

**Analysis of Pennsylvania's
Economic Stimulus Package**

**Pennsylvania Economy League
State Office**

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INTRODUCTION

Following his election Governor Rendell introduced an “Economic Stimulus Package” as part of his first budget in March 2003. After a full year of haggling over the many issues surrounding the proposal, legislation that enacted several parts of the proposal was approved by the General Assembly and signed by the Governor on April 1, 2004. The Pennsylvania Chamber of Business and Industry expressed its overall support for the concepts and direction of the Governor’s Economic Stimulus Package before its passage. However, there was some concern in the business community and among other taxpayers about the level and type of investment and the plans for ensuring its success.

To address those concerns, the Chamber asked the Pennsylvania Economy League (PEL) to analyze the Economic Stimulus Package as passed by the General Assembly and report on the contents and steps that need to be taken for the package to achieve the intended success, i.e. increase the competitiveness of Pennsylvania for jobs and people. This report outlines the results of PEL’s research and provides a set of recommendations for both government and the private sector.

Purpose of the Project: Find Out Whether We Will Get Our Money’s Worth

The size of Pennsylvania’s economy now exceeds \$400 billion. To make substantial improvement over the status quo will require not only a large public and private investment, but also a carefully targeted strategy that will use the investments both efficiently and effectively.

This report seeks to examine the contents of the \$2 billion stimulus package, evaluate its objectives and planned processes and procedures for implementation, and suggest ways to ensure that Pennsylvania’s taxpayers will get a proper return on investment. In addition, the lessons learned and the suggestions for improvement resulting from this process could, and should, be applied to other community and economic development initiatives that state government has invested in over the years - and will in the future to a much greater extent than the Economic Stimulus Package.

In carrying out this project, PEL reviewed the legislation, interviewed a variety of state and local officials, and conducted additional research. The focus of the project was to answer the following specific questions:

- What is the money being spent on? That is, what programs, what functions, what types of spending?
- What is the package trying to accomplish? What are the objectives or focal points of the strategy? What does success look like?
- Are the objectives the highest and best use of taxpayer money? Bottom line, would the money be better spent on something else or not raising it at all?

- Can the system deliver the goods? State government supplies the capital but isn't always the ultimate spender. Is the local economic development service delivery system structured and manned to spend the money efficiently and effectively?
- How is success measured? More important, will success or failure be measured at all?
- Is there a process for reporting and auditing results? Over and above internal measurement process, is somebody checking to ensure that the money is being spent well?

Answers to the above questions collectively help provide a basis for an in-depth analysis of the package prior to implementation as well as evaluating steps and processes essential to implementation.

I. ECONOMIC TRENDS IN PENNSYLVANIA

Why consider an “Economic Stimulus” program at this time? By most signs, the national economy was in the early stages of a recovery mode by the time the Governor made his proposal. It appeared that Pennsylvania would soon return to its pre-recession levels of prosperity. The case for a significant investment of new public funds was not immediately evident.

However, behind these positive numbers lie long-term trends that paint a much less positive picture for Pennsylvania. Pennsylvania’s economy, similar to the nation’s economy, has been steadily restructuring for decades. Economic restructuring accelerated as a result of the early 1980s recession and has continued at a relatively rapid pace ever since. Factors forcing restructuring include globalization of both markets and production, as well as the traditional competition between states and regions. New levels of competitiveness require state and regional economies to be proactive in staying ahead of the curve. Within this context, most data show that Pennsylvania has not fared very well in recent years.

Demographic and economic trends show Pennsylvania’s problems are chronic and deep-rooted. The following brief analysis looks at just a few of those trends; many others could be cited that support the same conclusions. These trends stretch back for decades, making it evident that a solid turnaround will likely take significant time. In addition to exhibiting the problem, a closer look at the economic situation of the Commonwealth provides clues that might better identify highest and best uses of limited government resources, such as those found in the Economic Stimulus Package – and why a variety of actions must be taken to bring Pennsylvania back to prominence. The Governor, and by passing the plan, the legislature, believes that the Economic Stimulus Package is part of that recovery strategy.

Demographics

Pennsylvania’s population grew by 3% from 1992 to 2002, one of the slowest rates in the country. The population for the country as a whole increased by 13.1%. The 2000 Census places Pennsylvania as the 4th oldest state with a median age of 38. The average age will continue to rise here and in other states as the baby boomer segment of the population moves toward and into traditional retirement years.

Demographers remain pessimistic about Pennsylvania going forward. Under present trends, Pennsylvania’s workforce, ages 18 to 64, will grow at a slower pace than the nation’s in the coming decades. Between 2000 and 2020, Pennsylvania’s working age population is projected to grow by .3% compared to a national growth rate of 11.4%.

These population trends will have serious implications for Pennsylvania’s economy beginning with an adequate supply of skilled labor. The loss of large numbers of baby boomers with a lifetime of skill development is just the beginning. That loss, combined with a relatively smaller generation of people following in their footsteps, presents a major challenge that the Economic Stimulus Package doesn’t address.

Employment Trends

Table 1 below shows Pennsylvania employment by major industrial sector.

Table 1
Employment Share by Economic Sector –
Pennsylvania vs. United States: 1990 and 2003

Industry	% of Total - PA		% of Total - US	
	1990	2003	1990	2003
Total	100.0%	100.0%	100.0%	100.0%
Construction	4.4%	4.4%	4.8%	5.2%
Manufacturing	18.3%	12.8%	16.2%	11.2%
Wholesale Trade	4.3%	4.0%	4.8%	4.3%
Retail Trade	12.3%	11.8%	12.0%	11.5%
Financial Activities	6.3%	6.0%	6.0%	6.1%
Prof. & Bus. Services	8.8%	10.7%	9.9%	12.3%
Ed. & Health Services	14.3%	17.5%	10.0%	12.8%
Government	13.5%	13.3%	16.8%	16.6%
All Other	17.9%	19.6%	19.4%	20.0%

Considerable change has taken place in employment patterns in both Pennsylvania and the United States in a relatively short period -- in economic terms. The most obvious is the retreat of manufacturing as an employer. Not only has manufacturing employment become a significantly smaller part of total employment, its share of total employment is creeping closer to the U. S. average. The service sector is taking up the shares lost by manufacturing.

Table 2
Employment Growth by Economic Sector –
Pennsylvania vs. United States:
1990 to 2003

Industry	Pennsylvania	United States
Construction	8.7%	27.7%
Manufacturing	-24.5%	-19.9%
Wholesale Trade	1.0%	6.4%
Retail Trade	4.3%	13.1%
Financial Activities	4.3%	20.6%
Professional and Business Services	31.2%	47.5%
Education and Health Services	32.7%	50.9%
Government	6.3%	17.2%
All Other	18.8%	22.7%
Total	8.4%	18.7%

Table 2 is even more indicative of Pennsylvania's relative position. It shows an overall growth rate of less than half of the national average in total employment, Pennsylvania trails the nation in every major industrial category. The only factor keeping Pennsylvania's unemployment rate on par with the nation's rate is a minimal growth in the size of the labor force commensurate with low employment growth.

Growth in Gross State Product

Table 3 looks at the share of the economy for major industrial sectors over time. The Table indicates that in spite of significant losses in employment and share of the economy, manufacturing activity in Pennsylvania remains stronger than the national average. There is also growth in Finance, Insurance and Real Estate and Services as a proportion of the economy. The overarching trend is Pennsylvania's migration toward an industrial mix that nearly matches the national economy.

