%	63%	37%	100%	0%	100%
Loan	3%	1%	0%	5%	2%	7%	0%	7%
Grant	34%	18%	5%	58%	36%	93%	0%	93%
OGP	30%	15%	9%	54%	46%	100%	0%	100%
PIDA	40%	19%	6%	64%	36%	100%	0%	100%
Loan	34%	17%	5%	56%	33%	89%	0%	89%
Industrial Park	1%	1%	0%	3%	2%	4%	0%	4%
Multi	5%	1%	0%	6%	1%	7%	0%	7%
All Three Programs	37%	18%	6%	61%	39%	100%	0%	100%

Source. KRC, based on DCED data, other information from the Internet, and selected telephone confirmations of site addresses and municipalities

Table 3 reveals the following patterns.

- PIDA and IDP allocate nearly two thirds of their funds to older Pennsylvania, 64% and 63% in 2003 to 2008, up from 60% and 59% in the 1998-2003 period.
- OGP continues to have a more tilt to outlying areas, investing only 54% of its funds in older Pennsylvania.
- Approximately 61% of dollars overall were invested in older Pennsylvania from 2003-2008 as opposed to 58% in 1998-2003. While this seems like a small shift, when combined with the population shift in the opposite direction—towards outer Pennsylvania—this change in the distribution of dollars towards older municipalities is more significant.

Per Capita Distribution of Loan and Grant Assistance

We now turn our attention from the absolute amount of dollar assistance going to different areas to the assistance per person (or per capita). When looking at communities with vastly different populations, examining assistance per capita makes comparisons much more meaningful than simply looking at absolute dollar amounts.

Figure 1 (in the Executive Summary) shows total assistance (grant plus loan assistance) per capita to older and outer Pennsylvania. Figures 2 and 3 break out grant and loan assistance separately. In practice, grant assistance is essentially IDP plus OGP assistance (with the only exception being two IDP loans) and loan assistance is essentially all PIDA assistance (with the only exception this time being the addition of the two IDP loans).

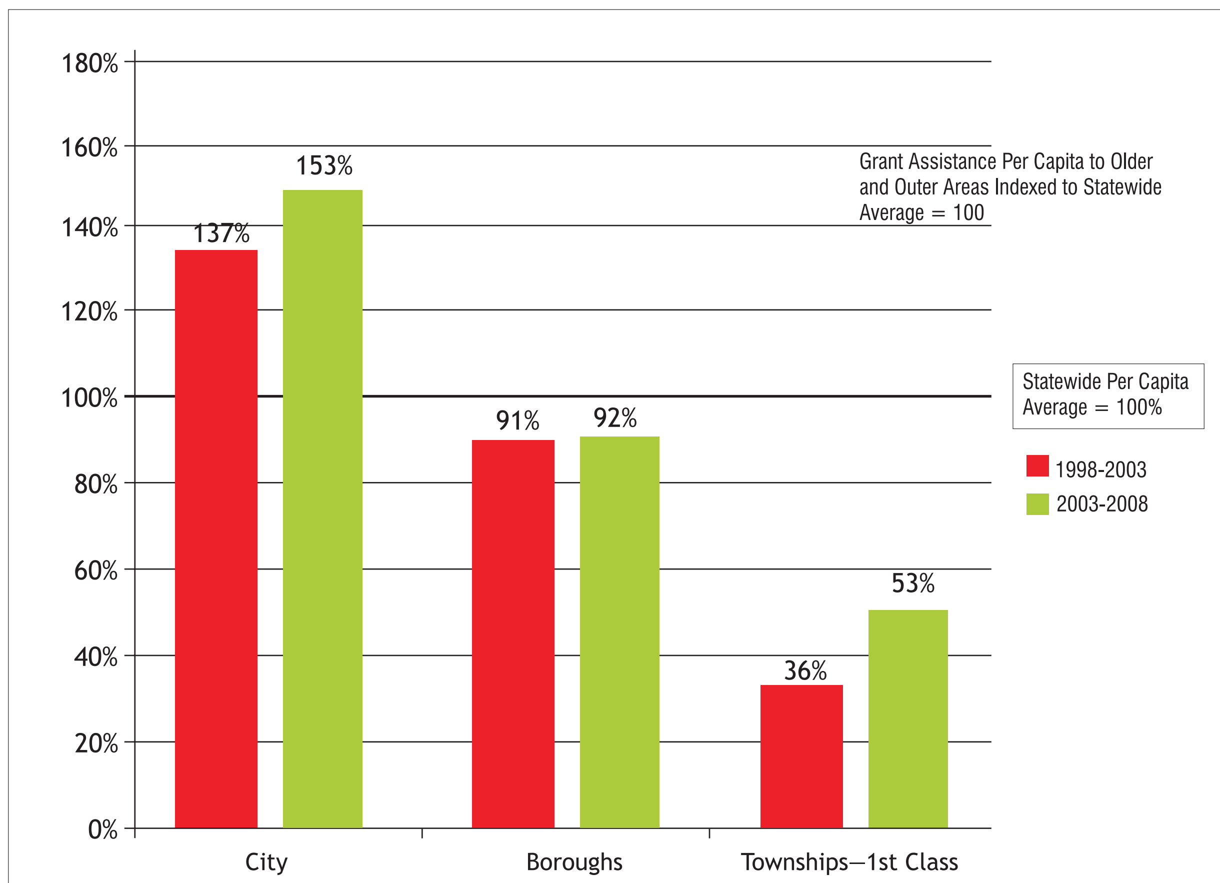
Figure 1 demonstrates the shift in total assistance from equal per capita distribution of business subsidies to older and outer areas (in 1998-2003) to more focused distribution of funds to older areas in the 2003-2008 period. Per capita, older areas across the state receive business subsides at 110% of the statewide average (statewide average = 100%), compared to 100% in the earlier period. Outer areas now receive 88% of the statewide average compared to 100% in the earlier period.

