



GOVERNMENT NEWS

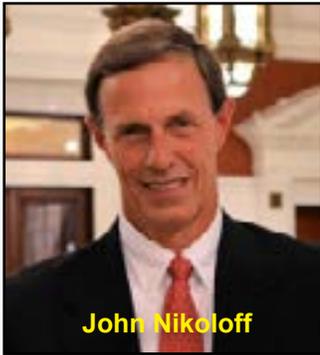
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Issue 12/February 2017

STATE NEWS

Governor Wolf Proposes 2017-2018 Budget with \$670 million state spending increase, \$1 billion in new taxes.

By John Nikoloff, Partner, ERG Partners, Harrisburg



John Nikoloff

Early this month, Governor Wolf proposed a \$32.3 billion state budget increasing state spending by \$670 million, but avoiding Personal Income Tax or broad sales tax hikes. Human Services and Education make up the bulk of the increases in the budget, as they do in terms of overall state costs. Wolf said he planned to pay for the budget increases, as well as the \$3 billion shortfall and structural deficits by limiting spending, merging programs/agencies and finding efficiency in operations. SMC will be working with the Governor and General Assembly to ensure solutions at the state level don't overly impact small businesses.

Wolf also proposed more than \$1 billion in new taxes, including \$95 million in new tax revenue from raising Pennsylvania's minimum wage from \$7.25 to \$12.00 per hour, immediately on July 1 with no phase-in period.

And he proposed expanding sales and use taxes to several products and services, including commercial storage; computer services; aircraft sales, use, and repair; and airline catering. The revenues would be \$490 million.

More fully closing the "Delaware loophole," moving to combined reporting for Corporate Net Income, would raise \$81.2 million. He proposed reducing the Corporate Net Income Tax (CNI) rate beginning in 2019 to 8.99% and then subsequent reductions to 6.49% by 2022. Net Operating Loss provisions would be capped at 30% of taxable income effective January 2018. He also again proposed a 6.5% natural gas severance tax in addition to the current impact fee paid by drillers to raise \$293.8 million. Com-

Remember... Small business is the backbone of the PA economy

- 98% of all employers in PA are small businesses defined as less than 500 employees.
- There are more than 226,000 small businesses in PA.
- Of those 87% (197,000) have LESS than 20 employees.
- Small businesses employed nearly 47% of PA's private-sector labor force in 2013 (2.4 million).
- Small Businesses made up 89.1% of Pennsylvania exporting companies and generated 35.6% of PA's know export value.

.....U.S. Small Business Office of Advocacy-most recent Pennsylvania profile.



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STATE NEWS

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panies would receive a credit against the tax for the impact fees they now pay.

He also proposed taxing “most previously exempt insurance entities,” including the state’s Blues, netting \$141.5 million next year. Wolf proposed transferring \$165 million from the Workers Compensation Security Fund, a move he opposed last year.

Senate Majority Leader Jake Corman said, “This budget contains proposals for one-time revenues, while asking Pennsylvanians for \$1 billion in new taxes and fees. This does nothing to address the pension crisis. It does little to address long-term spending. This budget falls short of addressing the real issues in state government.”

The Governor claimed nearly \$2.1 billion in cost savings for the FY2017-18 budget in “revenue enhancements (\$314 million) and eliminating and reducing programs outside the Commonwealth’s core mission (\$171 million). Prioritizing, cost efficiencies and fiscal management, Wolf said, project another \$1.61 billion in savings – all figures questioned by the General Assembly. He proposed merging the Departments of Aging, Drug and Alcohol Programs, Health and Human Services into one agency, projecting \$94 million in savings.

The Governor would also reduce tax credits by \$100 million, increase education spending by \$200 million, flat-fund Pennsylvania’s state-related universities and community colleges, and net \$54 million from “revenue collection maximization” (his words.)

The House and Senate began budget hearings with state agencies February 21, continuing into mid-March, and all of these proposals will be explored and hotly debated. Small business has a major stake in the development of this budget, and SMC will be working to be sure your voice is heard as decisions are made on issues ranging from pension reform, to taxes, to spending. ■

SMC in ACTION

Lobbying – Affordable Care Act

SMC recently lobbied the PA Congressional delegation. “SMC Business Councils opposes the out-right repeal of the ACA without a replacement plan. Repeal without a replacement plan will have the following impacts:

- The ability of small businesses and their employees to obtain health insurance would be immediate and devastating.
- Individuals and sole proprietors would be unable to afford the premium without the federal subsidy.
- Health insurers may pull out of the health insurance market altogether.