Table 3
Percent of Gross State Product by Economic Sector –
Pennsylvania vs. United States:
1990 to 2002

Industry	Pennsylvania		United States	
	1990	2002	1990	2002
Construction	4.7%	4.2%	4.4%	4.5%
Manufacturing	20.5%	16.6%	18.1%	13.0%
Wholesale Trade	6.3%	5.5%	6.7%	6.0%
Retail Trade	9.1%	7.2%	8.8%	7.4%
Finance, Insurance and Real Estate	16.7%	18.3%	17.6%	20.4%
Services	20.9%	26.8%	18.9%	25.4%
Government	11.0%	9.7%	14.2%	12.0%
All Other	10.7%	11.6%	13.1%	11.4%
Total	100.0%	100.0%	100.0%	100.0%

In Table 4 a comparison of growth in Gross State Products indicates that, as with employment, Pennsylvania lags the nation. Pennsylvania's total GSP growth of 72.7% is more than 10% less than the national average – much better than the difference in employment growth, but still unfavorable.

The surprising figure is the higher rate of growth in manufacturing GSP compared to the nation. This can be an indicator of a comparative advantage for Pennsylvania in terms of economic output.

Table 4
Growth in Gross State Product by Economic Sector –
Pennsylvania vs. United States:
1990 to 2002

Industry	Pennsylvania	United States
Construction	54.1%	86.9%
Manufacturing	40.3%	31.7%
Wholesale Trade	51.5%	65.0%
Retail Trade	37.1%	52.6%
Finance, Insurance and Real Estate	89.0%	113.2%
Services	121.3%	145.8%
Government	51.8%	69.2%
All Other	87.0%	67.2%
Total	72.7%	83.4%

The Bottom Line

The trends are not favorable. Although it is easy for Pennsylvanians to be complacent about their economic situation, the state continues to lose ground to the nation. The comparatively slow rates of economic growth are masked by a near stagnant growth in population. However, with each passing year, the challenge becomes greater. Within this context, the need to do something becomes readily apparent.

II. DESCRIPTION AND OBJECTIVES OF THE PACKAGE

Description

Governor Rendell proposed a stimulus package in 2003 – a series of state government programs and incentives to boost Pennsylvania’s economy. This initiative languished in the legislature for more than a year, but the resulting state law (Act 22 of 2004) sets in motion the wheels of a new economic stimulus package.

The law establishes several new programs to make Pennsylvania more economically competitive. The majority of this funding would require state borrowing – about 95% of the total – although the package does include a few programs that rely on appropriations from the state’s General Fund, and some existing state programs that will be expanded. Not all the borrowing will occur at one time; the law limits the amount of borrowing for these programs in any one year.

The following table summarizes the complete package as proposed by Governor Rendell. The table includes the new programs approved through legislation as well as expansion of those already in operation prior to the proposal.

Table 5
Economic Stimulus Package
Summary of Programs

Program	Funding Level	Source of Funds	
		Current Revenues	Bonds
Main Street	\$7,000,000	X	
Elm Street	\$7,000,000		X
Housing Redevelop. Asst.	\$30,000,000	X	
Homeownership Choice	\$15,000,000	X	
Section 108 HUD Loan	-	-	-
Redevelopment Assistance	\$640,000,000		X
First Industries Fund	\$150,000,000		X
Core Industries	\$75,000,000		X
Second Stage Loan Program	\$50,000,000		X
New PA Venture Guarantee	\$250,000,000		X
New PA Venture Capital	\$60,000,000		X
Keystone Innovation Zones	\$35,000,000	X	
Base Retention and Conversion	\$1,250,000	X	
Expanded R & D. Tax Credit	\$30,000,000	X	
Business In Our Sites	\$300,000,000		X
Building PA	\$150,000,000		X
TIF Guarantee Program	\$100,000,000		X
Water/Sewer Facilities	\$250,000,000		X

Objectives – Defining What Success Looks Like

Critical to determining how well these funds will be spent is a clear definition of the desired end product – in other words, what does success look like? Since the legislation contains little guidance to program users, administrators and taxpayers in describing the goals and objectives, PEL examined the details of the legislation to determine the objectives of the programs as a package. The analysis resulted in three different perspectives. Each perspective provides its own insight and clues for what might be the implied goals and objectives of the package as a whole.

Perspective #1 – Funds by Development Function

The official Economic Stimulus Package Website (www.newpa.com) divides its funding and programs according to targeted development functions.

- Community Revitalization programs that focus resources on community development projects to “rebuild facilities, jumpstart local economies, and spur job growth.”
- Business Investment resources – including grants, loans, loan guarantees, and tax abatement – for business finance projects.
- Site Preparation and Infrastructure funding including considerable funding for new sites and the infrastructure to support them. There is also attention to issues of brownfields and reclaiming land for reuse by industry.

The following table shows how the money will be used based on these categories, broken into roughly equal shares with a total of over \$2.1 billion.

Category/Target Function	Amount of Funding
Community Revitalization	\$687,500,000
Business Investment	\$636,250,000
Site Preparation and Infrastructure	\$800,000,000
Total	\$2,123,750,000

#2 – Funds by Type of Investment

How the money will be invested provides a different perspective on intent. Overall, the stimulus package prioritizes some economic development policies and activities over others:

- “Bricks and Mortar” and other physical development programs account for nearly two-thirds of the investment. These include programs that provide infrastructure, site development, housing, and development of other hard economic assets.
- The tax system will be used to encourage business investment. The two programs targeting taxes would expand tax increment financing and increase the cap on tax credits for research and development.

- Elements of the package seek to influence capital markets to stimulate an increase in private sector investment in Pennsylvania business. The largest of these programs are the Second Stage Loan Program, New PA Venture Guarantee Program, and the New PA Venture Capital Program.

#3 – Targeted Industries

A clear target of several programs is channeling funds to priority industries. For example:

- The First Industries Fund limits participation to the agriculture and tourism industries.
- The Second Stage Loan Program targets life science, advanced technology, and manufacturing businesses.
- The New Venture Guarantee Program is for companies in early and mid-stage development.
- The Core Industries Program focuses on manufacturing and industrial advanced technology firms, with a special set-aside for medical facilities.

Based on an examination of the programs individually and the alternative categorizations reviewed above, the following five themes describe the larger goals of the package:

- *Create Infrastructure.* Based on the strong emphasis on physical facilities, new and upgraded infrastructure is seen as a key element of growth.
- *Support “growth” industries.* Several new programs target financing toward specific industries and industries with certain characteristics of growth.
- *Make competitive communities – leaning toward urban areas.* Quality of life is assumed to be an attraction for quality workforce and employers making location decisions, including retaining existing talent and employers as well as those seeking to relocate. More people and jobs will presumably result in healthy urban areas.
- *Buy now pay later.* The fact that 95% of the package will be financed with borrowed money makes this proposition a bet that the return over the next several years will outweigh the cost of the bet made through principal and interest payments.

III. ORGANIZATION DESCRIPTION AND ISSUES

Organizational structures and the allocation of powers and duties within these structures can have a significant impact on outcomes from the expenditure of public funds. Administratively, the structure affects efficiency of programs. From an effectiveness standpoint, organizational structure will be a determining factor in not only the quality of selected and approved projects, but in the longer term it will be a factor in setting the tone and ultimately the overall direction for the programs.