Figure 2 shows a shift in grant subsidies towards older areas. From 2003- to 2008, older communities received 103% of the statewide per capita average in grant funds, up from 97% in the first five-year period.

Figure 3 shows that loan assistance to older communities increased to 116% of the statewide average in 2003-2008, up from 105% in the earlier period. Outer areas receive smaller per capita loan allocations than older areas in both periods: 80% of the statewide average in the recent period and 93% in the earlier period.

For the period of the present study and our prior report, Figure 4 shows assistance per capita as a percent of the statewide average for the three parts of older Pennsylvania: cities, boroughs and first-class townships. Within older Pennsylvania, cities and first-class townships receive substantially more assistance relative to the statewide average in 2003-2008 than in 1998-2003.

Figure 4. Cities and First-Class Townships Receive Higher Share of Business Subsidies in Recent Period



Source. KRC, based on DCED data, U.S. Census Data 2008 estimate, other information from the Internet, and selected telephone confirmations of site addresses and municipalities

Policy Matters

The fact that PIDA and IDP assistance focuses more heavily on older communities is not an accident but a reflection of public policy: both PIDA and IDP guidelines include provisions that lead to focusing assistance on older communities. OGP does not.

PIDA guidelines give explicit preference to older communities in two ways; 1) the rate at which PIDA lends is based on the unemployment rate of the area where the project is located, giving older areas (which tend to have high unemployment) a more preferential interest rate; and 2) state and federal enterprise zones and communities, Act 47 municipalities (i.e., fiscally distressed municipalities, which are almost all in older Pennsylvania), federal empowerment zones, brownfield sites and KOZ sites can receive up to $250,000 more than non-designated sites.

IDP program guidelines also provide special consideration for “targeted communities” that overlap many of the characteristics given preference in PIDA guidelines. Conversely, the OGP program, which makes up 60% of grant dollars in our analysis, has no preference for older communities in its guidelines.

Findings by Region and Metropolitan Area

Having examined trends statewide in subsidy assistance to older and outer Pennsylvania, we now turn our attention to the distribution of business subsidies within Pennsylvania's nine largest metropolitan areas and within the "rest of the state" region consisting of smaller metro areas and rural regions. Table 4 presents information on total assistance per capita to each major metro area and the rest of the state, broken down by municipality type and into older and outer Pennsylvania. Tables 5 and 6 present the same information for grants and loans separately.

The Generosity and Targeting of Business Subsidies in Smaller Metro Areas and Rural Pennsylvania

Tables 4-6 show that the three business assistance programs analyzed here are more generous to smaller metro areas and rural regions than to the nine major metro areas as a group. From 2003 to 2008, smaller metro areas and rural regions received 44% more funds per capita than the nine largest metro areas as a group. From a policy point of view, this generosity is consistent with the idea that regions with higher unemployment deserve somewhat more assistance.

Interestingly, and counter to some conventional wisdom, within smaller metro areas and rural regions business subsidies are highly targeted to older areas. Even grant funds in the more rural parts of the state have a strong focus towards older areas—$41.52 per capita going to older parts of rural areas versus $23.29 per capita going to outer parts. By contrast, in Pennsylvania's nine major metro areas, outer areas still receive slightly more grant assistance per capita: $21.54 versus $20.67 in the 2003 to 2008 period.

Total assistance (grants plus loans) in smaller metro areas and rural regions has an even stronger focus on older Pennsylvania: $104.19 per capita versus $46.56 per capita to outer areas. These figures compare with $48.06 per capita to older areas in the nine major metro areas versus $43.38 to outer areas. Thus older parts of the rural regions receive more than twice the assistance per capita distributed to older parts of the nine largest metro areas.

Our findings underscore that state policies supporting greater focusing of business subsidies are not in any way "hostile" to rural regions. Rural regions and smaller metro areas already focus their business subsidy investments relatively well. One contributing explanation may be that smaller metro regions and rural areas have come increasingly to value their older small towns as economic and quality-of-life assets. They may target more economic development assistance to shoring up the established town centers that they do have. It may also be that these parts of the state face less development pressure than fast growing suburban and exurban markets.