The wider economic ramification is the negative impact on the Pennsylvania State budget with the withdrawal of federal funds underpinning Medicaid expansion.....” SMC went on to explain the budget problems faced by PA.

[Click here](#) to read the most recent information. “**Auditor General DePasquale and PA Treasurer Torsella Warn of Health Care and Fiscal Impacts if Medicaid Expansion Eliminated.**”

Achievable Pension Reform in 2017

By Senator Pat Browne (R-16), Senate Republican Appropriations Chairman



This is the second part of a two-part series, “Achievable Pension Reform in 2017,” which looks at state pension reform from vastly different viewpoints. Rep. John McGinnis (R- 79) believes that much, much more can be done to solve the pension problem. In the December 2016 SMC Government News. He wrote, “Our Commonwealth is on a path to pension insolvency (the complete depletion of pension assets). When will that insolvency come about and what will its impact be?” To read the article, [click here](#).

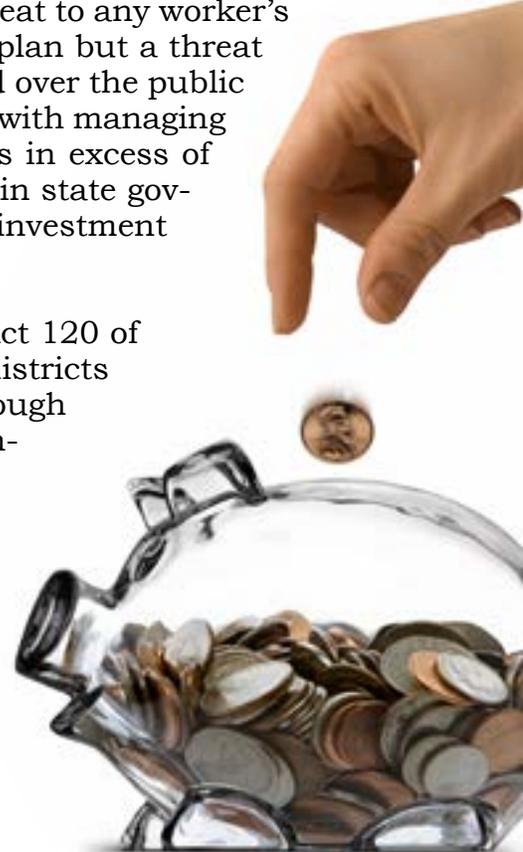
Beginning in the 1970’s with growing uncertainty in their core markets, the private sector moved to a balance of risk in retirement benefits through the offering of defined contribution plans. This was not a move against the wellbeing of their workers but recognition of the danger of unmanageable risk on their enterprise and on the employment security of their labor force. By making this move, the private sector was standing up for their workers, not undermining them, ensuring that they would not have to lay off employees to cover escalating pension payments caused by unexpected underperforming plan investments.

Private sector owners and managers realized that the greatest threat to any worker’s retirement security is not a proposal to change their retirement plan but a threat to their job security. Over the past decade, this threat has loomed over the public sector as well. The experience Pennsylvania government has had with managing investment risk over the past 20 years – with pension payments in excess of 30% of payroll – has led to thousands of unnecessary job losses in state government and in our school districts. This trend will continue if investment performance does not meet expectations.

Pennsylvania’s public pension systems were reformed through Act 120 of 2010. These reforms will save the Commonwealth and school districts \$30 billion in pension costs over the next 25 years projected through the year 2034. Act 120 was a good first step to start the Commonwealth on the road to protecting itself against unrealized market assumptions and economic downturns. It included a shared risk provision for new employees if investments underperform and set a pathway to achieve full funding of pension obligations. However, Act 120’s primary achievement was to reduce the cost to taxpayers of benefits offered from greater than 9% of payroll to less than 4% of payroll.

Unfortunately, it only scratched the surface of addressing the risk of paying for the benefits-the primary source of the current debt and the reason payments now approach 30% of payroll.

To read more, [click here](#).



Debunking Pension Myths

By Rep. Dan Frankel (D-23), House Democratic Caucus Chair



As the commonwealth grapples to close a multi-billion-dollar budget gap, a structural deficit and stagnant revenue -- pension reform continues to be a top Republican legislative priority, as it has been for several years even though significant reform measures have already been adopted under Act 120. While pension reform is an understandable and appropriate issue to solve, the Republican “solutions” to “fix” certain problems have been misleading if not patently untrue.

MYTH: Reform will reduce individual and business tax bills.

Fact: The required employer contribution under every major pension proposal drafted by the Republican majority and vetted by the legislature over the past several years would go up each year for the next 20 years. When Republican leaders like Sen. Corman and Rep. Tobash tell you their ideas will reduce your tax bill, understand that it will, and we agree that it will, but not for two decades after enactment.

