Does Pennsylvania's Redevelopment Assistance Capital Program Develop Its Economy?

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ABSTRACT

Several states administer grant programs that provide funding to businesses that relocate to the state or expand existing operations within the state. This study analyzes one such program administered by Pennsylvania, the Redevelopment Assistance Capital Program (RACP). Over the life of the program nearly half the grants awarded have gone to the two most populous counties in Pennsylvania, Allegheny and Philadelphia. Using grant data from 2010, I find that RACP grants do have a small effect on subsequent employment growth at the county level. However, this result does not reflect net employment growth at the state level. Additional evidence and economic theory are used to show that grant programs like the RACP spatially and intertemporally reallocate economic activity rather than create long-term economic growth.

JEL codes: H25, H32, R11

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Several states administer grant programs that provide funding to businesses that relocate to the state or expand existing operations. The Redevelopment Assistance Capital Program (RACP) in Pennsylvania is a grant program administered by the commonwealth's Office of the Budget for the acquisition and construction of regional economic, cultural, civic, recreational, and historical improvement projects.[1] The program was started in 1986 with the goal of creating new economic opportunities and jobs in Pennsylvania by investing in a wide variety of projects classified as economic development. Funding for the RACP increased nine times from 1986 through 2010, and by 2010 the borrowing authority for the program had reached $4.05 billion, up from $400 million at its start.[2] In 2013, Act 77 reduced the borrowing authority of the program to $3.45 billion. Since 1986 the program has awarded more than $5 billion in grants that have been used to fund more than 2,200 projects. Some of the projects approved in 2014 include the relining of a US Steel Corporation blast furnace, construction of a 120-room upscale hotel in Pittsburgh, and construction and installation of a rooftop solar array for an Urban Outfitters distribution center.[3] The grants for these three projects totaled $11 million. Table A1 in the appendix provides a sample of approved projects, their descriptions, and the grant amounts.

RACP grants are funded by tax-exempt government bonds. The bonds are sold to raise revenue, which is then used to award grants to the successful applicants. RACP projects must have a total cost of at least $1 million and at least 50 percent of the project cost must be provided by non-state entities.

1. Pennsylvania Office of the Budget, "What Is the Redevelopment Assistance Capital Program? (RACP)," accessed August 25, 2015.
2. Funding was increased in 1993, 1997, 1999, 2002, 2003, 2004, 2005, 2008, and 2010. More detailed information can be found at Pennsylvania Office of the Budget, "History of Redevelopment Assistance Capital Program Funding," accessed August 25, 2015.
3. A complete list of the businesses that were awarded grants, the grant amounts, and a description of the projects can be downloaded from the RACP: Pennsylvania Office of the Budget, "Redevelopment Assistance Capital Program," accessed August 25, 2015.

The grants are used to reimburse the costs of winning projects; they are not provided up front.

The RACP is administered similarly to a revolving line of credit. This means that as debt is retired, new debt can be issued to fund additional projects, so long as the amount of outstanding debt does not exceed $1.2 billion.[4] A recent redesign of the RACP established semiannual funding rounds, with awards generally made in April and October of each year.

In this study, I examine the distribution of RACP grants and their effect on subsequent employment growth. Over the life of the program, nearly half the grant dollars have been awarded to businesses in two counties—Philadelphia and Allegheny (where Pittsburgh is the county seat). I also find that grants awarded in 2010 did have a small, positive effect on county employment growth from 2010 to 2013. However, this result should be interpreted with caution since it does not represent net jobs created across the state. In fact, the economic theory and evidence in this study demonstrate that targeted development grants tend to reallocate economic activity from one place to another and across time rather than create long-term economic growth.

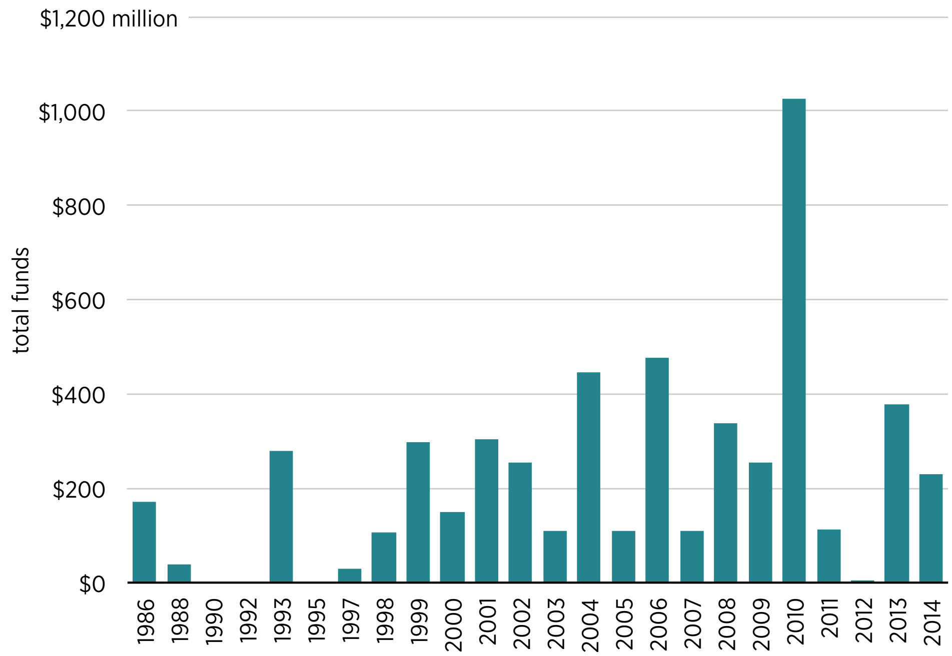
WHERE DO RACP GRANTS GO?