The Generosity of Business Assistance by Major Metro Area

Table 4 shows that total per capita support from our three business subsidy programs differs widely across metropolitan areas. The Erie metro area receives nearly double the state per capita average (198%), while Lancaster receives only half of the state per capita average (52%), and York receives less than a third of the state per capita average (30%). The per capita assistance to metro areas correlates highly (correlation coefficient equals 0.83) with the rate of unemployment: regions with higher average unemployment during the 2003-08 period received more assistance per capita. The relationship between unemployment rate and per capita business subsidy assistance is a strong one: each one percentage point increase in average unemployment rate over the 2003-08 period led to an increase in total assistance per capita of 70 percentage points relative to the state average assistance per capita. (Thus, if an area with a 4% average unemployment rate received 50% of the state average assistance per capita, an area with 5% average would receive 120%, and an area with a 6% average unemployment rate would receive 190%.)

Grant assistance patterns by metro area are similar to total assistance patterns (Table 5). Scranton-Wilkes-Barre-Hazleton received 187% of the state per capita average in grant assistance, while Lancaster received only 36% of the state per capita average. Cities within most regions receive high levels of grant assistance, except for Philadelphia, York, and Lancaster, which received 52%, 49%, and 21%, respectively, of the state per capita average in grant assistance. Across the metro areas from 2003 to 2008, the correlation was even higher (0.9) between grant assistance per capita and average unemployment rate.

Table 6 considers loan assistance separately from grant assistance for the nine metro areas. Erie receives the highest share of loan assistance, at 259% of the state average. York received the lowest level of per capita loan assistance, 10% of the state average.

Table 4. IDP, OGP, and PIDA Assistance Per Capita, by Municipal Classification and Metro Area, as Percent of PA Average, 2003-2008*

		Metropolitan Area											
Municipal Type	Classi-fication	A-B-E	Erie	H-L-C	Lancaster	Philadelphia	Pittsburgh	Reading	Scranton-WB-H	York	Nine Metros	Rest of PA	PA Average
City	Old	104%	229%	120%	101%	111%	199%	199%	167%	78%	137%	312%	153%
Borough	Old	41%	101%	19%	26%	73%	52%	232%	132%	0%	68%	158%	92%
Township 1st Class	Old	58%	1232%	93%	0%	41%	39%	57%	215%	4%	50%	346%	53%
	Older PA Sub-total	75%	230%	72%	43%	87%	95%	184%	153%	20%	95%	206%	110%
Township 2nd Class	Outer	130%	166%	64%	58%	68%	97%	123%	143%	36%	86%	92%	88%
Total	Outer & Older	97%	198%	68%	52%	80%	96%	153%	149%	30%	91%	131%	100%

**Note*. Numbers shown equal entries from Table B1 (in Appendix B) divided by the bottom right-hand corner of Table B1 times 100 (which converts to a percent of the statewide average).
Source. KRC, based on DCED data, U.S. Census Data 2008 estimate, other information from the Internet, and selected telephone confirmations of site addresses and municipalities

Table 5. Grant Assistance Per Capita, by Municipal Classification and Metro Area, as Percent of PA Average, 2003-2008*

		Metropolitan Area											
Municipal Type	Classi-fication	A-B-E	Erie	H-L-C	Lancaster	Philadelphia	Pittsburgh	Reading	Scranton-WB-H	York	Nine Metros	Rest of PA	PA Average
City	Old	155%	137%	109%	21%	52%	257%	254%	195%	49%	116%	333%	136%
Borough	Old	22%	31%	41%	20%	104%	77%	99%	152%	0%	80%	105%	87%
Township 1st Class	Old	33%	2728%	97%	0%	40%	50%	28%	238%	8%	56%	766%	62%
	Older PA Sub-total	90%	183%	79%	16%	57%	126%	148%	176%	14%	90%	182%	103%
Township 2nd Class	Outer	171%	64%	58%	48%	74%	120%	78%	209%	80%	94%	102%	97%
Total	Outer & Older	123%	125%	69%	36%	63%	124%	112%	187%	54%	92%	129%	100%

**Note*. Numbers shown equal entries from Table B2 (in Appendix B) divided by the bottom right-hand corner of Table B2 times 100 (which converts to a percent of the statewide average).
Source. KRC, based on DCED data, U.S. Census Data 2008 estimate, other information from the Internet, and selected telephone confirmations of site addresses and municipalities

Table 6. Loan Assistance Per Capita by Municipal Classification and Metro Area, as Percent of PA Average, 2003-2008*

		Metropolitan Area											
Municipal Type	Classi-fication	A-B-E	Erie	H-L-C	Lancaster	Philadelphia	Pittsburgh	Reading	Scranton-WB-H	York	Nine Metros	Rest of PA	PA Average
City	Old	62%	305%	129%	167%	161%	152%	154%	145%	102%	155%	294%	167%
Borough	Old	57%	158%	0%	30%	47%	31%	342%	116%	0%	58%	201%	96%
Township 1st Class	Old	77%	0%	91%	0%	41%	31%	81%	196%	0%	45%	0%	45%
	Older PA Sub-total	64%	268%	66%	64%	111%	69%	214%	134%	24%	99%	226%	116%
Township 2nd Class	Outer	96%	250%	69%	66%	62%	77%	161%	89%	0%	79%	84%	80%
Total	Outer & Older	77%	259%	67%	65%	95%	72%	187%	118%	10%	91%	133%	100%