Description

Pennsylvania already uses a somewhat complicated system of executive agency authority and separate decision-making boards to administer its economic and community development programs. Up to now three basic models have been in use:

- The approved budget appropriates funds directly to the Department of Community and Economic Development. The Department grants and loans the funds to regional organizations that work directly with the recipient or, often in the case of community development funds, a local government agency.
- For several programs, the Commonwealth authorizes a board to make decisions using appropriated funds. DCED provides staff services to the Boards and the Governor has appointive power over the majority of the members of the Board, although legislative appointees are usually part of the mix.
- A small number of programs use the Governor-dominated board approach but also give the Board the authority to issue revenue bonds in addition to accepting appropriations. As in the previous model, DCED provides staff services and the Governor has appointive power over the majority of the members of the Board; legislative appointees are on the Board as well.

The legislation authorizing the Economic Stimulus Package adds yet another organizational structure for most of the programs in the package. While the law provides for increases in funding for several programs to be run in the more traditional manner by the Department, it also creates a new Commonwealth Financing Authority (CFA) for all of the largest programs. The CFA is an independent agency with extraordinary powers. The CFA has the ability to raise significant amounts of money through borrowing as well as the ability to receive state appropriations. However, rather than appointing the majority of the Board, the Governor has three representatives on the Board of the Authority – the Secretaries of DCED, Budget and Banking. The leader of each of the four legislative caucuses also makes an appointment. The legislative appointments can't be legislators or legislative staff. The result is a division of power across five entities – with none having a majority by itself.

Additional provisions further diffuse power. Five members constitute a quorum and five votes (four of the five must be by legislative appointees) are required for most major business decisions including bylaws, hiring staff, authorizing bonds, approving projects and contracts, and

adopting program guidelines. The legislation further allows the Authority to employ an executive director and other staff.

From a functional perspective, the Economic Stimulus Package fragments program administration for similar functions in some cases. For example, the new water and sewer funds will be administered through the CFA. Most of the existing state funding for water and sewer improvements and expansions is delegated to the PENNVEST, and the Department of Environmental Protection.

Current Operational Procedures

High-level Department of Community and Economic Development personnel expressed a keen awareness of the imposed relationship and its potential challenges for consistency of strategy and direction. Their stated approach, at least in the short term, centers on a proactive strategy to present projects for approval that are “water-tight” in terms of their potential for success and consistency with program intent, making them difficult to turn down. Since the CFA currently must rely on the staff work of the Department for most of its needs, this appears to be the best approach within the potentially difficult situation imposed by law.

However, the CFA still has the option to exercise its authority to employ its own staff and to direct that staff in a number of ways. As additional programs administered by the CFA come on line, standard operating procedures are likely to change. The CFA will have to engage the services of staff and Board members and define the role of staff. The diversification built into the Board could further diffuse not only decision-making, but operations as well.

IV. KNOWING IF THE PACKAGE IS A SUCCESS

Historically, the Department of Community and Economic Development hasn't collected, organized and retained a significant amount of information from its clients that could be aggregated into a measurement system. Pennsylvania law does not require objectives and measures for department-wide accomplishments.

Why Measurement Is Important

Because performance measurement can be difficult, expensive, and generally viewed as a distraction for program managers, it is not often employed as an integral part of a public program manager's tool kit. In addition, many program managers are unaware of the value performance measurement can add to the efficiency and effectiveness of programs in the longer term.

There are, however, numerous good reasons to overcome the obstacles to performance measurement. Some of the more compelling are to:

- Respond to accountability mandates;
- Formulate and justify budgets;
- Make resource allocation decisions;
- Trigger in-depth examinations of performance problems, or successes, and identify corrections;
- Help motivate personnel to continue making program improvements;
- Motivate and monitor the performance of contractors and grantees;
- Provide data for special, in-depth program evaluations;
- Support strategic and other long-term planning efforts (by providing baseline information and later tracking progress);
- Communicate better to build public trust;
- Help provide better services more efficiently.

As noted above, performance measurement is only a tool to be used to better manage programs. Its use should not be extended beyond its intended function, nor can it be applied equally to all situations. Three limitations most often cited include:

- Most important, performance measurement reveals what has happened. By itself, it does not tell why an outcome occurred, although it can provide clues for further investigation.
- Some outcomes cannot be directly measured. This is particularly true in the case of social programs where government plays only a limited role in outcomes.
- Performance measures are only part of the information used to make decisions. Fiscal, political (with a small "p"), and other external influences must be taken into account as part of the mix of factors to be considered.

All of the above reasons illustrate the importance of incorporating performance measurement into the management tool kit for the Economic Stimulus Package. Without such a system, program managers, Department executives and the Governor, CFA Board members, and most important, the taxpayers footing the actual bill will never know the longer term return on investment, nor will there be adequate indications of the health of the investments and the associated decision-making during implementation.

DCED's Planned Measurement System

A central challenge for organizations dedicated to economic and community development is tracking the performance of programs over time. Decisions about the use of limited financial and community resources should not be made in an information vacuum. Measuring the effectiveness, efficiency, and efficacy of past programs should inform future planning. DCED is developing a comprehensive measurement system. The programs comprising the Economic Stimulus Package will be part of the measurement system. The areas for measurement include the following:

1. Specific metrics for individual programs and projects (based on data tracked with the single application process and other data resources). A single project can be measured (with a defined set of metrics) and data from different projects can be aggregated to track the overall performance of a program category over time.
2. General (or Macro-level) metrics to track economic and community development in regions (DCED tracks over 150 indicators and uses a balanced scorecard to highlight certain indicators). Data about projects in a given geographical region can be correlated with indicators about that region (especially, data showing trends) to determine the benefits of the projects over time.
3. Internal performance measures for DCED itself (including GAT and CAT) relating to effectiveness and efficiency. A "strategy map" has been designed to establish objectives and timetables for internal evaluation. The map consists of broad areas of objectives concerning customer service; financial management; operational processes; and organizational learning, growth, and training.

In addition to identifying specific metrics (or indicators) to create the foundation of the measurement system, an overarching architecture (or set of interrelationships defining the flow and use of data) has been designed to integrate more fully all the information required to examine the various metrics. The hub of this architecture is the creation of a "knowledge base" or "data warehouse." The architecture defines the information collection, organization, direction of data flow, areas of use and access, and appropriate endusers. The purpose of the architecture is to facilitate the transformation of raw data and information into the real knowledge that is needed to support and inform decision-making processes. Knowledge-based development activities offer the best hope to adapt to changing economic conditions.

The comparative measurement of development resources for diverse businesses in different regions is also an important capability. One of the Rendell Administration's key tenets for

community and economic development is that Pennsylvania must analyze and target its resources to achieve the best results. Analyzing and targeting resources involves developing strategies to advance specific industry clusters and better position business sub-sectors in those industry clusters that represent the best economic opportunities. DCED's Global Competitiveness Initiative aims to carry out this analytic function to support the more proactive planning and marketing efforts needed to adapt to the forces of the global economy.

In 2004, with support from the Team Pennsylvania Foundation, the Department retained IBM Global Consulting based in New York, New Jersey, and Brussels, Belgium, to assist with the identification and competitive analysis of specific industry sub-sectors. The "Global Competitive Analysis, Strategy and Marketing Work Plan" seeks to create a business development-marketing tool for calculating Pennsylvania's regional competitiveness, encouraging investment in existing industries, and winning specific national and international investment opportunities.

IBM Global Consulting is charged with identifying 10-12 sub-sectors that are to be subjected to in-depth competitive analysis. Potential projects in these areas will be benchmarked by labor market areas throughout the Commonwealth against regions elsewhere in the nation and world that represent competitive forces. The resulting data and analysis will provide invaluable information to help identify prospective businesses and assist with proactive marketing efforts to make the business case for greater investment in Pennsylvania. The Global Competitiveness Initiative will be completed in FY '04-'05.

