



**ALLEGHENY INSTITUTE**  
FOR PUBLIC POLICY

HOPING FOR GROWTH:  
AN ANALYSIS OF GOVERNMENT ECONOMIC  
DEVELOPMENT EXPENDITURES

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## Summary and Key Findings

Pennsylvania and the Pittsburgh region are at a virtual standstill when it comes to growth in population and jobs. To cure this problem, the public sector has aggressively used taxpayer dollars as venture capital to "grow the economy". Expenditures at the state level are large, but the benefits are far from matching the outlays. Nevertheless, the Governor is pushing a plan that relies on the state and its related agencies to be the primary driver of economic growth in the state.

This report finds that:

- From 1993 to 2002, total state expenditures on economic development increased 337 percent and stood at \$1.2 billion in 2002.
- Funding for the Pittsburgh region from the state's Redevelopment Assistance Capital Budget exceeded \$388 million from 1992 to 2002. Almost half of this amount went to fund professional and amateur sports facilities.
- In the 1997-98 fiscal year, Pennsylvania spent more on economic development than 46 other states.
- In 2001, \$19 million in state funding was awarded to several large projects in Southwestern Pennsylvania, most of which have yet to produce the jobs they were projected to create.
- Regional leaders have presented the state with a request of \$267 million to fund various projects in Southwestern Pennsylvania. If these projects are approved, taxpayers will be funding retail venues, a hotel for the new convention center, upscale housing, and other cultural and recreational goods.
- Despite the large amount of expenditures, researchers have found that the effectiveness and results of these programs and expenditures are often difficult to determine.
- An emphasis must be placed on ensuring that these developments are producing the intended results before additional money is spent.

## Introduction

If the economic development plans of the current Commonwealth administration come to pass, Southwestern Pennsylvania will embark on a strategy that will lead it further away from the type of economic growth it needs to reverse years of sluggish growth and decline. Rather than undertaking immediate reduction of business taxes and reform of business costs, regulations, and improving the labor climate, the role of the public sector as the driver of development will be greatly expanded relative to where it now stands.

The problem is that Pennsylvania, as well as the region, has been all too eager to use publicly funded incentives and programs to "grow the economy". The latest foray into this strategy is the Governor's plan to press for an increase in the state's Redevelopment Assistance Capital Budget in order to finance nearly \$2 billion in bonds aimed at remaking Pennsylvania's economy. Instead of relying on initiatives to unleash the private sector, the plan will try to "jumpstart Pennsylvania's economy and [provide] incentives that will draw the private sector into our programs and projects".<sup>1</sup>

To this end, leaders from across the state, including those from Southwest Pennsylvania, were asked to identify the priority issues of their respective regions and provide suggestions as to how solutions could be achieved.<sup>2</sup> Connected to the identification of priority issues was the selection of a "wish list" for each region: this was a list of projects that were deemed critical to the region and would produce the greatest amount of economic benefit. The bonanza in store for the region, we are told, will be monumental if the requests are approved. For \$267 million in state funds, the impact will translate into \$5 billion in total investment with 75,000 permanent jobs and 88,000 construction jobs.<sup>3</sup>

Similar plans with grandiose promises have been executed in the past, and yet growth remains elusive.

This report focuses on the state's involvement in economic development, with particular attention to Southwestern Pennsylvania.

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<sup>1</sup> Commonwealth of Pennsylvania Department of Budget "Plan for a New Pennsylvania: Building a High-Growth Economy".

<sup>2</sup> Team Pennsylvania: Regional Economic Development Summit Reports ([www.teampa.com](http://www.teampa.com))

<sup>3</sup> Stephanie Waite "Regional Leaders Seek Money for Economic Development" Beaver County Times, May 13, 2003. Michael Miller "Governor asks Commissioners to work for His Budget" Leader Times, May 14, 2003. Dan Fitzpatrick "Counties, City Present Rendell with Wish List" Pittsburgh Post-Gazette, May 13, 2003. Steve Ostrosky "Greene Authority seeks \$2.5 Million Technology Building" Uniontown Herald-Standard, May 22, 2003. Linda Metz "Southwestern PA Leaders Submit Wish List to Rendell" Washington Observer Reporter, May 13, 2003. Ron DeParma "Alliance Urges State on Priority Projects" Pittsburgh Tribune Review, May 13, 2003.