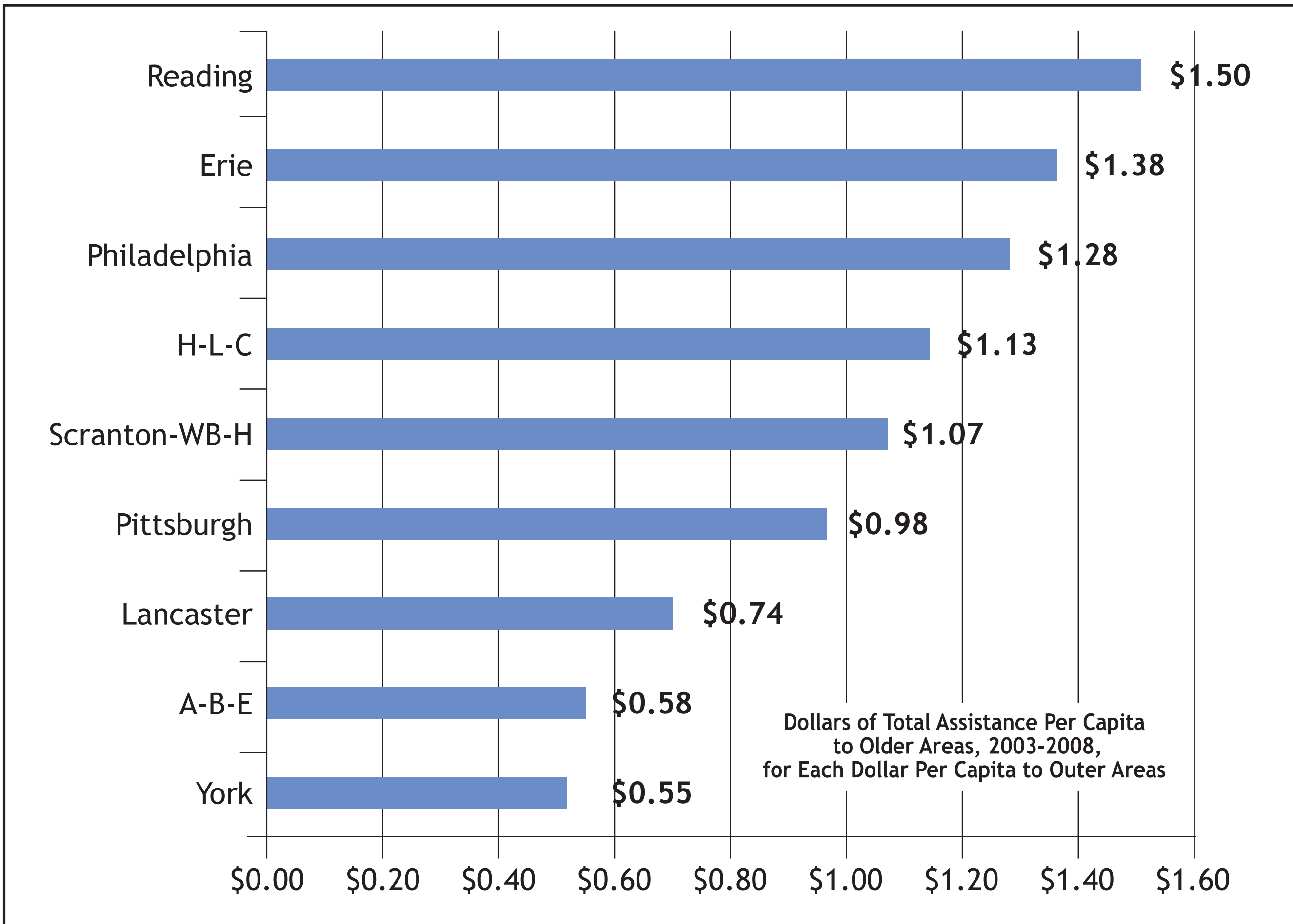
**Note*. Numbers shown equal entries from Table B3 (in Appendix B) divided by the bottom right-hand corner of Table B3 times 100 (which converts to a percent of the statewide average).

Source. KRC, based on DCED data, U.S. Census Data 2008 estimate, other information from the Internet, and selected telephone confirmations of site addresses and municipalities

Distribution of Economic Development Assistance Within Metro Areas

Within metro areas, substantial variation exists in the geographic distributions of economic development assistance. To make it easier to see this, Figure 5 shows the tilt of total assistance per capita to older versus outer areas within each of Pennsylvania's nine major metropolitan areas from 2003 to 2008 (i.e., the figure shows, for each dollar per capita that went to outer areas, how much assistance per capita went to older areas).

