POLICY BRIEF

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Abate and Switch—Another PA Development Strategy?

Almost forgotten amid the hand-wringing of Monroeville officials over the loss of the Westinghouse Electric Co. to Cranberry Township in Butler County is the cost to local and state taxpayers. But when have taxpayers been taken into account when companies ask for a subsidy? Elected officials in the Commonwealth have made an art form of finding ways to bestow public funds on corporations who seek taxpayer assistance.

This latest case adds another new wrinkle. Instead of directly handing money to Westinghouse the state created a special economic development district that will offer the company a tax-free environment for the next fifteen years. The state will funnel the benefits to Westinghouse through the Strategic Development Area (SDA) program. This program was created in 2005 to be used at the Governor's discretion. He can create up to four areas around the Commonwealth, but must do so by September 30, 2007. A company locating in an SDA will be exempt from an array of taxes including local property taxes, corporate net income tax, capital stock and franchise tax as well any sales and use tax incurred. Westinghouse estimates it will save up to $3 million per year from these abatements. This seems low given all the taxes that will not be paid, assuming the company is profitable and has substantial taxable assets under the provisions of the capital stock and franchise tax.

It is believed this program was created specifically for Westinghouse. Obviously, the company would have reaped its benefits regardless of whether they stayed in Monroeville or moved to Cranberry. Ironically, the company will "save" less in total property taxes in Cranberry than it would have in Monroeville.

To date only one SDA, in Philadelphia, has actually been created by executive order. Westinghouse will be the beneficiary of the second one, assuming that Butler County, Cranberry Twp., and the Seneca Valley School District approve. If any taxing body declines to participate, the SDA is voided. That seems extremely unlikely.

The disingenuous nature of this deal is contained in the opening paragraph of the statute that created the SDA: "There exists in this Commonwealth, areas of economic distress characterized by high unemployment, low investment of new capital, inadequate dwelling conditions, blighted conditions, underutilized, obsolete or abandoned industrial, commercial and residential structures and deteriorating tax bases. These areas require coordinated efforts by private and public entities to restore prosperity…"

Neither Cranberry, one of the fastest growing areas in Western Pennsylvania, nor Monroeville, the economic and business hub of eastern Allegheny County, qualify in any meaningful way as "economically distressed". In fact, Cranberry has instituted growth controls —hardly the actions of a distressed community. This is clearly not a municipality where the state needs to "restore prosperity" as called for by the statute. Real estate experts estimate the land value for the new site to be worth up to $28.7 million for the 82 acres being purchased for the project. The value of this land is inconsistent with the intent of the SDA program which is ostensibly designed to encourage companies to locate in economically distressed areas.

If state officials actually intended to help distressed communities, they would have insisted that Westinghouse move to McKeesport, Duquesne, Clairton, or another truly distressed area. That would have kept the jobs in the region just as surely as a move to Cranberry. There are plenty of brownfield sites around Western Pennsylvania that could have accommodated Westinghouse and many of the communities would have welcomed them with open arms. In fact, the state already has a program, the Keystone Opportunity Zone program (KOZ), which offers similar incentives to the SDA program. Why not simply amend the KOZ law to allow the 15 year abatement program to begin at the time of the move into the zone?

Besides the fact that the state is not even following its own guidelines, there is the nagging question of whether or not Westinghouse was really going to leave as state officials have insinuated, at least in one big, complete move. It seems highly unlikely given the extremely specialized workforce they employ. The nearly 3,000 people, many with hard to replace skills and with an average salary of $70,000, are not readily found just anywhere. Thus, Westinghouse would have had to pay to relocate much of their current workforce—a move that would have likely cost the company tens of millions of dollars.

This was more about corporate welfare than revitalizing a distressed community. Unfortunately, this is how economic development gets done in Pennsylvania. Instead of lowering tax rates, cutting red tape, and ameliorating the hostile labor climate, politicians have resorted to subsidies and abatements to any company that wants to relocate in or threatens to move out of the state. And in this case, the aid is targeted at areas that really don't need it. As these companies are exempted from paying taxes, those without sufficient clout will continue to shoulder a growing tax burden.

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