Specific metrics for programs and internal performance have been identified. The acquisition of project information through the online single application process has been enhanced and information sharing through internet-based tools has also been improved. DCED is in the early stages of implementing the integrated information architecture.

The goal of a successful measurement system should be to provide a status report and evaluation of progress toward success for:

- an individual project;
- a group of projects in a specific geographic area across programs;
- all projects collectively for each program; and,
- all projects in all programs contributing to specific pre-established objectives or goals.

How well the Department's planned system will meet this goal remains unproven in practice, although its design provides a framework that is encouraging.

V. DELIVERING THE GOODS

The delivery of community and economic development programs in Pennsylvania is as much a local responsibility as a state one. Several programs in the Economic Stimulus Package will continue to rely on the success of that partnership.

The Local Economic Development “System” in Pennsylvania

A topic that has been almost totally ignored in the process to date has been the ability and capacity of the local service delivery system to make good on the promises of state government. Because a portion of the Stimulus money will not be spent by the state but will go through local and regional organizations, part of the success of many of the economic stimulus programs will rely on the ability of these local organizations to deliver the product.

Local development organizations are a diverse group of agencies generally created by local governments such as counties and cities. Most often, each has a specific purpose or function. For example, counties create industrial development corporations to perform economic development functions within the county. Using federal and state money not only as a catalyst but as a staple of operations, counties in the more rural parts of the state have gotten together and formed multiple county organizations such as local development districts. Cities have created redevelopment authorities to administer many of their community development functions. State government has added to the mix by creating a system of four Ben Franklin Partnership regions and seven Industrial Resources Centers.

Unfortunately, Pennsylvania’s local economic development service delivery system suffers from many of the same ills as the rest of our local governance system. Because it is often a creature of local government, it is fragmented and in many parts of the state, uncoordinated within a region. In many cases the right organization to implement one of the programs is different and separate from the right organization for a different but related program.

Layered on top of this fragmented system of delivery organizations is a lack of regional economic development planning and strategy development. Pennsylvania’s economy is a collection of regional economies. What’s good for one region is certainly not the best approach for all.

There remains a high level of competition within the state for employers and jobs. Many times the competition is within a single labor market or region. That can cost money through an unnecessary bidding contest and duplication of resources. At the same time, many local areas have remained in an “I’ll take what I can get” mode without the knowledge of what might be the best direction to pursue.

In many cases fragmentation limits the resources for any one organization to develop and pursue a comprehensive approach. The notable exception is the Southwestern part of the state, which invested significant resources in reducing the fragmentation of organizations and functions in the region over a long period of time. In other areas of the state, not just the most rural, existing economic development organizations focus resources primarily on the more immediate concern

of industrial recruitment and associated financing programs that go along with such recruitment and expansion of existing employers. Of lesser priority are the longer term and less immediate tasks of:

- *Planning.* Investing in a strategic approach to economic development tailored to the specific needs and opportunities presented in each economic region is often absent. Inadequate resources within local agencies is often cited as the reason.
- *Coordination of local resources.* Economic development involves not only the designated local economic development agency. Others that play a role in the long-term competitiveness of a region include workforce development providers such as local education agencies that provide human capital, and local governments and their surrogates that provide the physical infrastructure for growth.
- *Data collection and reporting.* Defining success (planning) and knowing when you achieve it are essential to accomplishing desired results. That can only be done through a concerted effort to measure results. This is particularly important to the overall success of the programs in the Economic Stimulus Package. Local/regional results, added together, will determine overall success of the statewide package, but only if they are collected and transmitted in a uniform, accurate, and timely manner.

Consolidation of some functions is just beginning to change in some areas. But the question remains, will the money be spent strategically and coordinated within a region so that investments will not only complement each other, but will also be combined with other resources to reach common goals and objectives? This problem of a fragmented economic development service delivery system is not new, but very hard to solve.

Governor's Action Team and Local Economic Development

The Governor's Action Team (GAT) is the principal point-of-contact organization in the Department of Community and Economic Development for local economic development agencies doing individual business location/expansion projects. GAT is also the entry point for corporations seeking state assistance relative to site relocation and/or expansion and the various incentive programs of the Commonwealth. The majority of the inquiries GAT receives come from local economic development agencies. Management assigns projects to central GAT staff based upon the staff's workload and experience. Staff is not officially aligned by industry or cluster industries.

GAT also maintains regional offices throughout the Commonwealth. A central duty of these regional offices is to serve the local economic delivery organizations and their work with clients considering initial or further investment with the state. However, current GAT policy does not require the local economic delivery system to be aware of the status and other specifics of DCED and GAT projects including incentive commitment letters. Local economic development officials believe that, since they have been working with many of these clients, they can help state agencies with additional knowledge and insight regarding the client's specific needs.

Funding of Local Economic Delivery Systems

Currently the Commonwealth funds local economic delivery organizations through line items in the state's annual budget for designated types of organizations, allocates money without regard to the specific local agency providing a service or function, and provides for fees generated by project development and funding. In addition, local organizations receive funding from local sources such as utilities and banks.

In recent years, funding levels for many local organizations have been uncertain. The state budget process has provided sporadic increases over the past several years. Overall, fees earned for services generated has declined for many of the industrial development corporations for two reasons. First, fewer projects utilize the larger fee-generating programs such as the Pennsylvania Industrial Development Authority. Second, the Department now permits corporations and municipalities to apply directly to DCED for project funding, bypassing some of the traditional economic development agencies. Therefore, local economic development organizations may be neither involved as a consultant or a preparer of an application on a fee basis, nor even be aware of the submission of such applications.

Adding to the fiscal uncertainty is the consolidation of utilities and banking institutions, which has resulted in a reduction in local contributions. The impact of all the above – the uncertainty as well as a possible real net loss of income -- has had an impact on the level and types of services, staff, and programs many of the local delivery organizations provide. In response, many local agencies expend considerable effort to maintain or increase their state funding.

VI. PACKAGE EVALUATION

PEL examined and evaluated the goals and objectives of the Economic Stimulus Package determined in a previous section. The purpose of this evaluation is not to investigate and criticize the specific elements of each program but to gain a better understanding of how well the collection of programs act as an element of a larger strategy, and how well that strategy might succeed.

Creating Infrastructure - The right approach?

Programs: Business in Our Sites
 Water/Sewer Facilities
 Building PA
 Redevelopment Assistance Capital Budget Program

The strong emphasis on investment in physical facilities leads to the conclusion that new and upgraded infrastructure is a key element of growth. In fact, certain types of physical infrastructure can be provided only by the public sector. It is fiscally impractical for much of the private sector, for example, to build a network of roads. This is especially the case where there is a high concentration of business and citizens.

The available research suggests that building new infrastructure in anticipation of development has proven to be an inefficient use of public money -- with certain exceptions. The literature cites those exceptions as targeted rebuilding efforts in urban areas and telecommunications infrastructure in rural areas.

Pennsylvania continues to have unfilled industrial parks with underutilized utilities in greenfields as well as urban areas. In these locations, the desire for new physical development exceeded the demands of the market, costing taxpayers in misallocation of economic development money. Building infrastructure by itself will not attract employers. In fact, it may result in other, unintended consequences such as the attraction of employers from a close by -- or even the same -- municipality, and a reallocation with very little -- if any -- net gain for the region.

When, then, should the public sector invest in infrastructure and what are the targets? Since regional economies of Pennsylvania are unique in their make-up, the prescription for success differs from one part of the state to another. Knowing the details of that prescription up-front is essential to spending funds on infrastructure to get the highest rate of return for the taxpayer. Successful areas minimize the degree of risk by having a full understanding of their business development "market" for types of infrastructure, location of that infrastructure, and how the infrastructure should be integrated into the overall business climate.