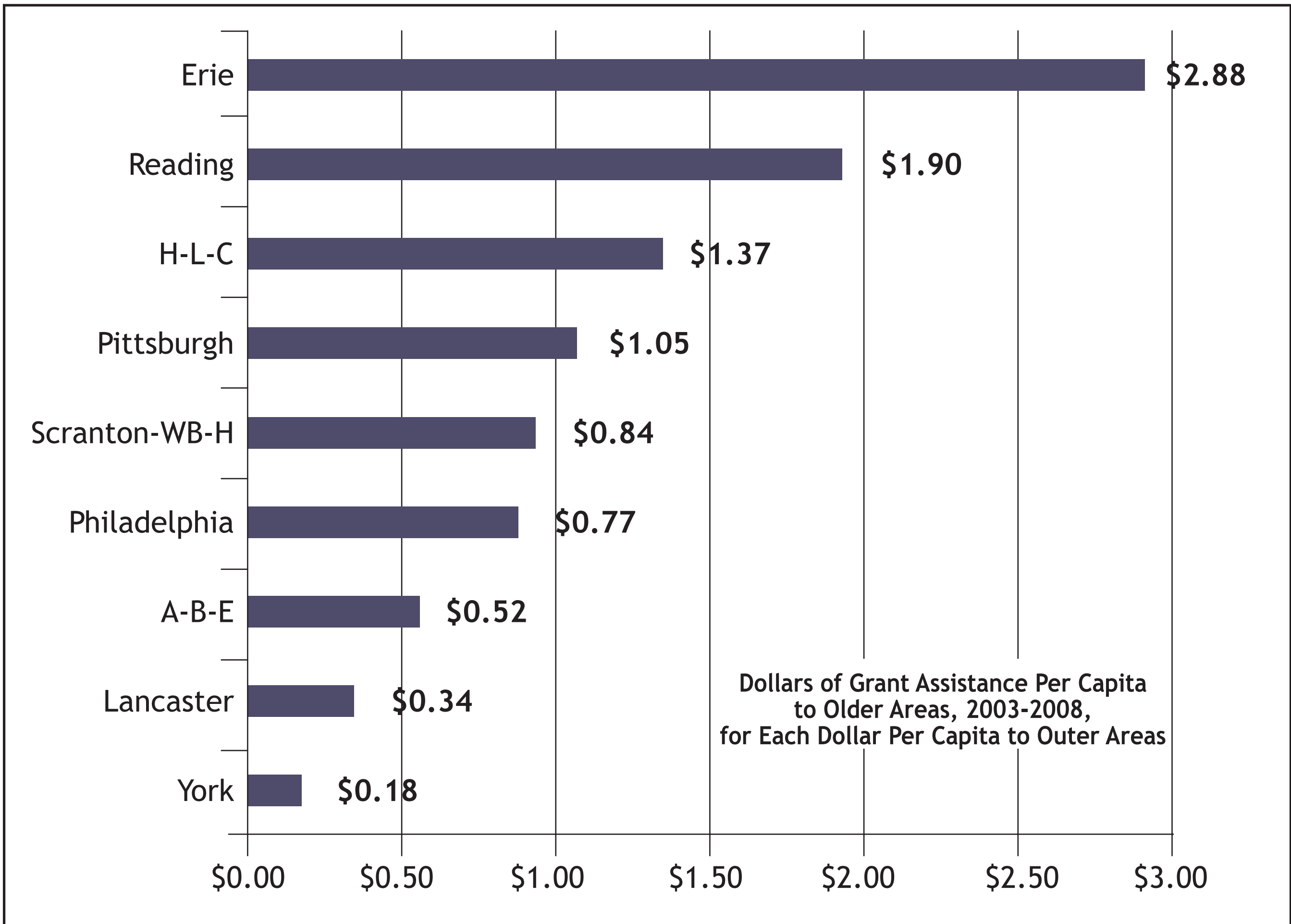
Figure 5. Reading and Erie Invest More Total Assistance (Grants Plus Loans) in Older Areas Than Other Metros



Source. KRC, based on DCED data, U.S. Census Data 2008 estimate, other information from the Internet, and selected telephone confirmations of site addresses and municipalities

Figure 6 shows the number of grant dollars per capita that went to older portions of each metro region for each grant dollar per capita to outer portions of the same metro area.

