

**Written Testimony
Pennsylvania House of Representatives
Commerce Committee
March 11, 2010**

**John Sider
Deputy Secretary for Technology Investment
Department of Community and Economic Development**

Good morning Chairman Daley, Chairman Hess, Members of the House Commerce Committee. Thank you, in particular, Representative Mirabito, for the invitation to be with you today to talk about job creation and economic development, from a rural perspective.

My name is John Sider and I am the Deputy Secretary for the Technology Investment Office housed within the Pennsylvania Department of Community and Economic Development (DCED). The Technology Investment Office serves as a catalyst for growth and competitiveness for Pennsylvania companies and universities by financing innovation, creating partnerships and providing support services through technology-based economic development initiatives.

Like many families and businesses across Pennsylvania, state government has been forced to tighten its belt and work with limited resources. Despite reduced staff and program budgets, DCED has stayed focused on the task at hand and has done its best to preserve the economic and community development momentum that has helped the state weather the current financial and economic storm. Overall, Pennsylvania has fared better in the face of this national recession more than most other comparable states. Over the past seven years, this administration and the General Assembly have made wise investments to attract new industries, to revitalize economically-distressed areas and to maintain and grow existing businesses.

According to the Small Business Administration, small business generates the most new job growth in the U.S. economy. In fact, small business and entrepreneurs led Pennsylvania out of the 2001 recession. Small businesses in Pennsylvania created 44,079 jobs following

the 2001 recession while large businesses (>500 employees) eliminated 107,992 jobs during the same period¹.

And while we've been forced to tighten our belts and prioritize, one fact remains quite clear: investing in Pennsylvania entrepreneurs and small to medium-sized businesses in rural Pennsylvania is a crucial step toward creating good jobs.

There are three things that I believe will make a positive difference to economic growth in rural Pennsylvania.

1. Broadband Deployment in Pennsylvania

As a part of the Governor's commitment to economic growth, Pennsylvania is working to foster the deployment of high-speed telecommunications across the state. By ensuring that Pennsylvania has an expansive and established broadband network we are helping to shape our economy by ensuring that our state is truly business-ready.

Governor Rendell would like to see all parts of Pennsylvania with the same high-speed access as our cities. In addition to the benefits to business, he feels our students deserve high-speed Internet, as it will enhance instruction, raise achievement and prepare them to compete for the very best jobs with their peers from around the world.

Thanks to the commitment of this administration, Pennsylvania is home to one of the country's most aggressive broadband deployment commitments. Through Act 183 of 2004, telecommunications infrastructure will be in place statewide, so that every Pennsylvania community, even the most rural, will have broadband access as early as 2008 and no later than 2015. This initiative is well ahead of the broadband access schedules set forth by telephone companies. DCED implements several programs in order to accelerate broadband deployment across the commonwealth for economic development purposes, including:

¹ David Birch, Economist and Author of *The Job Generation Process* and U.S. Small Business Administration

- **The Broadband Outreach and Aggregation Fund (BOAF)** - a grant program designed to help communities overcome challenges associated with low population density and physical isolation from larger population centers. Aggregating local demand for high-quality telecommunications helps to attract broadband providers, particularly for rural and underserved areas of Pennsylvania.
 - Nearly \$4 million has been invested in BOAF projects through June 2009, with efforts targeted to the health care, education, manufacturing, and local government sectors, as well as communities in general.
- **Bona Fide Retail Request Program (BFRR)** - allows communities served by Verizon-PA, Verizon-North, Embarq, and Windstream, and without DSL or broadband service currently available, to make a request to provide such service. Once the request from a community service area has been formally submitted, the provider must deploy broadband service to that location within one year.
 - As of November 2009, an estimated 21,000 individual BFRRs had been submitted and 470 CSAs had met the threshold level necessary to trigger deployment. Of these, 303 have been deployed and 169 are in progress. Currently, the demand for deployment under the BFRR program typically exceeds the annual commitments under applicable statutory guidelines.
- **Business Attraction and Retention Program** - accelerates broadband deployment for economic development, in recognition of the importance of telecommunications infrastructure in attracting and retaining businesses. BARP allows DCED to request broadband services on behalf of qualifying businesses within or relocating to the state. This program is a tool to help redevelop old industrial sites and support economic development efforts to create more jobs in Pennsylvania.
 - This program was integral in spurring Windstream to deploy broadband services to Warren General Hospital and remote locations in Warren County.