The RACP has awarded more than $5 billion in grants since 1986.[5] A substantial amount of that money was awarded in 2010, as shown in figure 1. Owing to the revolving nature of the debt used to fund the grants, the award amounts fluctuate. For example, the high award amount in 2010 resulted in low award amounts in 2011 and 2012.

The grants are awarded to the projects that score the highest according to a publicly available scoring system. The maximum amount of points is 100. Points can be earned for job creation and retention (40 points), community impact (20 points), development of strategic clusters (5 points), financial impact (25 points), and the start date of construction (i.e., shovel-readiness, 10 points).[6] The scoring process was designed to be objective and apolitical, but instead, the unintended result is that a large portion of the grants have been awarded to businesses in a small subset of counties. As shown in figure 2, over the history of the RACP, the bulk of the dollars awarded and projects funded

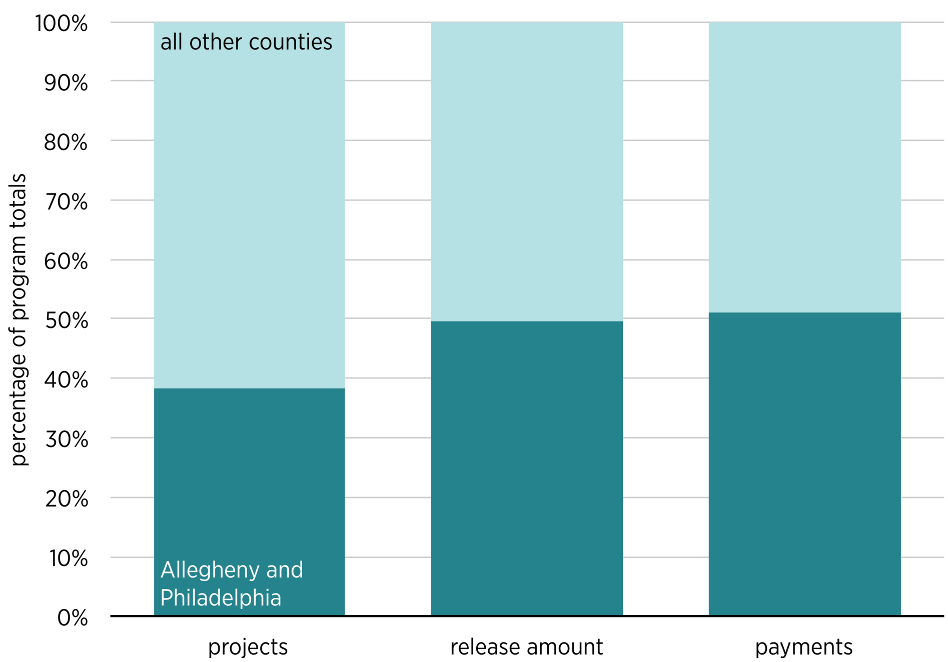
4. Pennsylvania Office of the Budget, "History of Redevelopment Assistance Capital Program Funding," accessed August 25, 2015.
5. In current year dollars, i.e., not adjusted for inflation.
6. The complete selection criteria can be found at Pennsylvania Office of the Budget, "RACP Selection Criteria," accessed August 25, 2015.

FIGURE 1. TOTAL REDEVELOPMENT ASSISTANCE CAPITAL PROGRAM FUNDS BY RELEASE YEAR



Source: Pennsylvania Office of the Budget, "Redevelopment Assistance Capital Program," accessed August 25, 2015.