## Recent Economic Trends

In order to establish a baseline economic picture of the state and the region, their performance on three vital trends in the last decade will be briefly discussed. These trends are growth in population, in new business establishments, and in total personal income.

**Economic Trends--A Comparison<sup>4</sup>**

	Population (% Change, 1990- 2000)	Personal Income (% Change, 1990- 2000)	Private Nonfarm Establishments (% Change, 1990-2000)
U.S.	13.1	72	14.4
Pennsylvania	3.4	55	5.4
Allegheny	-4.1	50	0.8
Armstrong	-1.5	50	-3.1
Beaver	-2.5	56	6.5
Butler	14.5	78	23.2
Fayette	2.3	50	-3.9
Washington	-0.8	56	9.6
Westmoreland	-0.1	54	11

When the region is compared to the state on population growth, the results are not encouraging. During the decade of the 1990s, only one county--Butler--grew at a faster pace than the state as a whole and only one other county in the region--Fayette--recorded an increase in population.

As for personal income growth, three of the region's seven counties had gains greater than the state increase. Beaver and Washington Counties saw increases at a rate just above than that of Pennsylvania, while Butler County grew far faster than the state increase.

Lastly, a few of the counties managed to experience good growth in the number of private nonfarm establishments from 1990 to 2000. Only two counties had negative growth in the number of establishments.

While it looks as though some of these trends provide bright spots, it is important to note that Pennsylvania was, and remains, a low growth state. Over the same time period, the nation's population increased 13.1 percent, personal income grew 72 percent, and the number of private nonfarm establishments grew 14.4 percent. When compared against these amounts, Butler County is the only county in the region to outpace national growth on all these measures.

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<sup>4</sup> U.S. Census Bureau: County Business Patterns. Bureau of Economic Analysis. Bureau of Labor Statistics.

## **The State: An Overzealous Investor?**

The lackluster growth in Pennsylvania has obviously not been cured by the abundance of programs and spending. There is certainly no shortage of federal, state, and local incentives and programs aimed at creating, retaining, or attracting enterprises.

But how much does the state actually spend? The section below presents data on the state's allocations to economic development on three indicators: the growth in expenditures over the last decade, funding from a specific capital budget to counties in Southwest Pennsylvania, and per-capita expenditures in comparison with other states.

### *Growth from 1993-2002*

According to the most recent Comprehensive Annual Financial Report<sup>5</sup> for Pennsylvania, total state expenditures for all functions--including health and human services, public safety, public education, transportation, economic development, recreation, as well as capital payments, debt service, etc. increased 53 percent between 1993 and 2002 to stand at \$39 billion. Total revenues (taxes, licenses and fees, etc.) increased 44 percent over the time frame and totaled \$38 billion in 2002.

Expenditures on economic development, however, increased an astonishing 337 percent over that same period. In 1993, expenditures on economic development from all state government fund categories totaled \$284 million. In 2002, expenditures stood at \$1.2 billion. This increase in economic development spending far outpaced increases on all other expenditure categories. In fact, only one other category of expenditures--protection of persons and property (public safety)--grew at a triple-digit rate of increase (164%).

The bulk of the growth in economic development spending came in the last five years. Whereas expenditures increased 5 percent from 1993 to 1997, they grew 267 percent from 1998 to 2002. By way of comparison, if the state's expenditures on economic development grew at a rate that matched the increase in inflation (U.S. average of 24%), it would have reached over \$353 million by 2002. If economic development spending is working, why do we need so much more?

### *Redevelopment Assistance Budget*

In addition to operating funds, the state has an extensive capital budget at its disposal. According to the most recent budget, there are seven separate classifications of capital projects in the Commonwealth. These range from functions dedicated to constructing, remodeling, and furnishing state office buildings to flood control, water and wastewater facilities, site development, and transportation. Each budget category is administered and overseen by a separate department.<sup>6</sup>

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<sup>5</sup> Comprehensive Annual Financial Report, Pennsylvania Department of Budget. All fund types--general, special revenue, debt service, and capital projects funds are considered in these totals. See Appendix for more detail.