Also, because the impact of infrastructure will be regional, the assessment of the market and the deployment of the infrastructure work most efficiently regionally as well. Unfortunately, Pennsylvania's plethora and fragmentation of local governments (with their hometown pride and thirst for new taxes) and economic development agencies (with their own issues discussed previously) present major hurdles to regional infrastructure planning and system development.

This hurdle is being overcome in at least one part of the state. Economic development organizations in the Southwestern part of the state were able to develop a prioritized list of sites supported by justification for the funds.

Support “growth” industries – A viable approach?

Programs: Second Stage Loan
 New PA Venture Guarantee
 New PA Venture Capital
 Keystone Innovation Zones
 Expanded Research and Development Tax Credits
 First Industries Fund
 Core Industries
 TIF Guarantee

It is difficult to argue with supporting growth industries. By definition the term “growth” infers positive economic returns. The key is defining growth industries and the companies within those industries that will return the highest rates of economic growth. Several programs will rely on private sector representatives such as venture capital partnerships and others in the investment community to find and fund those companies based on broad market factors and the viability of the project. Guidelines of other programs such as the Second Stage Loan Program define the growth industries but allow the ultimate lender to sift through and select the projects. Faith in the private sector and patience will be virtues in measuring and savoring the results of these programs.

The ability to target growth industries becomes less certain in programs such as First Industries Fund, Core Industries, and TIF Guarantee. These programs rely on government decision-makers to select projects from a base of applications brought to them through channels that over time have proven to be less strategic in their approach.

The First Industries Fund targets employers in agriculture and tourism that generally contribute comparatively little to the overall state economy because they most often employ significant numbers of low wage and part time people. On the other hand, in some parts of the state, that small amount of economic impact may loom relatively large and be the only short term option.

The law requires the Core Industries program to target its funds primarily for manufacturers. In a nod toward other growth industries, the eligibility criteria have been expanded to include additional non-manufacturing technology and new economy businesses. Because projects from a wide variety of industries are eligible for assistance, the opportunity to restrict the flow of funds to a designated set of targeted growth industries is minimized.

Make competitive communities – Leaning toward urban areas?

Programs: Main Street
 Elm Street
 Housing and Redevelopment Assistance

Home Ownership Choice
Section 108 HUD Loan
Redevelopment Assistance Capital Budget Program

The Economic Stimulus Package includes a major focus on community revitalization through several new initiatives and expansion of existing programs that leverage state and federal loans for communities to rebuild their facilities, jumpstart their economies, and spur job growth. This strategy suggests that upgrading communities and their infrastructure is a critical element of economic growth. It is certainly true that quality of life and community is an attraction for quality workforce and employers making location decisions, including those that decide to stay. However, is the real objective economic development? Or, is the objective to use economic development to improve the quality of life of Pennsylvanians? The approach may not be different from a programmatic perspective, but it is important when evaluating the bottom line results.

The underlying assumption that more people and jobs will result in healthy urban areas is also more than apparent. All of the community revitalization programs either direct their resources entirely to urban centers, including older rural population centers, or strongly favor the characteristics of those centers in funding decision-making. There are reasons for this strategy:

- *Cost of providing services to taxpayers, citizens and business.* The dispersion of population and employers across a larger geographic area, particularly in a haphazard manner, results in higher per unit costs of public services and infrastructure.
- *Dis-investment in urban cores ultimately costs taxpayers as the tax base declines.* Those first to suffer are the residents remaining after decline. Ultimately, all taxpayers in the state will be affected as the state government assumes greater responsibility for the overall cost through its social programs and efforts to deal with fiscal distress of the local governments themselves.
- *Economic development becomes more difficult as government's approach is increasingly fragmented.* Local economic development officials compete with each other for the same opportunities and local resources are diluted as the local economy spreads out.

While the new programs and their associated resources will be welcomed by those receiving them, PEL has long-term concerns that the existing structure of local government in Pennsylvania, especially its fragmentation of function and service delivery, undercuts the ability to use these and other tools effectively. The concern applies to both local government and economic development functions.

Buy now pay later – A safe bet?

The fact that over 95% of the package will be financed with borrowed money makes this a bet that the return over the next several years will outweigh the cost of the bet. The real costs of the package become not only the stated amount, but with added interest, a total significantly larger than publicly stated. An additional complicating factor is the method of financing. The

authorizing legislation stipulates that the debt incurred for the Package is not backed by the full faith and credit of the Commonwealth, but will be repaid by revenues of the CFA. Since most of the funding in the programs will be used for grants or remain in the program through revolving loans, the CFA will repay most of the debt using appropriations to the CFA from the State's General Fund. The law requires the Budget Secretary to certify that sufficient revenues are available from the General Fund over the next two years before the Authority can proceed with any new borrowing.

This method is in contrast to the more traditional economic and community development programs that use direct program appropriations or borrowing through the established capital budget process that incurs direct obligations of the Commonwealth. Costs in terms of debt service will extend well beyond the memory of approval and implementation of the projects in the package, complicating a true cost-benefit analysis, especially at a time far into the future when the bonds mature.

On the expenditure side of the budget, the real impact will be felt in the coming years as money is spent for debt service rather than operating programs. Although incremental, the required and increasing demands of debt services become a part of the spending plan that is hidden and not often discussed in allocating resources. Without increases in revenues, the remaining programs in the budget will compete for a relatively declining size of the pie.

However, on the reverse side of the budget, a successful Economic Stimulus Package with its accompanying matching funds should increase economic activity over time. State and local revenues would benefit from that activity. Precisely measuring the increase in tax revenues due to the provisions of the package is not possible, although economic modeling could provide a ballpark estimate compared to the absence of such a stimulus. How much these new revenues offset and hopefully exceed the costs incurred should be a primary factor in any overall evaluation of the package.

VII. SPECIFIC FINDINGS AND RECOMMENDATIONS FOR CHANGE

This section summarizes the findings of PEL's analysis and uses those findings to make recommendations for improvement in the system as it is now structured and operates. PEL targets the findings and recommendations to four of the questions initially posed in the introduction of this report that lend themselves to change.

Highest and Best Use of Funds

The Package's \$2 billion represents about 0.2% of the state's total Gross State Product. A slow start in creating and approving program guidelines, and approval of projects by the CFA will likely delay the spending, and therefore the impact, even further into the future. The provisions of the programs require a minimum non-program investment from non-public sources of another \$3 billion. Therefore, to be effective, the elements of the package must be targeted and strategic, with an emphasis on inducing maximum additional investments.

The Department has initiated and completed a process to develop an agency-wide mission statement. However, since the new mission statement has not yet replaced the posted mission statement on the Department's website, it is not readily available to the public. Department officials indicate that the mission will be a primary driver in how they administer programs and manage the Department. From the perspective of this report, the mission clearly encompasses the principles and programs in the Economic Stimulus Package.

The targeting of certain industries for development is a common strategy now employed by many states. This package is no different. On the other hand, economic impact is relative to location. In some parts of the state there is little demand or potential for locating or growing many of the highly valued economic contributors. In these cases, the promotion of agriculture and tourism industries may be the best and highest use.

Investment in business sites and infrastructure is an integral part of the overall strategy, but ensuring that physical infrastructure is available in all areas is not a proven strategy. In the past Pennsylvania has invested in a number of industrial parks and other infrastructure that remain underutilized. However, several success stories can be cited and the need has been demonstrated in some parts of the state. Demonstration of need and likelihood of success is a critical element in making sure that funds are spent efficiently and effectively.