FIGURE 2. REDEVELOPMENT ASSISTANCE CAPITAL PROGRAM RECIPIENTS, 1986–2014



Source: Pennsylvania Office of the Budget, "Redevelopment Assistance Capital Program," accessed August 25, 2015.

have been in two counties: Allegheny and Philadelphia. Allegheny County has received $1.01 billion for 351 projects, while Philadelphia has received $1.7 billion for 506 projects.[7]

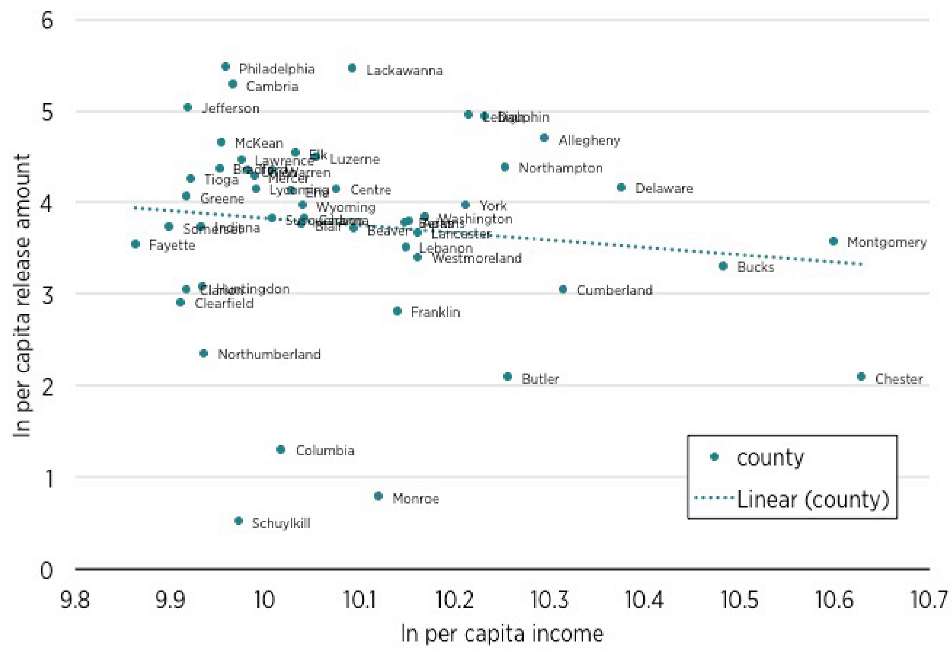
Nearly 40 percent of the projects funded and almost 50 percent of the dollars awarded and actual payments have gone to businesses in those two counties. Philadelphia County and Allegheny County contain the cities of Philadelphia and Pittsburgh, respectively, which are the two largest cities in Pennsylvania. However, although these cities are the largest, Philadelphia and Allegheny County combined never made up more than 26 percent of the Pennsylvania population from 1980 to 2014.[8] Both the dollars awarded and projects funded in these two counties far exceed their share of the population, meaning they are getting a disproportionate amount of the RACP awards.

The RACP's funding criteria take direct politics out of the process by using a publicly available, objective scoring methodology. But determining what criteria to include in the scoring methodology itself was a political process, and the result is a set of criteria that implicitly favor businesses in large cities. The scoring methodology includes "prioritizing projects that will have the greatest financial impact on Pennsylvania's economy" such as "large, regional, economic development projects that are transformative in nature."[9] Projects that are "transformative in nature" are more likely to be located in densely populated areas where the infrastructure is already in place and there are more people to impact. Transformative projects rarely take place in sparsely populated areas that are hard to access. The methodology also focuses on "strategically important industry clusters." Again, industry clusters are often located in densely populated cities owing to knowledge spillovers and agglomeration economies. Older industries, such as steel production, coal mining, and shipping, also clustered together to be around rivers or waterways and natural resource inputs. Cities such as Philadelphia and Pittsburgh grew up around these industries.

In addition to being one of the most densely populated counties in Pennsylvania, Allegheny County is also one of the wealthiest. In 1979, before RACP began, Allegheny had the fifth highest per capita income out of the 67 counties in Pennsylvania. In 1989, three years after the program began, Allegheny was ranked seventh, and in 2010 Allegheny was ranked sixth.

7. Data on RACP funding by county and by year can be found at Pennsylvania Office of the Budget, "Redevelopment Assistance Capital Program," accessed August 25, 2015.
8. US Census Bureau, "Population Estimates: Historical Data," county level data.
9. Pennsylvania Office of the Budget, "Goals of RACP Redesign," accessed August 25, 2015.

FIGURE 3. REDEVELOPMENT ASSISTANCE CAPITAL PROGRAM FUNDING BY COUNTY, 2010



Source: Pennsylvania Office of the Budget, "Redevelopment Assistance Capital Program," accessed August 25, 2015. Income data are from the US Census, http://www.census.gov/hhes/www/income/data/historical/county/county3.html.

Note: On the horizontal axis is the natural log of the county's per capita income and on the vertical axis is the natural log of the county's per capita release amount.