MYTH: We can cut our way out of the pension problem.

Fact: If the commonwealth could completely eliminate any and all retirement benefits for new employees, the current unfunded liability (or pension debt), totaling \$66 billion, would still need to be paid off. While this is a drastic example of radical pension reform, it helps make the point that foisting the burden of repayment on the employees who had nothing to do with the debt’s creation will do nothing to erase what we owe current and future retirees.

Employee benefits were significantly cut by 20 percent in 2010, which reduced employer costs by 60 percent.

MYTH: Reform will save money.

Fact: Near-term budgetary savings would not have been achieved under any major pension proposal drafted by the Republican majority over the past several years. In fact, under nearly all of the proposals, the plans would have actually required tens of millions of dollars in up-front administrative costs to employ lawyers and hand-picked consultants to implement the “reformed” systems.

The most recent proposal, Senate Bill 1071, would not have paid down the deficit any faster than our presiding pension reform law, Act 120, but it would have cost \$100 million to implement. Also, the latest Republican pension reform attempt would not have delivered any savings for school districts and state-share payments until 2040. And it would have increased public school employer contributions over that same time frame (PSERS).

I believe and many of my colleagues – on both sides of the aisle – believe that the pension unfunded liability is an issue that requires the General Assembly’s strict attention and action. Making the problem worse before it gets better decades from now is not a good idea for small business owners, property tax payers, teachers or state employees.

What I can promise is this: I will continue to evaluate every pension proposal fairly and should it provide taxpayer relief and solve the real problem of paying our debt, it will have my support.

Be on the Alert! Mandated Minimum Wage Increase – SMC Survey in Your Inbox

Governor Wolf called for an increase in the minimum wage from \$7.25 to \$12.00 per hour in his 2017-2018 budget effective on July 1. Several pieces of legislation have been introduced. One

introduced by Rep. Patty Kim mandates a gradual increase to not \$12.00 but \$15.00 per hour for employers with 25 or more employees.

In 2016 SMC stated that a minimum wage increase should not be mandated and recommended that businesses set a total compensation package of wages and benefits to remain competitive and attract talent.

SMC will be conducting a minimum wage survey beginning in late February to determine our 2017 position. Look for a brief survey in your inbox. Our plan is to contact more than 300 small employers, members and non-members, to gather valid data on what small employers support. ■

FEDERAL NEWS

New Law Permits Employers to Reimburse Employees for Individual Health Insurance Premiums

From the SMC Insurance Agency Newsletter, Winter 2017

On December 13, 2016, President Obama signed the 21st Century Cures Act into law. The new law will allow small employers that do not offer any group health plan to their employees to adopt a Qualified Small Employer Health Reimbursement Arrangement (QSEHRA) to reimburse employees for premiums they pay for individual insurance policies. The new law is effective January 1, 2017. To read more [click here](#).

ACA Repeal or ACA Repeal/Replace or ACA Replace or...

Very few lawmakers are sure of what to expect in from the Trump administration. One of the items at the top of the House and Senate's list and President Trump's list is the Affordable Care Act (ACA). The House and Senate Republicans took the first steps in the repeal process with votes on January 12th and January 13th. Since the January 20th inauguration, however, plans have changed. The partial repeal bill was to be accomplished through the budget reconciliation process. It would have affected pieces related to taxes and revenue such as elimination of the penalties for the employer and individual mandates, the Health Insurance Tax (HIT), the Cadillac tax, the Medicare surtax, the Medical Device tax and funds for Medicaid expansion, and Premium Tax credits. There are several replacement plans under discussion.

Common elements include tax credits for individuals, association health plans for small businesses, a cap on the tax preference for employer-sponsored health insurance, health savings accounts, and purchasing insurance across state lines.

On his first day in office President Trump issued an executive order taking steps to undo the ACA. He pushed Health and Human Services (HHS) and other federal agencies to begin weakening the law. Rep. Paul Ryan and Senator Mitch McConnell announced that tax reform and ACA repeal and replacement would be done by the August break...