<sup>6</sup> Governor's Executive Budget

The focus here is on the capital budget known as Redevelopment Assistance. According to the Governor's Executive Budget, the purpose of the Redevelopment Assistance Capital Budget is to provide "grants for the acquisition of land and the construction of buildings and other property appurtenances for municipal agencies and authorities for economic development and the prevention and elimination of blight".<sup>7</sup>

It is this budget that the Governor is seeking to increase by approximately \$500 million in the near term in order to stimulate development across the state. A review of data from the Office of the Budget shows that recent projects approved under this budget may not have fulfilled either of its stated goals--to stimulate economic development or eradicate blight.

Data for regional projects authorized for funding under the Redevelopment Assistance Budget was obtained going as far back as 1992. We were able to get information on projects in the seven county region of southwestern Pennsylvania.

In all, 71 separate capital budget authorizations were made for the region over the ten-year time period. One of those authorizations (for Pittsburgh's Fifth and Forbes redevelopment) was terminated. The total approved amount for these projects was \$388.8 million dollars. By county, Allegheny received far and away the bulk of these dollars: \$330 million, or 85 percent of the authorized amount. The remainder of the amount (\$58 million) was divided between the six other counties, from a high of \$19 million (5%) in Westmoreland to a low of \$3.9 million (1%) in Armstrong.<sup>8</sup>

**Redevelopment Assistance Capital Budget Approved Amounts,  
1992-2002  
Separated by County**

County	Approved Amount	% of Total
Allegheny	330,233,505	84.9
Armstrong	3,950,000	1.0
Beaver	9,950,000	2.6
Butler	7,500,000	1.9
Fayette	11,869,300	3.1
Washington	6,250,000	1.6
Westmoreland	19,125,000	4.9
Total	388,877,805	100

<sup>7</sup> Ibid

<sup>8</sup> Omitted from the capital budget approved amounts for the region is the large allocation of state dollars--\$149 million to be exact--for the construction of the new convention center in Pittsburgh. Although it was part of Plan B, the actual allocation came from the Public Facilities Capital Budget in 1997 and not the Redevelopment Assistance Budget. Nevertheless, the large allocation changes the total impact state capital funding has had on the region. More recently, an allocation of \$25 million was made from the Redevelopment Assistance Budget by former Governor Schweiker, but was not reported in the data from the budget office. See Tom Barnes and Bill Schackner "Schweiker Delivers \$63 million for Projects" Pittsburgh Post-Gazette, November 22, 2002. If counted, this latter allocation would push the total from \$388 million to \$413 and would increase Allegheny County's share to \$355 million and to more than 85 percent of the allocations.

Analyzed by function, however, reveals political preferences and beliefs about what types of development stimulate growth. Although the region's economic development community bemoans the lack of "ready to go" sites and points to this as the reason the area is unable to attract private investment, elected officials have allocated a significant amount of money from the redevelopment assistance budget into these types of projects: over \$100 million, or nearly 26 percent of the ten-year total authorization. While this is a significant amount, it is actually lower than the amount of money the budget has funneled into professional/amateur sports venues and leagues (\$165 million or 43 percent) and into cultural/museums/libraries (\$105 million or 27 percent).

**Redevelopment Assistance Capital Budget Approved Amounts,  
1992-2002  
Separated by Function**

Function	Approved Amount	% of Total
Site Development, Cleanups, Industrial Parks, etc.	100,329,300	25.8
Professional/Amateur Sports	165,250,000	42.5
Cultural/Museum/Library	105,475,000	27.1
Outdoor Recreation/Parks	12,123,505	3.1
Other	5,700,000	1.5
<b>Total</b>	<b>388,877,805</b>	<b>100</b>

In fact, the two allocations from the state for the football and baseball stadiums in Pittsburgh, at \$75 million apiece, were the two largest recipients of funds from the Redevelopment Assistance Budget over the time period. These two projects consumed 39 percent of the total ten-year allocation for the region. When combined with allocations for Three Rivers Stadium and for PONY Baseball in Washington County, the share rises to over 42 percent. This does not include site preparation of the stadium site and allocations for a nearby park, which were counted separately as infrastructure and recreation, respectively.