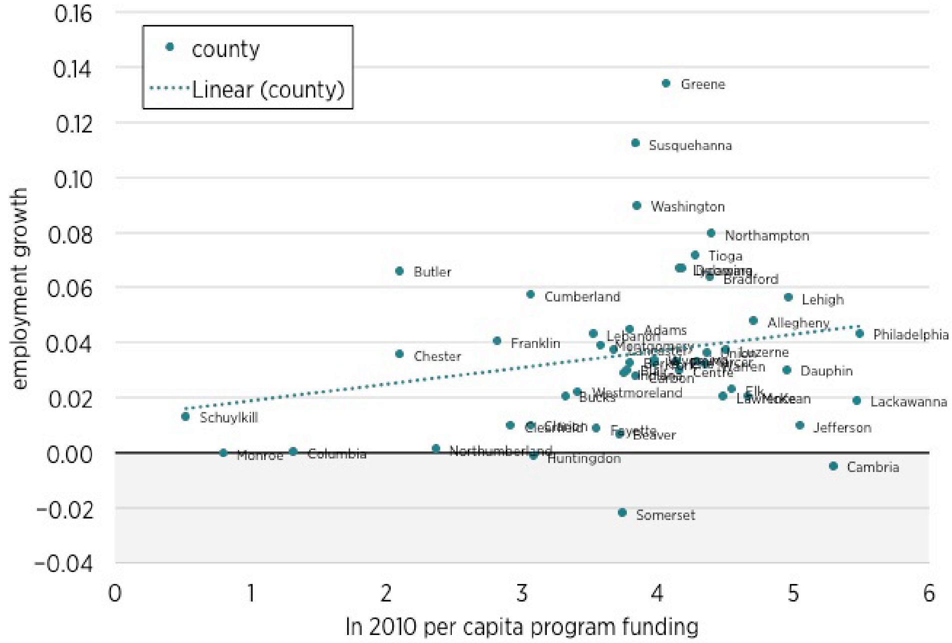
Philadelphia was ranked 39th, 25th, and 45th respectively in each of those years, which still places Philadelphia firmly in the middle of the rankings. Figure 3 depicts the relationship between per capita funding and per capita income by county more broadly using only 2010 data.[10]

If poorer counties, as measured by per capita income, received more grant money per capita, then the graph would depict a negative relationship between the two variables. As the graph shows, there is a slight negative relationship between the two variables, but the relationship is weak.[11] It does not appear that RACP funding is primarily going to the poorest counties.

10. The per capita funding is the per capita release amount, which is the amount of funding that is authorized to be reimbursed to the grant winner. The actual amount of payments to the grant recipient may be less than this amount if the grant recipient has not yet exhausted the grant or if it is waiting on reimbursement. I chose 2010 because it has the most accurate population data and the largest amount of funds in the program's history was released in 2010 (see figure 1).

11. The correlation coefficient is −0.13.

FIGURE 4. REDEVELOPMENT ASSISTANCE CAPITAL PROGRAM FUNDING AND EMPLOYMENT GROWTH, 2010–2013



Sources: Bureau of Economic Analysis, "Regional Data: GDP & Personal Income," Local Area Personal Income and Employment tables, accessed August 25, 2015, http://www.bea.gov/iTable/iTable.cfm?reqid=70&step=1&isuri=1&acrdn=5#reqid=70&step=1&isuri=1; Pennsylvania Office of the Budget, "Redevelopment Assistance Capital Program," accessed August 25, 2015.

DOES THE RACP CREATE JOBS?

One of the stated goals of the RACP is to generate employment in the counties that receive the grants. As mentioned earlier, 40 percent of the possible points that are used to determine the grant winners are based on job creation and retention. If the RACP generates employment, one would expect larger employment growth in the counties that receive higher levels of RACP funding, all else equal. Figure 4 is a scatter plot with the natural log of 2010 per capita RACP funding on the horizontal axis and private, nonfarm employment growth from 2010 to 2013 on the vertical axis. There is a slight positive relationship between per capita funding and subsequent job growth at the county level.[12]

Many other factors that can affect job growth at the county level are not accounted for in the scatter plot.[13] In order to control for some of these

12. The correlation coefficient between the two variables is 0.22.

13. Also, there could be an endogeneity issue, i.e., counties with strong economies also have more businesses capable of winning grants—thus a robust economy leads to more RACP grants, rather than the other way around.

additional factors, a multivariable regression was estimated that used county employment growth from 2010 to 2013 as the dependent variable. The 2010–2013 period was chosen since it followed the year of the largest release of funds in the RACP's history, as shown in figure 1. The key independent variable is the natural log of the RACP per capita release amount. The release amount is the amount of funds authorized to be reimbursed. If the RACP positively impacts job growth one would expect to find an effect in the years following such a large authorization of grant dollars. Summary statistics for the variables are in table A1 and the regression results are in table A2 in the appendix.[14]

RACP funding per capita in 2010 did have a small but statistically significant effect on subsequent county employment growth when past employment growth and other factors are held constant. The analysis shows that a one standard deviation increase in the natural log of RACP funding per capita in 2010 resulted in a 1.1 percentage point increase in county employment growth from 2010 to 2013. The following is a numeric example to illustrate the effect such an increase would have on the level of employment in a county.