Border Adjustment Tax Debate

From the National Small Business Association Newsletter 2/8/2017

"There has been a lot of talk recently about the 'border adjustment,' a proposed change to the U.S. tax system that is part of the House Republicans' tax reform plan. In fact, House Speaker Paul Ryan (R-Wis.) and House Ways and Means Committee Chairman Kevin Brady (R-Texas) have started a full-campaign to make border-adjustment business tax a part of comprehensive tax reform and the Speaker has even set out an ambitious timeline for passage of a tax reform bill by August." To read more [click here](#). ■



SMC Members in Action

SMC's Tax & Trade Phone Conference

The purpose of the call was to educate members about several options for tax reform. Expert speakers included David Burton, Senior Fellow in Economic Policy at the Heritage Foundation Washington, D.C. and Charles Blum, President, IAS Group, Ltd

The discussion focused on the comprehensive tax reform plan laid out by House Speaker Paul Ryan and Rep. Kevin Brady, Chair of Ways and Means. The [legislation](#) includes a hybrid income/consumption tax - a Border Adjusted Tax (BAT). The controversial BAT taxes imports and does not tax exports.

Burton is in favor of Chairman Brady's plan. It has the lowest marginal tax rate since 1920, the top individual rate is 33%; it is pro-growth; the rate for pass-throughs is 25%; it reduces the corporate tax rate from 35% to 20%; it is territorial; and capital expensing is immediate. Burton noted that President Trump's plan keeps evolving and it is unclear where he's headed. Trump has said that he is not in favor of the BATs because of the additional complexity.

SMC Call with the Office of the PA Auditor General, Friday, February 10



As a follow-up to a top 2016 legislative agenda item, SMC participated on a call with the Office of the PA Auditor General (OAG). SMC's mission was to raise awareness of problems with inaccurate tax notices from the PA Department of Revenue and have the OAG review it from their perspective. A tax bill can be received for \$800 with little or no explanation and the cost to resolve the notice can be \$2-3,000 due to the

time consuming appeals process. Ultimately the tax notice is often incorrect. Improvements seem slow in coming from the PA Department of Revenue.

Don Johnston, Partner-Tax Services, Grossman, Yanak and Ford, LLP and the lead on the issue, provided actual samples of inaccurate notices. Liz Wagenseller, Chief of Staff, is awaiting more information from the Department of Revenue and said she would bring the issue to the attention of Governor Wolf's Chief of Staff. Anderson mentioned it was a challenge for small businesses because of the time and expense to resolve with no value added to the bottom line. John Lori, Deputy Auditor General for Audits, noted that he was aware of the situation for small businesses since he previously served as a CFO and treasurer in a small company.

SMC Member Recognized for Business Longevity and Having a Voice!

SMC member Jim Droney, President & CEO, Mt Lebanon Office Furniture & Interiors, was recently featured in the Post-Gazette's column "The Survivors" which examines Pittsburgh area businesses that have beaten the odds and made it past the half century mark. To read the article [click here](#).

Not only has Jim and the family business survived and prospered, he has made the time to contribute to SMC. He served on the board of directors and was chair of the government relations committee. Jim leverages his political heft; he has employees and creates jobs and he uses his voice to influence policy. In Jim's letter he gives his opinion of his Congressman Mike Doyle's decision to boycott the Trump inauguration. We need more small employers like Jim. Running your business is only one half of the equation. Understanding how government decisions impact your business and the role you play is the other half. He sent his comment via the contact box located on Doyle's website.

Another SMC Member Sounds off to Congressman Doyle (right)

TO: Congressman Mike Doyle (D-14)

Issues: Congress

Message subject: Your refusal to attend the presidential inauguration

Congressman Doyle,

That is a shameful, juvenile, and divisive decision you have made to refuse to attend the inauguration. I believe you will immensely regret this foolish decision. It is symptomatic of the complete denial; by many Democrats (and I am and always have been an Independent) of the mood of the country and the millions of Americans who desperately want change and a better way forward, it is also why your party was completely thrashed in the election not only at the national level; but state and local as well. Pandering, identity politics, victimhood and pitting one group against another are on the way out. I sincerely hope that your decision making will reflect more rationality and reason going forward.

James M. Droney

Dear Representative Doyle,

I have spoken to you in person and I am impressed with your patriotism and devotion to the principles of your job. For reference, I am basically a centrist Republican although you have won my vote many times.

I am deeply disturbed by the polarization and refusal to compromise that defines our politics today. I feel that the media consensus has mischaracterized the results of the recent election. We did not necessarily endorse all of the ideas that Mr. Trump represents even though, I am embarrassed to say, I voted for him.

Most of us were appalled by both candidates that the parties presented and chose change over policies that seemed not to be working. I certainly set my personal standards much higher than those of either Ms. Clinton or Mr. Trump.

I urge you and your colleagues to behave as statesmen and not as obstructionist politicians and place the needs of our nation and its citizens above all else. Please help put an end to this destructive partisan and negative behavior in our national politics.