**Redevelopment Assistance Capital Budget Approved Amounts,  
1992-2002  
Largest Allocations<sup>9</sup>**

Project	Approved Amount
Pittsburgh Baseball Stadium	\$75,000,000
Pittsburgh Football Stadium	\$75,000,000
Cultural District Development Phase II	\$17,750,000
Carnegie Dino Hall	\$15,000,000
Three Rivers Stadium	\$13,500,000

What is most troubling about many of the redevelopment allocations to Allegheny County is that many of the recipients already receive operating allocations from the Regional Asset District. Over the time period, the state allocated money to the Warhol

<sup>9</sup> See footnote 8 on previous page



Museum (\$6 million), the Heinz History Center (\$16 million in two allocations), the Pittsburgh Ballet (\$1.3 million), and Phipps Conservatory (\$5.1 million), among other cultural attractions.

As such, the RAD and other funds, including the capital budget funds, have had the opposite of the intended effect of moving cultural and like operations toward efficiency and instead have them hoping for state and local dollars to bolster their operations.

Other projects are covered by the state's Keystone Opportunity Zone program, which exempts the development from most, if not all, state and local taxes for up to twelve years, or are the recipient of tax increment financing, which allows future taxes to be diverted from the tax coffers in order to repay publicly issued bonds that assist the development.

Not much of this trend will change if the request from regional leaders is approved and folded into upcoming Redevelopment Assistance Budgets. To wit, the "wish list" of the region's decision makers include funding requests for upscale housing (\$5 million), a hotel for the new convention center (\$15 million), a museum for African-American culture (\$10 million), a trolley complex (\$4.35 million), and other various cultural attractions. If these requests were instead funneled into legitimate infrastructure projects that have a larger benefit on economic growth, the results would be more significant.

### *The NASDA Study*

Finally, as a way to gauge Pennsylvania's economic development expenditures with other states, a comparative study is briefly discussed. The National Association of State Development Agencies found that Pennsylvania had \$271 million in funds available for economic development funding in fiscal year 1997-1998, the highest in the sample of 47 states. This was nearly \$100 million above the next state, Illinois (\$195 million), and did not include the costs involved with tax incentive programs.<sup>10</sup>

This translated into \$22.59 per-capita in Pennsylvania, ranking the Commonwealth 5<sup>th</sup> highest out of 47 states and significantly higher than the state average of \$7.76 per-capita. This was less than the neighboring states of Delaware (\$25) and Maryland (\$22.96), nearly double that of Ohio (\$12.23) and Michigan (\$11), almost three times that of New York (\$8.02), and four times greater than West Virginia (\$5.07).

### **Results: Real or Perceived?**

Knowing the costs involved with the state's efforts, is it possible to know the benefits/outcomes of the dollars spent? It is hard to tell. Even though public officials and economic development planners are quick to tout the fruits of their labor, there may be a significant disparity between "real" and "projected" outcomes. A report by the Legislative Budget and Finance Committee notes that

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<sup>10</sup> Legislative Budget and Finance Committee "Department of Community and Economic Development: Economic Development Programs". A performance audit in response to Act 1996-58, October, 2000.

"Assessing the impact of an economic development program is difficult, and the procedures for collecting performance information for DCED's economic development programs currently range from rigorous to none. DCED often reports information on jobs created and retained by the various programs, but this information frequently only represents what the applicant anticipates being created or retained at the time the application is submitted. DCED often subsequently reports information based on reports submitted by company officials after the project is completed, but does not routinely verify the accuracy of the reported jobs data".<sup>11</sup>

The committee's report found that, for instance, job creation or retention statistics could be skewed due to double counting. The report notes "if a project creates or retains 20 jobs as a result of a \$400,000 PIDA loan and a \$100,000 MELF loan, each program may cite the 20 jobs in their program statistics".<sup>12</sup>

Nonetheless, despite the fact that results of economic development spending may be elusive or perhaps non-existent, economic development plans hatched by the public sector remain at the forefront. The majority of dollars are often awarded to those that project they will create the greatest number of jobs for the community based on the projections of the employer.

Case in point: there have been a number of projects in Southwestern Pennsylvania that were the recipient of large infusions of state assistance. According to the Governor's Action Team, there were five projects in the region considered as "top projects" in 2001, either because the total project cost was exceptionally high, or they were projected to create a large number of jobs. The table below outlines some of the details on these projects, including total project cost, state assistance, and projected jobs created.