Washington County received the median level of RACP per capita funding in 2010, which was equal to $47. Increasing this to $134 per capita (a one standard deviation increase) would have increased Washington County's growth from 9 percent to 10.2 percent. This additional growth would have resulted in 640 additional jobs at a cost of $18.25 million, which equates to a per-job cost of $28,522.[15]

It should be emphasized that the positive effect found here is not surprising, and it does not show that the grant led to a net increase in Pennsylvania's economic growth. Creating jobs via a grant process that gives certain businesses money to expand is a trivial achievement. To put the Washington

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14. The regression equation is

$$\ln\left(\frac{E_{2013}}{E_{2010}}\right) = \alpha + \beta \ln \textit{RACP per cap.} + \gamma \ln\left(\frac{E_{2013}}{E_{2010}}\right) + \theta \ln \textit{prop.bach.plus} + \delta \ln \textit{per cap. inc.} + \varphi \ln \textit{population density} + \varepsilon.$$

The independent variables are the log of RACP funds per capita in 2010, county employment growth from 2001 to 2009, the log of the proportion of county residents 25 and older in 2010 with at least a bachelor's degree, the log of county per capita income in 2010, and the log of the county population density in 2010. County employment data are from the Bureau of Economic Analysis, per capita income and education data are from American FactFinder, and RACP data are from the Pennsylvania Office of the Budget website. Counties are used as the unit of observation since Pennsylvania reports RACP grants at the county level. The release amount was chosen as the key independent variable since the RACP program is a reimbursement program. Thus the spending, and hence development, takes place before any actual payments are made. Using the payment amount rather than the release amount would ignore any spending that had not yet been reimbursed. The reimbursement process requires significant amounts of documentation and is also subject to monthly limits, which means that a substantial amount of spending may occur before appropriate reimbursement payments are made.
15. A step-by-step explanation of these calculations is available from the author upon request.

County example in a more appropriate context, it is important to remember that the result involves an all-else-equal injection of RACP funds. It is possible for Washington County to receive more funds holding everything else within the county constant, but it is not possible for *Pennsylvania* to supply more funds holding everything else within the state constant. In order for Pennsylvania to supply more RACP grants to Washington County, it would need to either redistribute them from another county or sell bonds to raise additional funds and then give those funds to Washington County. Redistributing grants involves decreasing RACP grants in one county, which would lead to a decrease in employment in that county, all else equal. Selling bonds imposes a higher future tax burden on the residents of Pennsylvania, which will lead to a decrease in economic activity at some point in the future, all else equal. Both of these funding methods involve a redistrubtion of economic activity, either spatially or intertemporally, that is not accounted for in the preceding empirical analysis and similar studies. A complete analysis would include the tax burden that is imposed on both current and future residents of Pennsylvania in order to fund the additional RACP grants and all the relevant opportunity costs.[16] Such a counterfactual analysis is beyond the scope of this study; thus the empirical result here only represents the upper-bound of gross jobs created in a county if it received additonal grants, not net jobs created in Pennsylvania.[17] The economic theory behind the opportunity costs that are inherent in programs like RACP will be developed more in the next two sections.

BUSINESS GRANTS INTERFERE WITH COMPETITION AND INNOVATION

The RACP grants subsidize the production of private goods, such as the relining of a blast furnace mentioned in the introduction. Private goods are goods that are both rivalrous and excludable, and as such their production is best left to the market. If private investors, who are subject to the economic signals of

16. In a recent study on the Tennessee Valley Authority, economists Patrick Kline and Enrico Moretti found that the agglomeration effects that accrued to the Tennessee Valley region owing to government assistance were completely offset by losses elsewhere in the country. Patrick Kline and Enrico Moretti, "Local Economic Development, Agglomeration Economies, and the Big Push: 100 Years of Evidence from the Tennessee Valley Authority," *Quarterly Journal of Economics* 129, no. 1 (2014): 275–333.

17. It is possible that other government grant programs at the state and federal level are positively correlated with RACP funding and thus are driving some of the effect shown in table 1. In that scenario the effect in table 1 would be an upper-bound. It is also possible that RACP grants awarded in earlier years, such as 2008 or 2009, are influencing the results in a similar fashion.

profit and loss, are unwilling to invest the amount necessary to successfully complete a project, then it is probably not a worthwhile venture because this implies that the expected marginal cost exceeds the expected marginal revenue.

A common argument by supporters of business grants is that companies will underinvest in innovation due to spillovers. In other words, since some of the benefits of innovation accrue to other businesses that don't innovate but instead imitate, businesses will produce less innovation than is socially desirable in order to limit their competitors' opportunities to imitate.[18] On its face this argument appears to have merit but it contains several important flaws.