To help promote the highest and best use of the funds, PEL recommends the following actions be taken:

1. Communicate a single statewide economic and community development strategy.

The Department should now take the next steps that will broaden the scope and impact of the mission, particularly as it applies to the Economic Stimulus Package.

- Agencies in the local service delivery system should be made more aware of the Department's mission statement as an expression of priorities in general and for the Economic Stimulus Package in particular. This broad guidance, reinforced with

actual decision-making as the programs unfold, will help build long-term effectiveness of the programs -- encouraging local agencies to develop local strategies and groom projects that can be tailored to local priorities but remain consistent with broad state-wide guidance found in the mission statement. Consistency in delivering the message and follow-up actions will be essential for local buy-in over time.

- The organizationally-fragmented nature of the package's implementation will require additional steps to promote system-wide adherence to the stated mission. The independent Commonwealth Financing Authority presents the largest challenge. To the extent that the program guidelines are consistent with the mission, the decisions of Authority Board members should result in an advancement of the mission's principles. To ensure further compatibility, the CFA Board, under the leadership of the chair (the Secretary of the Department), should reinforce their intention to be consistent with the state's overall economic and community development strategy by adopting the Department's mission statement, or at least its critical elements, as policy for the CFA.
2. *Develop and implement consistent strict performance standards and expectations for success in the selection of projects.* For business assistance programs, the same standards and level of rigor should apply for all similar programs to ensure that the funds will be allocated to the projects with the greatest return on investment. A difficult sub-issue to address is assessing the need of specific applicants for assistance. Getting the biggest bang for the buck requires minimizing the use of resources on projects that would have gone forward in the absence of state assistance.
 3. *Infrastructure project applications from the Business in Our Sites program and the Water and Sewer Facilities program should be supported by strategic planning and market research that exhibits a reasonable chance of generating the impact suggested in the application.* The projects should be consistent with the regional plan's priorities for the type of industry and preferred location as determined by industry analysis and market research. The market analysis for speculative development projects would demonstrate the level of demand for such facilities, limiting the potential for investments in unused facilities.

Delivering the Goods

Effectiveness in the delivery of programs is a key to success of the Economic Stimulus Package and all other economic and community development programs. State government can set the standards for itself to live by and will deliver certain programs by itself. However, to a considerable degree, the success of the Economic Stimulus Package will depend on the success of local partners in the planning, development, and implementation of specific projects that both meet statewide goals and objectives and fit documented local needs and priorities.

Weaknesses in the local delivery of services due in large part to fragmentation of organizations in many, but not all parts of the state are a concern. Reducing fragmentation through the structural consolidation of existing organizations is not a realistic option, at least in the near

term. State government does, however, have tools at its disposal to address several system weaknesses. To improve the delivery of all economic and community development programs at the local level, PEL recommends the following steps be taken:

1. *Promote rationalization of the economic development service delivery system on a functional/regional basis.* In many areas of the state, the local service delivery system for economic development programs contains numerous agencies that overlap geographically -- and many times in their historic or statutory missions. By definition, these smaller units -- by themselves -- have limited capacity to do very much more than their original assignment. For local economic development agencies to be successful partners in implementing the programs of the Economic Stimulus Package, there must be capacity to perform certain functions locally that now take place only in an ad hoc, incomplete manner, or not at all in some areas of the state. At a minimum these functional expectations should include:
 - a. Economic and marketing research and planning. Local agencies must first show that they “have done their homework” in bringing projects with the best long-term prospects to the table for funding and that those projects are consistent with local priorities and strategies. For example, simply building new infrastructure is not the answer. However, building certain types of infrastructure in specific locations can be part of the answer if upfront analysis indicates a high likelihood of success.

Some areas of the Commonwealth have established local strategies and priorities as well as exhibit an extended capacity to provide a higher level of assurance of long-term project success. Unfortunately, many don't. Development of this capacity in underserved areas is a long-term but important component of the package's eventual success, particularly for programs that focus on building sites and water, sewer and transportation infrastructure

- b. Data collection, assimilation and reporting. Accurate and current measurement by local agencies of their progress toward meeting the set standards of success, and transmitting that information to the Department of Community and Economic Development in a timely manner is essential to create a complete statewide picture of progress.

State government should rely on a number of “carrots and sticks” to promote functional consolidation at a regional level not only to take advantage of economies of scale, but also to reflect Pennsylvania's regional economies which many times are not co-terminus with the borders of economic development agencies. Consolidation of certain functions doesn't mean elimination of existing local economic development agencies. However, increased cooperation and participation in reaching common goals could result in increased cooperation within regions -- and maybe voluntary structural consolidation in the future.

The Department should encourage functional consolidation by:

- a. Providing technical assistance for regional planning and data collection and reporting. Economic development planning is a critical deficiency in many areas of the Commonwealth, not only as it would apply to the programs in the Economic Stimulus Package, but also as a guiding force for the allocation of other state resources, and just as important, local resources. State government can assist in developing a remedy by providing technical assistance for local economic development agencies that express an interest and need, and by giving strong preference to consortiums of local agencies seeking to perform these functions on a regional basis.
 - b. Redirecting existing funding to support system rationalization and a regional approach in critical functional areas. An upfront investment in expanded capacity will result in higher quality of projects brought to state government for funding. The Department should take a close look at existing funding streams such as the Industrial Development Assistance appropriation and funds set-aside in individual programs such as the planning grants in the Business In Our Sites program to accomplish this purpose. An increase in funding may be necessary. TeamPA may be another resource. Guidelines for spending these funds could include components of planning, project prioritization and reporting on a regional basis only.
 - c. Give a preference in the project approval process for projects that exhibit a regional approach and regional impact.
 - d. Exploit the provisions present in the Economic Stimulus Package to promote regional planning and strategic actions. For example, planning grants in the Business in Our Sites program should be granted on a priority basis to regional agencies or regional collaboratives.
 - e. Require reporting on the results of project funding on a regional basis. Existing TeamPA regions, regional labor markets or other designated areas could be the basis for reporting since the impact of many projects will be regional. Standardization of regional reporting would facilitate analysis of results as well.
2. *At the local level, agencies should coordinate and incorporate, wherever possible, existing regional planning and priority setting mechanisms already in place.* Many regional agencies already have planning processes and products of one kind or another in place that relate closely to economic development. For example, regional planning agencies are required as part of the transportation planning process. County departments of planning create significant amounts of information as part of their planning processes. Local development districts prepare economic development plans as a requirement of funding from the federal Economic Development Administration. Many workforce investment boards have undertaken an economic development-related planning process using industry cluster analysis to better direct the application of workforce resources. For

maximum effectiveness, the separate planning efforts should be at least on the same page if not totally integrated.

Measuring Success

There is virtually no mention of measurement in the legislation – no mention of an annual report, specific measures for each program, or reporting processes for local entities. This leaves the job of measuring success to the administrators, both those in the Department of Community and Economic Development and the Commonwealth Financing Authority.

The Department has identified specific metrics for programs and internal performance, enhanced the acquisition of information by means of the single application process online, and improved information sharing through the use of internet-based tools. The Department is reviewing relevant data in other state agencies, and the best methods for pooling this data and organizing it are under review. County-level data is also being reviewed. The planned architecture includes the capability of organizing and displaying the data with a geographic information system (GIS). DCED is in the early stages of implementing the integrated information architecture.

