

Report Highlights

An Evaluation of the Keystone Opportunity Zone (KOZ) Program

The KOZ Program is an economic development program under which qualifying businesses, property owners and residents are eligible to have their taxes greatly reduced or eliminated in defined, parcel-specific locations across the state. House Resolution 115 calls on the LB&FC to assess the effectiveness of this Department of Community and Economic Development-administered program.

1. **PA economic development officials are generally supportive of the KOZ Program.** State and local economic development officials report that the KOZ Program has been a valuable tool in attracting businesses and is often among the key deciding factors in a business' location/relocation decision. The report cites many "success stories" of individual KOZ participants.
2. **DCED is taking a proactive approach to making program improvements.** Even before the report was finalized, the Department initiated important changes to improve program operations, data collection and record-keeping, and overall program administration to address a number of the deficiencies identified in the report.
3. **Deficiencies in program data prevent a comprehensive assessment of the KOZ Program's effectiveness.** The findings in this report are based largely on data from CY2006, as 2007 and 2008 data did not become available until the very end of our fieldwork. We also found significant problems with the reliability of the 2006 data we reviewed, including certain data that appeared to be duplicative and/or a mix of actual and estimated/projected figures. These and other data problems are detailed in the report. As noted above, however, DCED has recently taken steps to improve its data collection and reporting efforts.
4. **Using 2006 DCED records, we found about 75% of KOZ participants reported no job creation activity.** While to some extent the lack of job creation can be attributed to definitional reasons (e.g., what constitutes a "participant"), we found other examples of KOZ participants, including financial and investment services firms, where KOZ tax benefits are being received, but where no jobs have ever been created and no capital investments have ever been made.
5. **DCED needs better guidelines and procedures to ensure that a KOZ participant is a qualified business.** By law, KOZ businesses are to be "engaged in the active conduct of a trade or business." This phrase has never been defined, and apparently no business has ever been deemed "not qualified." As a result, KOZ participants include "businesses" such as real estate investment trusts, venture capital funds, and hedge funds that have FEIN numbers, but no employees.
6. **The total cost of the KOZ Program is not known and currently cannot be reliably estimated.** The major cost component of the KOZ Program is the amount of state and local tax exemptions, credits, and deductions that are granted to KOZ businesses, residents, and property owners. Neither DCED nor any other state or local agency currently knows what these tax abatements amount to, although a similar program in New York has estimated annual costs in excess of \$650 million.
7. **Most (70%) KOZ acreage has not yet been developed.** Of the 46,853 acres included in the KOZ Program, only 13,944 (30%) has been developed. Poor infrastructure, costly remediation, and inadequate marketing are some of the reasons for the lack of development.
8. **DCED does not adequately track and monitor "relocation" and "residency" aspects of the program.** Deficiencies were found in the DCED's efforts to ensure that existing PA businesses that relocate to a KOZ meet statutory requirements and verify that PA residents living and receiving tax breaks in a KOZ comply with the statutory 184-day residency requirement.

Recommendations:

- DCED should develop and implement a comprehensive plan of action to improve program administration and management. The report lists key components of such a plan, several of which DCED has already begun to implement.
- Before taking any actions to further expand or extend the KOZ Program, the General Assembly should require that new participants make specific commitments to create jobs and/or make capital investments and that new KOZ zones be truly deteriorated rather than merely "underutilized."