First, even if some of the benefits of innovation accrue to other firms (i.e., there is a positive externality), the presence of a positive externality by itself is not a legitimate reason to subsidize an activity indefinitely or by whatever amount political leaders settle on via the legislative process. For example, RACP funding is currently set at $125 million per year, but this amount was not the result of a rigorous analysis designed to accurately estimate an efficient subsidy. A subsidy that is too large can be just as economically inefficient as no subsidy at all.

Second, innovations that are patentable largely avoid the problem of underinvesting due to information spillovers. Patents grant firms temporary monopolies over their innovations—thus removing the threat of imitation—and these monopolies allow firms to earn economic profits during the length of the patent. When the patent system is functioning properly, the ability to earn economic profits provides an incentive to innovate, making local-level subsidies unnecessary.

Third, the allure of business grants encourages what economist William Baumol called unproductive

"Patents grant firms temporary monopolies over their innovations—thus removing the threat of imitation—and these monopolies allow firms to earn economic profits during the length of the patent."

18. For an example of this argument, see Maria Cristina Herrera, Stephen Herzenberg, and Michael Wood, *Good Jobs, Strong Industries, A Better Pennsylvania: Towards a 21st-Century State Economic Development Policy* (Harrisburg, PA: Keystone Research Center, 2010), 8.

entrepreneurship.[19] Instead of spending time and energy inventing new products or improving production processes, entrepreneurs are incentivized to expend resources pursuing government grants. Since the grant is simply a transfer of resources from one group to another—in this case from taxpayers to the winning businesses—the resources spent on acquiring the grant do not create any new output, and from the whole of Pennsylvania's perspective, they are wasted.[20] Over time innovation will decline as once-productive entrepreneurs increasingly turn their attention toward winning the next grant rather than providing value to consumers.

And finally, in a competitive economy a firm that chooses not to innovate is soon overrun by its competition. Economic models commonly assume away this discrete aspect of competition. Instead the models assume that if a firm innovates, another will imitate it almost immediately. The imitating firm eats into the innovators' profits while bearing none of the costs of innovation. Thus it is in a firm's best interest to innovate less than it would if imitation were preventable. This argument, however, ignores a more important way that innovation impacts firms—many innovations are so disruptive that they completely extinguish firms that fail to evolve.[21] Potential entrants and existing entrepreneurs are always looking for profit opportunities, and if firms are lackadaisical other firms that offer superior products will quickly replace them.

Firms can afford to underinvest in innovation so long as they are being protected from competition by regulations and policies that benefit established firms, and this type of protection can only be provided by the very government that some call on to subsidize innovation. To the extent that innovation subsidies are economically efficient, they are a second-best solution necessitated by a government that restricts, rather than encourages, competition.

THE SEEN AND THE UNSEEN EFFECTS OF BUSINESS GRANTS

Government grants to private businesses distort the allocation of scarce resources. Businesses that receive the grants use the money to improve or expand their operations, a process that requires the use of resources such as capital and labor. The capital and labor used by the subsidized business are no longer available to be used by other unsubsidized businesses. Thus the grant

19. William J. Baumol, "Entrepreneurship: Productive, Unproductive, and Destructive," *Journal of Political Economy* 98, no. 5 (1990): 893–921.
20. Gordon Tullock, "The Welfare Costs of Tariffs, Monopolies, and Theft," *Western Economic Journal* 5, no. 3 (1967): 224–32.
21. Joseph Schumpeter, *Capitalism, Socialism, and Democracy* (New York: Harper & Brothers, 1947).

results in an allocation of resources that is likely different than what would have prevailed in a free market.

Government grants to private businesses also interfere with the entrepreneurial process and distort market competition. The grant-receiving businesses are given a state-induced advantage over their competitors. In fact, because the grant money is ultimately funded by taxes, workers and owners of competing firms are forced to subsidize their competitors by providing the revenue that funds the grants. And while the grant-induced expansion of a business may result in new jobs and tax revenue for local governments, what is not seen is the loss of jobs that result from the taxes placed on the unsubsidized businesses.[22] French economist Frédéric Bastiat referred to this as "what is seen and what is not seen."[23] It is easy to see that the business that receives the grant grows and adds jobs, but it is difficult to see the job losses that occur throughout the commonwealth as a result of the taxes levied to fund the grant. Because the grant provides a competitive edge to the subsidized company, that company may be able to outcompete its rivals and force them to scale back their operations or even shut down.[24] The loss of economic activity that results from such a scenario is rarely attributed to government grants, but the redistribution of resources caused by the grants is the ultimate cause of the distorted market competition that preceded the outcome.