Fortunately, broadband was seen as a major part of the American Recovery and Reinvestment Act because it dedicated \$7.2 billion to support this cause. So far, \$132 million in broadband-related grant awards have been made in Pennsylvania.

In January, the Governor announced that Pennsylvania will receive \$2.25 million in federal Recovery Act funds to help boost broadband Internet coverage across the state. The federal stimulus funds will aid the state's efforts to identify areas and organizations that lack broadband service, develop strategies to extend coverage, and promote collaboration.

Then, in February, \$130 million was awarded to Pennsylvania through ARRA to expand and improve Pennsylvania's broadband infrastructure, including:

- A \$28.8 million grant to the Executive Office of the Commonwealth of Pennsylvania to increase broadband Internet connection speeds for community anchor institutions and underserved areas isolated by difficult, mountainous terrain in northern Pennsylvania.
- In addition, a \$99.7 million grant to the Keystone Initiative for Network Based Education and Research to create the Pennsylvania Research and Education Network (PennREN). With nearly 1,700 miles of fiber, the network expects to expand broadband Internet access and directly connect 60 critical community anchor institutions in 39 counties across south and central Pennsylvania. PennREN will enhance healthcare delivery, research, education, workforce development, and public safety by delivering broadband speeds of 10 Mbps to 10 Gbps.

The strides Pennsylvania has made to make broadband available will be complemented by this newest infusion of federal funds. They will reinforce our efforts to bridge the digital divide by expanding reliable, affordable high-speed connectivity that will create jobs, and provide long-term benefits in rural communities.

2. Support Existing Small and Medium-Sized Businesses

In this tough economy, one of the greatest obstacles affecting companies that want to invest, grow and create new jobs, is access to capital. Working capital can be extremely difficult to acquire in the current economic environment.

Representative Mirabito is sponsoring a bill that will revise some parameters for the Second Stage Loan program operated by DCED within the Commonwealth Financing Authority. The purpose of the revisions is to make the program more attractive to lenders, who have hardly utilized the program since its inception.

To make the program more attractive to lenders who will share the risk, the bill proposes remedies such as eliminating the upper age cap of seven years while keeping the two-year minimum; retaining the loan guarantee amount at 50 percent for the life of the loan; and increasing the per-loan cap to \$5 million. The administration supports these changes and looks forward to their adoption.

Another important element in supporting small to medium businesses is to support manufacturing at the local level. Pennsylvania's largest economic sector is manufacturing with more than \$63 billion in Gross State Product in 2008, which is 14 percent of the state's economy.

The reliance of rural communities on manufacturing is significant. Thirty-one percent of Lycoming County's economy relies on manufacturing (2008 GSP), which is typical of Pennsylvania's rural communities.

Rural employment is also more reliant on manufacturing with almost one-quarter of jobs in Lycoming County relying on manufacturing. In addition, rural wages are also significantly higher in manufacturing careers and occupations – almost one-third higher than the average wage for the county.

To support the manufacturing sector, the Industrial Resource Center program (IRC) was created with a primary focus on supporting small and medium manufacturers in the state. The program also covers the entire state, with five of the seven centers focused on the rural "T" of Pennsylvania (those areas outside of Pittsburgh and Philadelphia).

The IRC program delivers key resources that rural manufacturing firms have less access to, including new market development to help drive new business opportunities; new product development to drive job creation; business strategy to secure firms and keep them in the commonwealth; sales development services and training to increase sales and process

improvement and quality programs to enable firms to compete globally (lean manufacturing, ISO, plant layout, etc.)

A hallmark of the IRC program is to be able to take emerging and off-the-shelf technologies and deploy them to the small and medium manufacturers. This is especially important to rural firms that, in many cases, have little access to new techniques and services or, if they are available, cannot afford to leverage them. The IRC program's ability to right-size these services for the rural manufacturer and to partner with consultants, economic development organizations and universities are critical in order for firms to globally compete and retain and create jobs.

The IRC program is also pursuing new services like the Innovation Marketplace that was developed by our federal partners in the U.S. Department of Commerce. The Innovation Marketplace provides simulated market research results on product concepts that allow firms to evaluate and validate new products and business opportunities prior to investing significant funds. The report provides sales estimates in the marketplace, which help firms adjust marketing and sales strategies for a more successful product launch.