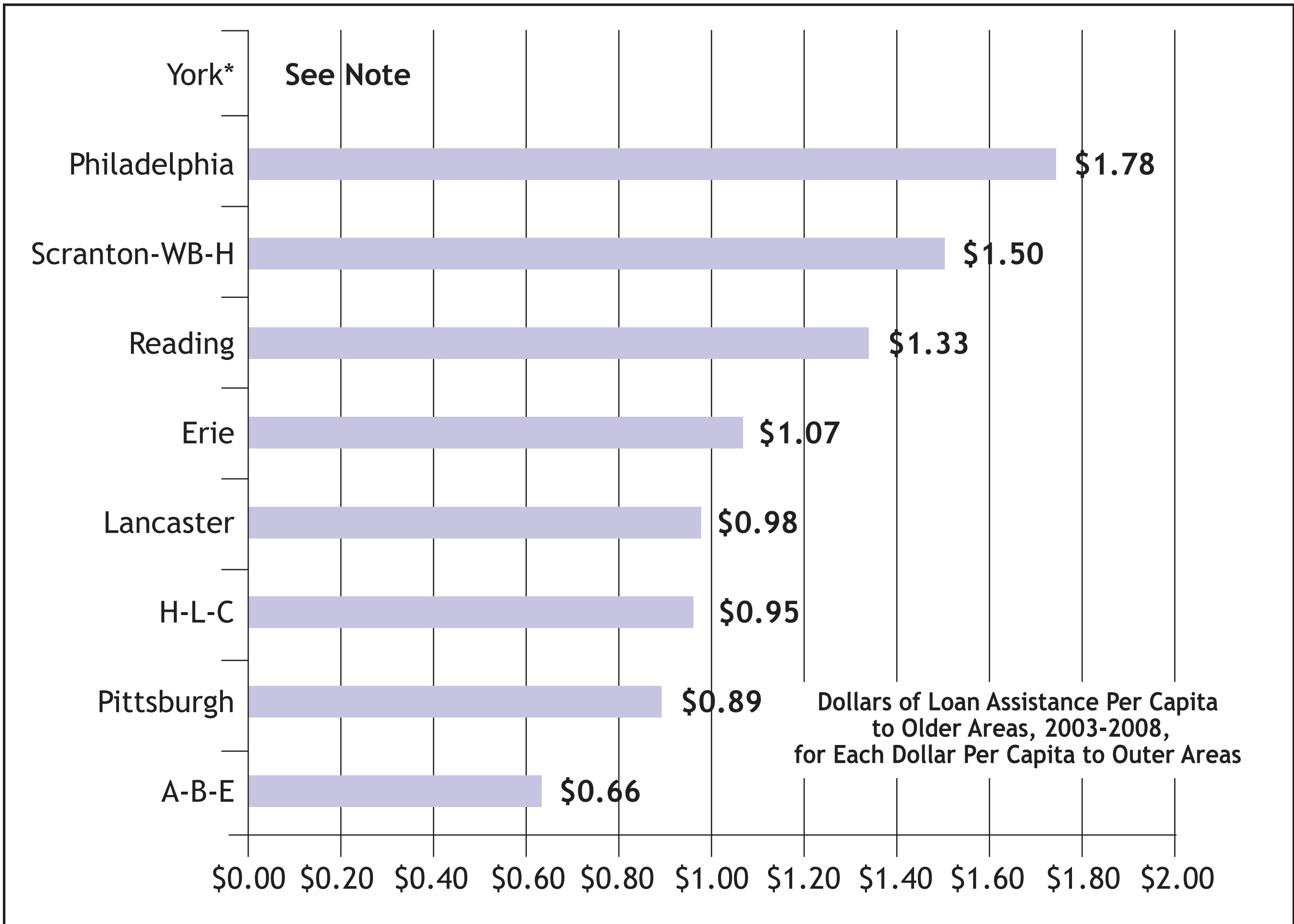
Figure 6. Erie, Reading and Harrisburg Invest Significantly More Grants in Older Areas Than Other Metros in the Recent Period



Source. KRC, based on DCED data, U.S. Census Data 2008 estimate, other information from the Internet, and selected telephone confirmations of site addresses and municipalities

Lastly, Figure 7 shows the ratio of loan dollars per capita that went to old portions of each metro region for each dollar per capita to new portions of the same metro area.

Figure 7. Philadelphia, Scranton and Reading Invest More Loans in Older Areas Than Other Metros in Recent Period



Note. York distributed $6.80 in loan assistance per person to older areas and zero to outer areas.

Source. KRC, based on DCED data, U.S. Census Data 2008 estimate, other information from the Internet, and selected telephone confirmations of site addresses and municipalities

Having conducted extensive pre-release briefings on our findings with regional economic developers, planners, and smart growth advocates, we know that the data summarized in Figures 5-7—and presented in detail on the subsidy map at www.keystoneresearch.org—cannot be interpreted fully without local knowledge. We hope the information presented here and on the subsidy map can contribute do a deepening of ongoing conversations about how state funds should be targeted. This information should help local actors see more transparently the patterns of the past and consider whether there is a need to change the distribution of assistance in the future,

It is also importance to acknowledge when interpreting metro differences that the Brookings distinction between outer and older Pennsylvania is a crude one. Some parts of outer communities are already developed and may be appropriate areas for subsidy investment. Some parts of older communities remain pristine and should not be the target of economic development subsidies. As one step beyond the

hard analytical distinction between outer and older Pennsylvania, the subsidy map does make it possible to see whether subsidies to outer areas (second-class townships) are focused on small parts of outer areas close to “older Pennsylvania” or more literally all over the map (i.e., scattered randomly within large patches of green—outer Pennsylvania).

Having outlined the importance of not over-interpreting metro data without local knowledge, we will now summarize the trends displayed in Figures 5-7, sticking very close to our data.