This type of grant—which takes money from taxpayers throughout the commonwealth and gives it to local businesses—also encourages government inefficiency and waste, since local policymakers do not bear the full cost of their policy decisions. For example, all else equal, higher taxes and more regulation increase the cost of doing business. But because the businesses in Philadelphia and Allegheny counties receive such a large portion of RACP funds, any relative increase in the cost of doing business in those counties will be partially offset by the grants. This allows the local governments in those counties to impose higher taxes and more regulation than they might otherwise choose if they had to compete fairly with the rest of Pennsylvania's counties to attract businesses.

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22. Veronique de Rugy and Andrea Castillo, "The US Export-Import Bank: A Review of the Debate Over Reauthorization" (Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, July 2014).
23. Frédéric Bastiat, "What Is Seen and What Is Not Seen," http://www.econlib.org/library/Bastiat/basEss1.html.
24. For an example see Michael Hogg, "RCAP and Corporate Welfare Hurt Pennsylvanians," Commonwealth Foundation, June 18, 2014.

“Businesses that disproportionately serve high-wealth consumers have an advantage in the RACP funding process.”

RACP-SPECIFIC CONSIDERATIONS

The RACP was recently redesigned as it had “strayed considerably from its intended purpose of encouraging and assisting in regional economic development projects.”[25] However, the following analysis of the funding criteria reveals that the grants are still largely about creating jobs and generating tax revenue. The current RACP funding criteria place too much emphasis on the results of economic development rather than the causes.

For example, a total of 28 points can be earned for creating and retaining specified amounts of both direct and indirect jobs. An additional nine points are awarded if the wage base of the jobs is 2.51 or more times higher than the per capita income of the county where the business is located. Estimating jobs created or retained, especially indirect jobs, is more art than science. Awarding up to 37 points based on these metrics provides an incentive for grant applicants to err on the high side of any estimation and ignore any indirect “unseen” costs, such as job losses that occur at other competing firms. Also, different industries have different average salaries. Industries that use a relatively large amount of high-skill labor—such as health care, finance, and insurance—are going to have a higher wage base than industries that use more low-skill labor, such as accommodation and food services. Thus the process inherently favors firms in industries that use high-skill, high-wage labor. Even in the same industry, high-skill, high-wage firms are favored over lower-wage firms. For example, a hotel that caters to wealthy customers will pay higher wages (on average) than a hotel that serves the middle class. Businesses that disproportionately serve high-wealth consumers have an advantage in the RACP funding process.

Three more of the possible points are directly related to the costs of the project. If the project requires 101 or more construction jobs to complete, an applicant is

25. Pennsylvania Office of the Budget, “Goals of RACP Redesign,” accessed August 25, 2015.

awarded three points. The wages paid to construction workers are a cost of a project, not a benefit. More construction workers make a project more expensive for taxpayers, but in the RACP program this gets an applicant more points and thus a better chance of having its project approved.

Finally, by focusing on strategic clusters and industries, which can earn up to five points, Pennsylvania's political leaders are putting the economy at risk of becoming dependent on a relatively small amount of industries—similar to the way Michigan became largely dependent on the automobile industry.[26] Firms in some industries may end up clustering in Pennsylvania because of a comparative advantage or agglomeration economies, but this is a natural occurrence that does not require subsidies. Attempting to artificially create clusters or sustain them is ill-advised, since political leaders lack the relevant knowledge necessary to select the appropriate industries.[27] Even if they somehow manage to select the appropriate industries, the subsidies dampen the profit and loss signal that indicates when agglomeration is no longer economically efficient.

CONCLUSION

The Redevelopment Capital Assistance Program provides grants to private businesses throughout Pennsylvania. However, in its current form it disproportionally benefits businesses in two urban counties—Philadelphia and Allegheny. An empirical analysis that examines the program's largest award year suggests that the program generates only a small amount of gross employment in the recipient counties, while economic theory and additional evidence suggest that the program generates negligible net employment in Pennsylvania.

The RACP distorts market competition by giving some businesses a state-funded competitive advantage over their rivals. RACP grants are not free money, and can only be increased in one area by either decreasing them in another or by increasing the tax burden on the residents of Pennsylvania. In the long run this favoritism harms innovation, business diversity, and economic growth as scarce resources are diverted to industry sectors and firms based on their ability to win grants rather than their ability to provide value to

26. Pierre Desrochers and Frédéric Sautet, "Entrepreneurial Policy: The Case of Regional Specialization vs. Spontaneous Industrial Diversity," *Entrepreneurship Theory and Practice* 32, no. 5 (2008): 813–32.
27. F. A. Hayek, "The Use of Knowledge in Society," *American Economic Review* 35, no. 4 (1945): 519–30.

consumers.[28] Businesses that provide value to consumers will grow and naturally create both direct and indirect jobs over time. Creating a business environment that allows entrepreneurs to thrive is the best thing Pennsylvania can do for its economy.

28. Matthew D. Mitchell, *The Pathology of Privilege: The Economic Consequences of Government Favoritism* (Arlington, VA: Mercatus Center at George Mason University, July 2012).