Within the context of what appears to be a developing measurement system, the Department of Community and Economic Development should take the following steps:

1. *Continue to develop and implement a comprehensive measurement system.* The Department has developed a comprehensive framework for measuring results of the Economic Stimulus Package programs, and more important, the results of all of the programs under its administrative umbrella. In PEL's opinion, the framework will meet the needs of a comprehensive system which is vital to the management of the programs in the longer term. However, considerable work needs to be done before the system becomes a viable management tool. Only if and when the details of the framework are filled out and the system is integrated into the agency's management structure will the system be able to provide answers to many of the questions posed in this report.
 - a. To the extent possible, the Department must continue to build the parameters of the measurement system into the program guidelines and project evaluation criteria for each of the programs.
 - b. Performance measurement must be integrated into the management culture of the agency, particularly by increasing buy-in from lower level managers and staff. Initial steps have been taken towards this end. To be successful, the process requires never-ending, regular reinforcement of its importance by top-level management through not only words of encouragement but, more important, through actions and decision-making.
 - c. Adjustments to elements of the system must be continuously made, based on results. As programs mature or desired outcomes are not being achieved, program changes will be important. Changing the measures will be necessary to reflect new program directions.

2. *Extend the scope of the system to include the non-Departmentally administered Redevelopment Assistance Capital (RACP) program, in the overall measurement system.* RACP does not currently fall under the DCED evaluation and approval process. Inclusion of all programs in the system is necessary to get a full picture of the results because interaction between projects across program occurs frequently. Just as important, performance measurement should be applied to the RACP to better understand its long-term success rate, especially since the Economic Stimulus Package devotes nearly a third of its resources to RACP.

(RACP is a Commonwealth grants program administered by the Governor's Office of the Budget for the acquisition and construction of regional economic, cultural, civic, and historical improvement projects. RACP projects are primarily economic development projects that have a regional or multi-jurisdictional impact, and generate substantial increases in employment, tax revenues or other measures of economic activity.)

RACP is an important dimension of development activities since it focuses on opportunities for local government. Many funding opportunities approved to date not only complement projects, but go a step further -- funding projects that are eligible for other programs. For example, several RACP approvals have been for industrial sites, the prime target for the Building in Our Sites program. This further emphasizes the need to better coordinate within the Package as well as among all economic and community development programs.

3. *Devote part of the measurement system to tracking and evaluating the performance of local service delivery agencies.* There are two objectives of this recommendation. First, the results of measurement should be used to reward those agencies that generate and implement projects proven to be a success based on the objectives established for the funding program. Second, information flow to the Department from local agencies and from the Department to local agencies should be consistent, abundant, and free-flowing.

Reporting and Auditing of Results

Historically, the Department reported on project progress in many of its programs individually or collectively, on an ad hoc basis at best. The legislation creating the Economic Stimulus Package contains no requirement for public reporting of results either on a project basis or collectively by program.

The authorizing legislation requires a fiscal audit by a certified public accounting firm; however, there is no provision for a performance audit. When performance audits have been conducted, the legislature has requested the Legislative Budget and Finance Committee to conduct after-the-fact performance examinations of programs and executive department operations. However, these audits are not conducted annually. The Auditor General has authority to look at performance, but the large scope of state programs prevents regular audits. Also, the focus of the Auditor General's Office must include financial auditing, further diluting its ability to regularly assess the performance of any one program or group of programs such as the Economic Stimulus

Package. Since auditing of results of past economic and community development projects has occurred inconsistently, there is no reason to believe that regular and thorough performance audits will be conducted on the results of the Economic Stimulus Package in the future.

The Economic Stimulus Package legislation is consistent with past legislative practice by not specifying and/or requiring follow-up performance audits. Therefore, at this time an independent third party verification of results is not required or even contemplated. The authorizing legislation doesn't provide for any mechanism to audit the results of the Economic Stimulus Package over time. In addition, there is no formal plan in place to audit results from either the legislature's or Administration's perspective. There are no incentives to proactively authenticate results in a public manner. In fact, there is considerable disincentive to do so through political pressure not to "air dirty laundry" even if the real objective is to make mid-course corrections for improvement.

1. *The Commonwealth Financing Authority should create and complete an annual report on the results of the programs under its purview. The Department should do the same, but include the reporting as part of their overall reporting mechanism for all economic and community development programs.* The reports should be a matter of public record and available on appropriate websites. The contents should include a summary of progress toward success as measured by the appropriate program for each project individually, totals for all projects in a program, and totals for programs combined in an unduplicated manner. The numerical accounting of results should be accompanied by a narrative interpretation of results and plans for making improvement based on the evolving data.
2. *Require a regular, formal public performance auditing process by an independent entity.* Historically, the Legislative Budget and Finance Committee has fulfilled this role in many instances. They could again serve in this capacity by simply building on past performance audits of economic and community development programs. The audit should extend past the activities of the Department to the roles and accomplishments of the local service delivery organizations. An added part of the audit should be a regular assessment of the scope and adequacy of the measurement system itself.
3. *Extend the concept of auditing to internal processes.* The Department of Community and Economic Development and the Commonwealth Financing Authority should establish a regular re-evaluation of programs based on accurately reported results and make appropriate mid-stream program adjustments. The Department and the Authority should combine the results with evaluations of all other community and economic development programs to determine total statewide and strategy-wide impact.

Organizational Issues

The creation of the Commonwealth Financing Authority not only adds another administrative process, but also has implications for both the efficient and effective use of public money:

1. The CFA represents an unprecedented breach of the separation of powers between the Executive and Legislative branches. The large number of legislative appointments to the

Board, combined with legislative appointee veto power, essentially allows the legislative caucuses, through the CFA, to revisit every element of the legislation: if one caucus didn't agree with a provision of the legislation, it could prevent that provision from being implemented.

2. The current CFA organizational structure limits accountability for results. Since most of its funding is through self-funded revenue bonds, it will not be accountable to the Governor or General Assembly through the budget and appropriation processes, nor to any other elected official -- or, therefore, the public. Although fiscal accountability will be achieved through audits, changing behavior of project applicants, program administrators, and the CFA Board based on outcome performance becomes more difficult.
3. While the legislation provides basic direction for each program, the independence of the CFA permits the Board to adopt guidelines and policies that may be inconsistent with the Commonwealth's overall economic strategy. This opens the door for project approvals that are not only inconsistent with an established strategy, but that can be counterproductive and an inefficient use of public money.
4. The diffusion of power within the authority is an invitation to "bartering" project approvals among members of opposing factions within the Board. If this occurs, it could easily dilute the overall impact of the programs by accepting projects that will have less than optimal impact.
5. Duplication of CFA and Department staff, especially at the highest levels, will result in an inefficient use of resources.
6. The law charges the Authority to approve projects based on the very limited strategic guidance in legislation. That leaves Authority members in the position to make decisions based on provisions in previously adopted program guidelines and the merits of individual projects as presented. These decisions may not be consistent with the overall policy guidance developed and adopted by the Department via its mission statement and related documents, as well as the overall economic and community development strategy.
7. On the other hand, the diffusion of power can act as a system check protecting against the abuse of power that could take place if too much authority is concentrated in one organization without adequate controls and oversight. The fact that the participants represent different factions adds to the balance of power not only between branches of state government, but also between caucuses in the General Assembly.

The unique organizational structure imposed by the authorizing legislation therefore creates both hurdles and opportunities. Imposing a separate and independent decision-making infrastructure such as the Commonwealth Financing Authority on top of the existing Department of Community and Economic Development and its various boards creates the impression, if not the reality, of expending public resources in an uncoordinated manner and possibly with conflicting

objectives. On the other hand, the separate Authority can act as a check on the actions of the Department. Ideally, a balancing of the two concepts should be pursued.