- Erie and Reading stand out as metro areas which receive large amounts of per capita assistance and in which both overall and grant assistance are focused on older areas.
- The Harrisburg-Lebanon-Carlisle metro area and the Philadelphia areas receive less assistance per capita than Erie and Reading and also focus their overall investment on older communities but much less so than Erie and Reading. Philadelphia’s tilt of overall assistance to older areas is based on more loan funds per capita going to cities in the region but more grant funds per capita going to outer areas.
- The Pittsburgh metro area receives a little bit below the state per capita average from these subsidy programs but receives more than the state per capita average of grant funds. Pittsburgh also focuses its grant resources slightly more on older areas than average.
- The Scranton-Wilkes-Barre-Hazleton metro area receives substantially more than the state per capita average from these business subsidy programs but focuses its grant resource less on older communities than Erie and Reading.
- The Lehigh Valley receives about its per capita share from these programs and more than its share of grant funds. A large share of the funds, especially grant funds, goes to outer parts of the Valley. (These generalization about the distribution of subsidies in the Valley are true whether the Valley is defined as people in the region define it, to include Lehigh and Northampton Counties, or defined as it is in the tables in this report (as the Pennsylvania portion of the Census Bureau’s Allentown-Bethlehem-Easton (ABE) metro area, which includes Carbon County as well as Lehigh and Northampton.) Online can be found two metro reports for the Lehigh Valley, one including Lehigh and Northampton Counties and the other including Carbon County as well.)
- Lancaster and York receive only about half and less than a third, respectively, of the statewide per capita average from these programs. In both metro areas at least twice as many grant dollars per capita go to outer areas as to older areas. (Since these two metro areas receive only limited funds, one or two big projects can change the ratio of funds going to older versus outer areas.)

Based on these trends, we constructed a ranking showing how much business subsidies are targeted to older communities. As Table 7 (next page) explains more fully, this ranking takes into consideration the ratio of loan funds per capita going to older versus outer areas; the ratio of grant funds per capita going to older versus outer areas; and the absolute amount of grant funds per capita going to outer areas (for this indicator, the lowest number is ranked 1). We double weight the second factor because of the high value of grant funds.

Our earlier study of business subsidies distributed from 1998 to 2003 allows us also to go beyond a static view of the distribution of business subsidies in each area to examine trends over time.

- In both the 2003-2008 period and the earlier period, Erie, Harrisburg, Reading and Scranton distributed more funds per capita to older areas than outer areas.
- In the Philadelphia metro region in 2003-2008, there was a substantial increase in ratio of total per capita funds going to older versus outer ratios—from 0.68 to 1.28. This shift may reflect the salience of anti-sprawl and smart growth sentiment in the region, and the embrace of smart growth principles in some economic development circles.

Table 7. Ranking Nine Pennsylvania Metropolitan Areas Based on Business Subsidy Targeting to Older Communities

	Rank for:				
	(A) Loan Funds Per Capita to Older Versus Outer Areas (Figure 7)	(B) Grant Funds Per Capita to Older Versus Outer Areas (Figure 6)	(C) Grant Funds Per Capita to Outer Areas (Table 5) (Lowest Number Ranks 1)	(D) Sum of Ranks, double weighting the second indicator (A + 2B + C)	Overall Rank (lowest number in column D ranks 1; highest number ranks 9)
Erie	5	1	3	10	#1
Reading	4	2	5	13	#2
Harrisburg	7	3	2	15	#3
Philadelphia	2	6	4	18	#4
Scranton-Wilkes-Barre-Hazelton	3	5	9	22	#5
Pittsburgh (tie)	8	4	7	23	#6
Lancaster (tie)	6	8	1	23	#6
York	1	9	6	25	#8
Allentown-Bethlehem-Easton	9	7	8	31	#9

Note. Each metro area's composite rank is based on its rank for the ratio of loan funds per capita going to older versus outer areas; its ranks for the ratio of grant funds per capita going to older versus outer areas (double-weighted because of the importance of grant funds); and its rank for the absolutely amount of grant funds per capita going to outer areas (for this indicator, the metro area with the *lowest* number is ranked 1).

Source. KRC, based on DCED data, U.S. Census Data 2008 estimate, other information from the Internet, and selected telephone confirmations of site addresses and municipalities.

- In Pittsburgh, similar amounts of funds per capita went to older and outer Pennsylvania in both periods. Also in both periods, Pittsburgh allocated grant funds to older areas more than loan funds, a reverse of the pattern in the state as a whole, and more advantageous for older areas.
- In both periods, older areas in the Lehigh Valley received less funds per capita than outer areas.
- Lancaster went from distributing more money to older areas—a 10:1 ratio in 1998 to 2003 on a per capita basis—to distributing more funds per capita to outer areas. Local officials attribute this shift to heavy investment in parts of some second-class townships that have been targeted for development. A glance at the online subsidy map does show that the subsidies to outer parts of Lancaster County are mostly clustered closely together near to older parts of Lancaster County.
- York in both time periods received relatively small per capita amounts of business subsidies, almost all of them from the OGP program. While these funds tilt towards second-class townships, local officials say they are focused on already developed areas, including within industrial parks.

