

**Michael E. Rossman**  
**Testimony to Senate Finance Committee**  
**Senate Bill 65**  
**October 10, 2007**

Good morning, Mr. Chairman and members of the Committee. It is my distinct privilege to come before you today to speak about the Keystone Opportunity Zone program and its importance to DCED and the Governor's Action Team (GAT), as a business attraction and retention tool.

Since its inception in 1998, the Keystone Opportunity Zone (KOZ) program (and its later iterations, KOEZ and KOIZ) has ranked among the most valuable economic development tools made available in my 21-plus year tenure with the Commonwealth's economic development offices.

The Governor's Action Team serves at the front line of the Commonwealth's business recruitment, expansion and retention efforts. By that, I mean that we work directly with the executives of companies considering major new business development opportunities in Pennsylvania. This gives us a unique perspective into how private companies value the various incentives that Pennsylvania and other competing states can offer them in an effort to attract new jobs, retain existing jobs and stimulate private investment in our communities. I can tell you without hesitation, the KOZ program has been absolutely essential to our ability to secure any number of major new business development projects since the program was introduced.

Before providing you with some examples of projects where the availability of KOZ benefits was critical to our success in attracting or retaining businesses and before sharing with you the aggregate impact of all successful KOZ-located projects, I would like to provide some background and context. The KOZ program was introduced in 1998 and was largely fashioned after Michigan's Renaissance Zone program. The Renaissance Zone program was developed under Governor John Engler in an attempt to stimulate new investment and job creation in areas of the state that had seen dramatic economic decline from the downturn in the automotive industry in the 1990-92 recession. This novel-at-the-time concept of abating state business taxes for a finite period of time to stimulate new business locations in areas that otherwise would likely not experience any was widely recognized as a progressive approach to economic development. In addition to Pennsylvania's KOZ program, many other states quickly adopted similar programs, including New York with its Empire Zone program and New Jersey with its BEIP program. As we routinely compete with both New York and New Jersey for new business locations, our ability to counter those programs with the benefits that KOZ can offer a company is absolutely critical.

The KOZ program provides companies with abatements of various state and local taxes for the life of the zone. In all cases, the full amount of the local property taxes and certain other local taxes are abated. The level of state tax abatements a company can receive is based on an apportionment formula that compares the company's activities that

occur within the KOZ with other business activities it conducts in Pennsylvania outside of a KOZ. Also, sales and use taxes are exempted on goods and services which the company uses or consumes in the KOZ. May I point out at this time, if there are flaws in the current KOZ program, it is the manner in which the sales factor of the apportionment formula is currently calculated and the limits on sales tax exemptions to building materials. Because the sales factor only considers sales “into a KOZ” as eligible, this factor results in a company, whose only operations in Pennsylvania are located within a KOZ, only receiving a maximum abatement of 67% of its Pennsylvania corporate taxes. Another shortcoming of the program is the confusing way that sales tax exemptions are applied to building materials. Only certain types of building materials, not including those materials used to construct the “shell” of the building, are exempted under the current law.

As you can see by the KOZ report that was provided as a supplement to my written comments, the program has resulted in the creation of nearly 64,000 new jobs, the retention of over 48,000 existing jobs and has levered nearly \$18 billion in new private investment into the Commonwealth. I don’t see how anyone could not recognize the incredible economic impact those figures represent. And while I recognize that the KOZ benefits to these projects result in abatements of local property taxes and some level of abatement of state business taxes, these projects provide other significant forms of economic benefit to their communities and the Commonwealth. Consider what the Earned Income Tax and State Personal Income Tax benefits of over 112,000 jobs must be. Further, consider the spin off benefits of all the equipment, supplies and services these companies purchase, typically from local vendors and contractors. And remember, at the conclusion of the life of the zones, these facilities will begin fully paying the heretofore abated state and local taxes.

I offer for your consideration, the following examples of successfully completed GAT projects for which the KOZ benefits were an absolutely critical component of the company’s business cost analysis in making the decision for Pennsylvania. In each of these projects, we were facing very strong competition from other states, many of which could provide significant tax abatements:

- Olympus America, Inc. relocated its North American Headquarters from Long Island, NY to Upper Saucon Township, Lehigh County. This \$84 million investment will result in the creation of 750 high-paying professional and executive jobs.
- Recreational Equipment, Inc. established a new \$30 million distribution center in Bedford County. The project will create 328 new jobs.
- Target Corporation will establish a new regional distribution center in Allenwood, Union County. The \$100 million facility will employ 500.
- Medrad, Inc. chose a site in Saxonburg, Butler County as the location for its new corporate headquarters and manufacturing operations. This rapidly growing medical devices firm will invest \$45 million in the new facility, create 500 new manufacturing and professional jobs and retain 400 existing employees.

- Advance PCS established a new mail service pharmacy in Wilkes-Barre, Luzerne County. Upon complete staffing, this new \$25 million facility will employ 750 high-paying pharmacist and pharmacy technicians.

From my personal involvement in the negotiations and/or review of these projects, I can confidently state that Pennsylvania would have been eliminated from consideration in each were we not able to provide the tax benefits afforded by the KOZ program.

The Governor's Action Team supports the concept of extending the life of existing KOZ's for those parcels within the KOZ that have not yet been developed. We understand that such action would require the approval and full cooperation of the property owners and the local taxing bodies. We further support an appropriate fiscal analysis which would ascertain the budget implications and the cost-benefits of such KOZ extensions and which would enable a reasonable prediction of the returns on investment to PA taxpayers based, in part, on the significant and positive results of the KOZ program to date. In addition, the Governor's Action Team, working with the Governor's Office, stands ready to make additional recommendations for KOZ program improvement and performance.

I thank you, Mr. Chairman and members of the Committee for the opportunity to offer my comments on this important matter and I am prepared to answer any questions you may have at this time.