APPENDIX

TABLE A1. CHARACTERISITCS OF SELECT RACP PROJECTS IN 2014

Project Name	Beneficiary	County	Municipality	Amount of grant	Description
US Steel—Mon Valley Works	United States Steel Corporation	Allegheny	City of Clairton	$5,000,000	Relining of the company's blast furnace at its Braddock location and improvements and repairs to its railroad transportation infrastructure.
ARC House Development	October Development	Allegheny	City of Pittsburgh	$3,000,000	Construction of a 120 room upscale Hotel in the Deutschtown/East Allegheny neighborhood of Pittsburgh, with retail and a parking garage with 300 spaces.
Energy Infrastructure for Direct-to-Consumer Fulfillment Center	Urban Outfitters Inc.	Lancaster	Salisbury Township	$3,000,000	Construction and installation of a roof-top solar array, accompanied by a possible battery storage facility, at a direct-to-consumer fulfillment center to be constructed in the area of the Town of Gap, Lancaster County.
Convention Center Commons/Tech Center	Convention Center Commons LLC	Blair	Allegheny Township	$2,000,000	The Convention Center Commons/Tech Center Project consists of a 61,975 sq. ft. pad for a Carmike 12 screen theater with "BIGD" auditorium, Carmike's acclaimed premium theater environment. In combination with the theater will be 14,500 sq. ft. subdivision for premium retail, as well as three fully pad ready class A office/tech space[s] totaling 17,900 sq. ft. Overall project cost is estimated at $16 million.
Washington Lane Road Improvement	Sikorsky Global Helicopters Inc.	Chester	Coatesville	$2,500,000	The proposed RACP scope will be limited to engineering and constructing a tunnel under Washington Lane which will connect Sikorsky's existing manufacturing facility with a 12-acre parcel of land adjacent to the Chester County Airport.
SAP Newtown Square Data Center	SAP America Inc.	Delaware	Newtown Township	$2,000,000	SAP currently houses a 40,000 square foot Data Center in its North America Headquarters in Newtown Square, PA. This Data Center facility is only used to about 35% of its potential capacity due to a lack of power and infrastructure. The project to upgrade SAP's data center would increase the incoming power with additional infrastructure to support the new power loads and increase the capacity of the data center.
Dietz & Watson Distribution Facility	Dietz & Watson Inc.	Philadelphia	City of Philadelphia	$5,000,000	Dietz & Watson intends to reconstruct its warehouse and cold storage building, general and corporate offices and expand its project to add a fleet garage, auto and truck facilities and related operations.
210 York Street	Think Loud Development LLC	York	City of York	$7,000,000	RACP scope of overall Project is the final fit out for the first two floors of a historic renovation/redevelopment of an underutilized, vacant, deteriorating warehouse in a blighted neighborhood. First two floors of building will be the flagship offices of Think Loud Development and United Fiber & Data.

Source: Pennsylvania Office of the Budget, "Redevelopment Assistance Capital Program," accessed August 25, 2015.

TABLE A2. SUMMARY STATISTICS

Variable	
Employ. Growth 10–13	0.04 (0.03)
ln RACP per capita	3.76 (1.06)
Employ. Growth 01–09	0.03 (0.06)
ln prop. bach. plus	−1.58 (0.34)
ln per capita income	10.09 (0.17)
ln population density	5.43 (1.20)
N	50

Sources: Education and population data are from American Fact Finder. Employment data are from the Bureau of Economic Analysis. RACP data are from the Pennsylvania Office of the Budget.

Note: Standard deviations are in parentheses.

TABLE A3. EFFECT OF RACP ON COUNTY EMPLOYMENT GROWTH

Dependent variable	1	2
ln RACP per capita	0.0107* (0.0042)	0.006* (0.003)
Employ. Growth 01–09	0.1917* (0.0878)	– –
ln prop. bach. plus	0.0108 (0.0216)	– –
ln per capita income	0.0252 (0.0350)	– –
ln population density	−0.0065 (0.0041)	– –
constant	−0.2111 (0.3796)	– –
R^2	0.2520	0.0474
N	50	50

* Indicates significance at the 5% level.

Note: Standard errors are in parentheses. The dependent variable is county employment growth from 2010 to 2013. Column 1 is the main specification and column 2 omits the additional regressors so the reader can see how much they contribute to the model in column 1.

ABOUT THE AUTHOR

Adam Millsap is a research fellow for the State and Local Policy Project at the Mercatus Center at George Mason University. Millsap has conducted research on urban development and growth, population trends, and federal and local urban public policy. His writing has appeared on *RealClearPolicy*, *RealClearMarkets*, and the *Freeman* online. He has also written about economic policy for the Reason Foundation. Adam earned his PhD in economics from Clemson University and a BS in economics and a BA in comparative religion from Miami University. He was also a Mercatus Adam Smith Fellow during the 2013/14 academic year.

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