Behind the Numbers— The Shift to Smarter Investments

What explains the shift in the geographical distribution of business subsidies from 2003 to 2008 compared to the previous five years? Interviews with local economic developers and state policymakers suggest that part of the explanation is buy-in to the idea that economic development funds should focus on older communities when businesses can find sites that meet their needs.

Local economic developers give a number of overlapping reasons for supporting investment in older communities. First, despite their challenges, Pennsylvania's cities, boroughs, and older townships are increasingly seen as having critical assets—such as walk-able communities, attractive historic neighborhoods, and access to amenities—that, properly nurtured, can attract and retain young people and skilled professionals and managers. Second, Pennsylvania's natural beauty—its undeveloped forests, rivers, and farmlands—is also seen increasingly as an economic asset. Both outlying areas and older communities thus share a common interest in focusing state investments on existing communities—this is not town vs. country but town and country seeking to define and promote development that allows both areas to remain attractive and viable. Third, some economic developers (e.g., in York, Harrisburg-Lebanon-Carlisle, and Erie) are active within civic groups that see concentrated poverty in older cities as significant problems that state resources, including business subsidies, should seek to address. Fourth, economic developers in cities often view business subsidies, as well as tax incentives and community investments, as playing a vital role in bringing brownfield sites in older communities back into the economy and restoring much-needed tax base to the rolls.

In some localities, such as Montgomery County, just outside Philadelphia, the embrace of the idea that economic development assistance should be targeted to older communities is explicit. The county's recently developed strategic economic development plan targets funds to older communities in general and sets aside $40 million out of $105 million in funds just for the County's two most challenged towns (Norristown and Pottstown). (The Montgomery County economic development program manual is online at http://www2.montcopa.org/planning/cwp/view,a,3,q,71807.asp.)

At the state level, too, Pennsylvania has explicitly embraced the idea of focusing public dollars, including economic development funds, on older communities. This is reflected in the Keystone Principles, adopted by the Rendell administration in 2005. Two of the Keystone Principles, in particular, highlight the importance of targeting public funds to older communities and places that can utilize existing infrastructure (the full text of the Keystone Principles can be found online at www.newpa.com)

1. Redevelop first—Support revitalization of cities and towns by giving funding preference to reuse and redevelopment of "brownfield" and previously developed sites.

2. Provide efficient infrastructure—Fix it first: use and improve existing infrastructure. Make highway and public transportation investments to improve existing developed areas.

Significant differences of opinion remain within the economic development community, and between some economic developers and smart-growth advocates, regarding how much business subsidies should focus on older communities. Many economic developers, for example, subscribe to the view that every region must have business sites of all types available, including greenfield locations, so that businesses which will not be steered to older communities can still locate in the area. Related to this, there remains a strong view that major businesses that promise to bring significant numbers of new jobs to Pennsylvania should be given subsidies wherever they want to locate. In other words, and notwithstanding the Keystone Principles, there is not a consensus that businesses that want to locate on previously undeveloped land should be denied assistance. This reality is consistent with data showing that OGP grants, which tend to get used to land the biggest fish, are still distributed almost as much on a per capita basis to outer Pennsylvania as to older Pennsylvania.

Reinforcing the Shift to Smarter Investments

As the Brookings Institution documented in its 2003 report, reversing the multiple pressures contributing to the decline of older Pennsylvania communities will take a comprehensive approach across multiple policy areas. This sobering observation is underscored by the continuing population loss over the past decade in older Pennsylvania.

The shift to more focused investment of state business subsidy dollars is an important step in the right direction. The state could build on this progress in two simple ways.

1. **Improve disclosure.** Since the mid-1990s, DCED has made considerable strides improving its database on economic development assistance and making data accessible to the public via the Investment Tracker. Additional upgrades of what the state collects and makes publicly available could make Pennsylvania a leader in the tracking of the geographic impact of economic development programs. Building on the Investment Tracker, Pennsylvania should make publicly available the following information on all businesses receiving state business breaks or tax breaks:

    a. The address of the business site where assistance will be used.

    b. The land use characteristics of the site prior to development.

    c. The industrial classification of the business.

    d. Job quantity and quality (the latter measured by wage levels and whether the company provides health insurance).

    e. Information on the prior location of the business and whether any Pennsylvania operations were transferred or jobs lost when the new site was established.

    With the state providing technical assistance to facilitate collection, the same information should be available on local subsidies and tax breaks.

    Information on business subsidies and tax breaks should be available on the Investment Tracker and should also be easy to download into a data base so that researchers and the public can conduct their own independent analysis of state and local business subsidies.

2. **Give greater preference for subsidies to locations consistent with smart growth criteria.** The state and its regions should strengthen the preferences in the distribution of funds given to locations consistent with the Keystone Principles. The state could do this by further modifying the scoring systems used to rate competing proposals for funds. Alternatively, the state could block grant business subsidy assistance to counties or regions which submit economic development plans that meet a set of criteria that ensure wise local distribution of funds. These criteria should include that regional or county plans designate growth areas and/or specify how the region will ensure focusing of subsidies on places with higher rates of joblessness, existing infrastructure, and accessible to public transit.

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