There is also the issue of advanced-skills training; a critical component of economic development in the commonwealth. If Pennsylvania wants to be successful in competing with other states and countries in attracting and retaining high-paying jobs, we have to have a technically trained and educated work force. For this fiscal year, DCED proposed an increase in funding to the Customized Job Training and WEDNet line item. This proposal would increase funding for this important program from \$9 million to \$11 million. It's important to mention, however, that at one time the program was funded at \$30 million.

Both of these programs are heavily used by manufacturers. Customized training is typically used for higher end training tied to an expansion, new equipment/capital expense or new hiring but can include retraining of exiting workforce up to 75 percent of the eligible

costs. Basic skills and IT training services are also offered through the workforce development programs.

3. Support Entrepreneurship through Innovation

The final point I will make is the importance of supporting entrepreneurship through innovation. Our future hinges on our ability to innovate and take sound ideas from the lab to the marketplace. DCED, through the Technology Investment Office, has programs in place that guide small companies through the business life cycle.

Technology companies have made major contributions to the commonwealth economy with breakthroughs in innovations that have resulted in new companies, spin-off products and services, and new jobs.

Ben Franklin Technology Partners is one of the state's most dynamic resources available for technology companies, and it serves as a vital way for Pennsylvania to become a more effective leader in the new economy.

The partnership strengthens the state as a leader in cutting-edge research, innovation and commercialization and provides emerging and growing technology enterprises with access to resources they need to become more competitive and more successful in the global marketplace.

Northeastern Pennsylvania's CICLON is an excellent example of a company that took advantage of the full range of services available from the commonwealth and, in particular, the services available through Ben Franklin Technology Partner of Northeastern PA.

A small state investment in a sound idea put CICLON on track to raise additional private funds and the company, which started with three employees, now employs 50.

Another example is Warren County-based Forward Vision Systems Inc. The Ben Franklin Technology Partners of Central and Northern PA made an initial investment into the company who now is a qualified supplier to aircraft manufacturers. Its product, Enhanced Vision System, is likely to become as common as global positioning systems and will have significant impact in the future on the reduction in accident rates.

Prior to this innovation, night-vision systems were only available for military applications and business jets, and priced starting at more than \$100,000 per unit. Forward Vision has successfully brought its product to the aviation marketplace for less than \$20,000. It currently employs 11 people and has raised \$1.5 million in additional capital.

Another important tool in making an impact in rural Pennsylvania is our Keystone Innovation Zone (KIZ) program. The KIZs created geographic zones, or “knowledge neighborhoods” that align the combined resources of educational institutions found throughout rural Pennsylvania, private business, business support organizations, commercial lending institutions, venture capital networks and foundations. These collaborations increase technology transfer, entrepreneurship, community development and talent retention – and create jobs.

The KIZ program capitalizes on the commonwealth’s greatest asset – our young and talented graduates. It enhances partnerships with new, high-tech businesses and trains students for the jobs of the new economy

The idea is that through targeted learning programs and internship opportunities, students will graduate with an experience level that will give them the discernable advantage over other graduates.

Since the inception of the KIZ program, 176 interns have been placed in rural Pennsylvania companies. This directly addresses keeping our best and brightest students using their talents in local communities.

Locally, the Williamsport/Lycoming KIZ has had a tremendous impact on the region. When that KIZ was founded in 2005, it was home to just three KIZ-eligible companies. Today, that KIZ is home to 18 companies. This proves that Williamsport is becoming a hub of entrepreneurialism and innovation. Without the KIZ, people and start-ups would not have a one-stop location to come to get the product development and innovation support and resource connections they need in our region.

Another important resource of the KIZ program is the Keystone Innovation Tax Credit. KIZ tax credits can be used to offset certain state tax liabilities. With a total pool of up to \$25 million in tax credits available to KIZ companies annually, the KIZ Tax Credit Program significantly contributes to the ability of young KIZ companies to transition through the various stages of company growth. This innovative program also provides for a tradability component crucial to young companies that do not yet have a tax liability.

In 2009, 175 KIZ tax credits were awarded, 115 of those tax credits were awarded to rural communities amounting to \$8.3 million, or 60 percent of the total awards.

We must remain committed to supporting our innovation continuum of capital and services because our future relies on local entrepreneurs whose ideas will lead to the next breakthrough product or services we can't yet imagine.

I am honored to have an opportunity to participate in today's hearing and look forward to supporting the important work of this committee.