



## REPORT ON KEY ISSUES FROM THE HOUSE APPROPRIATIONS COMMITTEE

# BUDGET BRIEFING

DWIGHT EVANS, DEMOCRATIC CHAIRMAN

August 4, 2008

## 2008/09 Budget: Economic Stimulus

### Economic Stimulus

**The Redevelopment Capital Assistance Program (RACP)** provides grants for economic development projects that generate increases in employment, tax revenues or other measures of economic activity, including projects with cultural, historical or civic significance. RACP projects have a 50 percent non-state funding match requirement. The 2008/2009 budget includes an \$800 million increase of the RACP debt limit, which would increase the maximum amount of RACP projects that can be undertaken from \$2.65 billion to \$3.45 billion.

The General Assembly approved SB 1412 providing options for seven and 10 year extensions for **Keystone Opportunity Zones (KOZs)** and the creation of up to 15 new zones, limited to 350 acres each. Existing KOZs may receive an extension provided the designation creates or retains at least 1,400 full time jobs and leads to a capital investment of at least \$750 million dollars within three years of the zone's designation. Existing zones are also authorized to apply for an expansion to add up to 15 acres of contiguous deteriorated property to the zone. This legislation also provides for the broadening of sales tax exemptions and modifies the application of the corporate net income tax for KOZs.

As part of the economic stimulus initiative, the interest rate for DCED's primary lending programs to businesses was lowered from 4.75% to four percent. These programs include the **Machinery and Equipment Loan Fund, the Pennsylvania Industrial Development Authority, and the Small Business First Fund.**

***Grant guidelines and applications are being developed by the Commonwealth Financing Agency, PennVest, and the Department of Environmental Protection and are expected to be available in the spring of 2009.***

### Infrastructure

The budget includes \$1.61 billion in new funding for 2008/2009 for infrastructure initiatives.

The General Assembly approved Senate Bill 2 (Act 63-2008), also known as the H2O PA Act, authorizing the **Commonwealth Financing Authority (CFA)** to incur indebtedness for grants for water or sewer projects, storm water projects, flood control projects and high hazard unsafe dam projects using money in the **Pennsylvania Gaming Economic Development and Tourism Fund (PA GEDTF)**. Beginning in 2009/2010, the CFA is authorized to utilize revenue to incur indebtedness of up to \$800 million. The term of indebtedness shall not exceed 30 years.

A minimum of \$100 million is to be awarded to flood control projects and a minimum of \$35 million is to be awarded to high hazard unsafe dam projects. Eligible projects must be a minimum of \$500,000 and no H2O PA grants will be awarded in excess of \$20 million for any project. Eligible applicants must provide a 50 percent match for water or sewer projects and a 25 percent match for high hazard unsafe dam projects.

This act requires **PennVest** to review all applications related to water and sewer projects and the **Department of Environmental Protection (DEP)** to review applications related to flood control and high hazard unsafe dams.

It is assumed that the \$800 million bond issue will be distributed in \$200 million increments from 2008/2009 through 2011/2012. Using level-debt methodology and a 20-year term with an interest rate of five percent, the first year debt service is estimated to be about \$12 million and increases to about \$48 million by fiscal year 2011/2012. The first debt service payment would not be due until

2009/2010. Debt service for these bonds would be paid from revenues in the PA GEDTF.

In the 2008 Capital Budget the following infrastructure projects were authorized to incur the specified maximum amount of indebtedness for the fiscal year.	
Public Improvement Projects – buildings and structures, including high hazard and unsafe dam projects	\$404 million
Rail Projects	\$10 million
Aviation Projects	\$5 million
Flood Control Projects	\$41 million
Bridge Projects	\$350 million

determine the specifics of the bond issuances, including the size of the bonds. A possible debt issuer is the Pennsylvania Economic Development Financing Authority.



### Infrastructure Investment

Senate Bill 1341, as enacted, requires a voter referendum in November regarding increasing indebtedness for infrastructure initiatives. If approved, Pennsylvania would borrow \$400 million for grants and loans to municipalities and municipal authorities for the acquisition, construction, improvement, expansion, extension, repair, or rehabilitations of all or part of drinking water systems and wastewater treatment projects. In addition, loans and grants may be used to assist investor-owned public utilities to acquire a small sewer or water company. The program would be administered by the **Pennsylvania Infrastructure Investment Authority**, also known as PennVest. The debt service payments would not begin until 2009/2010, estimated to be \$12.04 million. The payments would increase to \$24.1 million in 2010/2011 and \$32.1 million in 2011/2012.

The 2008/2009 General Fund Budget includes an appropriation of \$1.234 million to the **Pennsylvania Housing Finance Agency (PHFA)** for an Early Childhood Education Capital Program. The money will be used by nonprofit child care providers to construct well-designed facilities or for renovation of existing facilities. The 2007/08 budget included \$1.25 million for this program but the money was not spent. The intent was that this funding would be the first of a multi-year appropriation to pay the debt service of bonds issued to support this initiative. Currently PHFA is working with the Department of Community and Economic Development to

### QUESTIONS AND COMMENTS

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