#### **Southwestern Pennsylvania Projects in Governor's Action Team's "Top Ten"**

County	Company	Total Project Cost	State Assistance	Projected Jobs Created	State Assistance as % of Project Cost	State Assistance \$ per Job Created
Allegheny	Siemens	120,000,000	4,590,000	330	4	13,909
Allegheny	Accelight Networks	88,000,000	1,400,000	900	2	1,556
Allegheny	H.J. Heinz	85,000,000	10,050,000	400	12	25,125
Butler	Verizon Wireless	17,500,000	2,048,000	748	12	2,738
Butler	US Investigations	7,000,000	700,000	400	10	1,750

The Southwest region certainly did not get short shrift in terms of state dollars awarded. In total, Pennsylvania extended over \$52 million in assistance to the top projects in 2001: the five above received \$18.7 million, over one-third of the total. The assistance granted to the H.J. Heinz Company was the largest subsidy among all of the projects considered.

<sup>11</sup> Legislative Budget and Finance Committee

<sup>12</sup> Ibid

Easily the most high profile project in the group--Siemens Westinghouse's fuel-cell facility in Allegheny County--has yet to produce the benefits its proponents touted. The project was perhaps the most sought-after development prize in mid-to-late 2001. After receiving a \$4.6 million incentive package from the state and additional funds from the County, the project is on hold from its original 2004 start-up date. Citing economic conditions, the company has stated that its products may not be ready for the market until 2006. This delay, of course, may affect the company's projected figure of 330 new jobs promised at the outset of the development.<sup>13</sup> If this came to fruition, it would certainly increase the state's investment per job created, which stands at more than \$13,000 based on initial state estimate of 330. Other published reports have put the projected number of jobs created from 175 to 400, even 500 jobs.<sup>14</sup>

## **Conclusion**

There is no sign that the trend of state involvement in economic development is going to change in the near future. The current gubernatorial administration is intent on "growing" the state's economy by investing more public dollars into projects, some of questionable merit, in its quest to find out why the state cannot grow. The irony is that the state continues to lag not in spite of dollars invested, but because of the dollars invested. Consider the following assessment by the Governor and his immediate advisors on the condition of the state:

"Pennsylvania is at a turning point--we can make proactive investments and create employment in targeted growth sectors by supplying the capital our communities and businesses need to grow--or we can maintain the status quo and continue to lose our competitive advantage, our people, and our jobs".<sup>15</sup>

Clearly, the problems of the state are mirrored in the region: slow job growth and net negative population growth, despite the expenditure of economic development dollars to overcome these problems. The reasons for these symptoms are myriad and should be given immediate and sustained attention: high tax rates on individuals and businesses, an uncooperative labor climate, deteriorating public infrastructure, regulations that insulate unions from competition that drive up expenses on public projects, and the desire on the part of the public sector to drive economic development rather than allowing the private sector to flourish.

The cure is obvious. However, the direction of economic development plans will likely pull the state and the region further away from embracing growth.

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<sup>13</sup> Dan Fitzpatrick "Siemens Trims Plant Start-Up, Job Targets" Pittsburgh Post-Gazette, November 9, 2002. Commonwealth of Pennsylvania, Office of the Governor "Governor Ridge Delivers Economic One-Two Punch for Pittsburgh's Steel Valley" October 4, 2001.

<sup>14</sup> Ibid. Jeffrey Cohan "Roddey Focuses on Jobs Created" Pittsburgh Post-Gazette, January 16, 2003.

<sup>15</sup> "Plan for a New Pennsylvania"

## Appendix

### Revenue and Expenditure Growth, 1993-2002 (Amounts in Thousands)

Category	1993	2002	\$ Increase	% Increase
Total Revenues	26,672,740	38,502,518	11,829,778	44
Total Expenditures	25,969,693	39,830,957	13,861,264	53
<i>Expenditure Categories</i>				
Economic Development	284,940	1,245,292	960,352	337
Protection of Persons and Property	1,466,885	3,876,449	2,409,564	164
Health and Human Services	11,288,552	18,990,802	7,702,250	68
Capital Outlay	418,062	694,219	276,157	66
Transportation	2,536,894	4,003,291	1,466,397	58
Public Education	6,460,659	8,814,273	2,353,614	36
Debt Service (Principal)	594,472	479,395	(115,077)	-19
Debt Service (Interest and charges)	430,947	278,428	(152,519)	-35
Direction and Supportive Services	2,004,638	968,563	(1,036,075)	-52