An additional concern is the separate review and approval authority of the Governor's Budget Office for the Redevelopment Assistance Capital Program.

Since it is unrealistic to assume that the legislation will be significantly altered in the short term, the following measures should be taken:

1. *The Department should continue to submit only projects that meet the performance standards of the programs.* Submissions should continue to include supporting data and information that exhibit why that project not only deserves approval, but why it ranks higher than other programs in the fight for scarce resources.
2. *The Department should utilize its performance measurement system to monitor the actions of the Commonwealth Financing Authority.* Similarly, the auditing process recommended above should clearly evaluate and report on the results of project approvals of the Authority. In summary, over time, only outside monitoring will ensure that the right projects are approved.
3. *The Commonwealth Financing Authority should use its links to the General Assembly to seek appropriate changes in legislation governing Economic Stimulus Package programs when appropriate.* After startup of all programs and with some experience in operations and preliminary results, the CFA, led by the Secretary of the Department, should assess the appropriateness of the legislative revisions, focusing on the issues of governance and program provisions, and submit legislation to the General Assembly for adoption.
4. *In the longer term, the General Assembly should restructure the Commonwealth Financing Authority.* The goal of restructuring should be to increase accountability in the decision-making process by increasing the responsibility of the executive branch for project selection and approval with commensurate changes in reporting and auditing procedures as outlined above. As part of the restructuring, two specific changes are recommended:
 - The role of the Commonwealth Financing Authority should be changed from an independent authority to an organization structured similar to other decision-making boards now operating within the Department. Operating and voting procedures such as majority vote requirements of the members should be consistent with operations of other existing boards. The Department should provide all staffing resources for a reconstituted Authority.
 - The responsibility for administering the Redevelopment Assistance Capital Program should be shifted from the Governor's Budget Office to the Department of Community and Economic Development and treated as an operating program with objectives to support the Department's strategy. At the same time, reporting and auditing, and, therefore, accountability for results should be transferred as well.

“It’s Your Money”

Implementation of all of the above recommendations could still result in either significant or very little progress. If history is a guide, the public wouldn’t be aware of limited return on investment of these public dollars – or, conversely, of their demonstrated highest and best use. Past practice relied on the opposition party or public “watchdog” agencies and private associations to ferret out and publicize deficiencies, while the party in charge claimed economic victory. Unfortunately, many of these assessments on both sides were often presented and/or interpreted in a biased manner. The taxpayer in general has had little knowledge and even less interest in holding government’s feet to the fire in those cases when performance has fallen short of expectations. Therefore:

1. *The private sector (taxpayers of all kinds) should take an active role in seeing that the programs are successfully meeting their stated objectives and pressure for change if the results are less than satisfactory.* The above recommendations are designed to provide not only public policy-makers with information for make decisions, but also to make it easier for taxpayers to make sure they get their money’s worth. The non-government sector must continually monitor progress and insist on appropriate change.
2. *Establish a private sector-driven coalition to monitor and promote effective economic development policies and programs.* This coalition would first serve as a neutral forum for bringing together diverse nonprofit organizations (focusing on advocacy, policy analysis, and research) and business and community leaders with an interest in supporting economic development. Second, the coalition would provide a means to form a general consensus about principles for the evaluation of community and economic development initiatives and coordinate the resources of its members to complete the evaluation. Third, the results of the evaluation, organized in the context of the collaborative framework, interests, and priorities of the coalition members, could be used to advocate for improvements in the delivery system. Local and state government officials would be forced to respond to a "united front," a concerted and systematic critique, which objectively evaluates the results of programs. Fourth, the coalition model is also an excellent mechanism for effectively utilizing media and education tools to advance the agenda of improving the economic development resources and the delivery system.

SUMMARY AND CONCLUSIONS

Long-term indicators of Pennsylvania's economy demonstrate that Pennsylvania is losing ground to the nation. Continuation of this trend has ominous implications for the present and future generations of Pennsylvanians. Action is clearly warranted.

Is the Economic Stimulus Package the right action at the right time? Turning a \$400 billion economy around after literally decades of creeping decline is a monumental task under the best circumstances. State government must fight not only its internal weaknesses, but do it within the confines of a much larger steering force -- national and global economic trends. The tools available to face the challenge are limited in scope and impact, requiring not only help and some element of luck, but also a long-term perspective, and therefore, patience. Within this context, a package of new and expanded financing programs by itself will not be enough, but can be a good first step in what should be a long-term commitment. To make that first step more effective and efficient, PEL provides some suggestions to raise the odds of success.

The more immediate question is whether the funds expended through the Economic Stimulus Package be money well spent. The combination of a diversity of programs, the complicated organizational structure imposed on implementing economic development policy in Pennsylvania, and the development of a virgin system for tracking and monitoring results presents a significant challenge to state government, especially in the startup stages. These factors also contribute to the difficulty in answering the critical question.

The bottom line answer: the package can be worth the money if the pieces fall into place, in the right way, at the right time. State government does not have a great track record in this regard. Historically, state government has not had the political culture nor the management process in place to make sure that right decisions are made up front and that the results are reviewed and analyzed post-completion. This begins with a lack of specific direction and objectives in authorizing legislation, and continues through management of programs without specifically defining what success looks like, measuring progress toward success consistently and accurately, and making necessary changes to improve performance based on the results of past performance.

PEL believes that the chances of success can be enhanced if many of the concepts that the private sector has relied on for years are applied to the programs of the Economic Stimulus Package. The application of these concepts must be tempered with the realization that there are significant differences between the motives and demands of the public and private sectors. Nonetheless, lessons learned and practice of the private sector can be instrumental in improving the delivery of government services. These concepts include:

- *Accountability.* The buck should stop somewhere. The project approval, management and measurement of most Economic Stimulus programs are splintered between at least three agencies. Adding to the fracturing of accountability is the structure and voting requirements of the Commonwealth Financing Authority Board. In the private sector, the CEO/owner, not multiple agencies and people, is held accountable for results.

- *Measurement of Success.* The Department of Community and Economic Development should be commended for beginning to build a measurement system. To date, the Department has been unable to verify and report on its successes (and failures) for an individual project, much an individual program or the varied collection of programs under its control. Full implementation and integration of a comprehensive system is a necessary step in knowing how well the money will be spent.
- *Reporting and Auditing.* Despite the accounting scandals involving larger private sector enterprises in the past several years, the private sector does have a required process to report the results of their efforts and have those results subject to audit. Reporting and auditing requirements established for the Economic Stimulus Package are weak at best and therefore must be dramatically improved.

Each of these three elements interacts with each other. Improved measurement will aid in program management, reporting and auditing, which in turn will support higher levels of accountability. In combination, all should contribute to a better bottom line for the taxpayer.

Implementation issues are front and center. Three of the most important are:

- *Regional planning and coordination.* The Department should encourage and give preference to projects that are part of coordinated regional plans/strategies;
- *Evaluation of return on investment.* There is a clear need for decision-making criteria, and one should be return on investment;
- *Rapid, efficient response.* Decisions must be made quickly, rather than letting applicants wait, putting at risk the effort of putting together applications, matching funds, etc. The loss of exceptional projects due to unfounded delay will further reduce the effectiveness of the Economic Stimulus Package.

Finally, and probably most important, a thorough and accurate application of these concepts will still fall short of real success if the results are treated by those outside of the system in the traditional manner. The business of government should be the taxpayers' business. Taxpayers must take a regular and active interest in the results that government produces. Without that "looking over the shoulder presence" and asking for better results, the tendency for government (and most organizations, for that matter) is to do what is necessary and probably in a manner similar to the way it always has been done.