Anders Anderson
Red Clay Tile Works

Government Committee Meetings

Government Relations Committee phone conference, January 26. The committee is now assembling the 2017 state and federal legislative agenda. The group discussed policy and the chairs and advisors of the 4 working groups gave reports of their recent meetings. [Click here](#) to read brief notes from the meeting.

SMC's 2017 Working Group Meetings

- **Tax** – Discussed pension reform, state taxes, federal comprehensive tax reform and what it may include etc.
- **Energy** – The 4th and final draft state energy policy is now complete.
- **Trade** – Since trade is a top issue for the new administration the group recommended that SMC's Tax and Trade Working Groups hold a joint call with experts on options for tax reform.
- **Health Care & Labor** – The group agreed to adopt the National Small Business Association's health care policy and developed several key recommendations that should be included in replacement legislation. The elimination or reduction in Federal funds for Medicaid expansion on the PA budget will be disastrous.

Small Business Opportunities Doing Business with the PA Department of General Services

By Troy Thompson, Department of General Services



On September 23, 2015, Pennsylvania Governor Tom Wolf took a significant step toward leveling the playing field for Small Diverse Businesses and Small Businesses with the signing of Executive Order 2015-11 - "Diversity, Inclusion, and Small Business Opportunities in State Contracting and Pennsylvania's Economy."

His action, for the first time in state government, directed a consistent and coordinated effort to ensure diversity and inclusion in all contracting programs for [small diverse](#) and [small businesses](#) throughout agencies under the governor's jurisdiction and promoted the continued development of programs to better prepare those businesses to compete and succeed in Pennsylvania's economy.

Small Diverse Businesses or SDBs, are small businesses owned, operated and controlled by minorities, women, veterans & disabled veterans, disabled persons, and members of the Lesbian, Gay Bisexual and Transgender community; Small Businesses, or SBs, are independently-owned businesses that employ less than 100 full-time equivalent employees and meet gross sales requirements.

In Fiscal Year 2014-2015, the Commonwealth of Pennsylvania spent approx-

imately \$3.5 billion per year on commodity contracts such as: natural gas, electricity, medical supplies, asphalt, and office supplies; and services contracts for both professional and operational services, such as medical staffing, training, auditing and financial services, maintenance contracts for office equipment, elevator maintenance, and waste removal services. The DGS Public Works deputate manages nearly \$1.5 billion in construction projects that take place throughout the commonwealth.

When you look at the total spend of nearly \$5 billion in commonwealth contracting it isn't hard to realize the opportunities that are available to SDBs and SBs. The question is "How do you find these opportunities?"

There are various ways SDBs and SBs can do business with the commonwealth, but the first step is registering to do business with the commonwealth and obtaining your six-digit vendor number, which is the key to opening the door to state contracting opportunities. The process below outlines the steps you would take to become a registered vendor with the commonwealth and self-certify and verify as a SDB or SB.

To follow the process [click here](#). ■

Regional Advocacy Coalition of Chambers Meeting 2/1/17

SMC attended this meeting which is sponsored by the Greater Pittsburgh COC (GPCOC). They have a federal and a state agenda and SMC has common ground with several of their agenda items. The GPCOC is monitoring the Affordable Care Act and Tax and Trade issues, unsure of what to expect in Washington, D.C. and how to respond it. Their top state issue will be reform of the state and municipal pension systems. Last fall pension reform was 3 votes short of passing in the House.

Statistics on PA & the States from the Tax Foundation

"The Tax Foundation is the nation's leading independent tax policy nonprofit. Since 1937, our principled research, insightful analysis, and engaged experts have improved lives through smarter tax policy.

The Tax Foundation's State Business Tax Climate Index enables business leaders, government policymakers, and taxpayers to gauge how their states' tax systems compare. While there are many ways to show how much is collected in taxes by state governments, the Index is designed to show how well states structure their tax systems, and provides a roadmap for improvement." To see how PA ranks, [click here](#).

EVENT

[Harrisburg Grassroots Lobbying Trip](#)

– May 8, 7:00 a.m. - 10:00 p.m. You want to take this trip because it is effective, educational and enjoyable and as a bonus you will be part of a small business show of force in the Capitol. Bring an employee with you. See the flyer at the end of this newsletter and register today. Seating is limited! You will speak directly with lawmakers in support of SMC's agenda – YOUR agenda for a better business climate!



GOVERNMENT ADVOCACY

2017 SMC HARRISBURG GRASSROOTS LOBBYING TRIP

If there was ever a time when the small business community should band together with a common voice in the state capital it is NOW! The truth is small business is important! We are the backbone of the PA economy and lawmakers must continually be reminded of the facts. They need to know how many employees you have, how you get customers, how you meet payroll, and what can be improved.

- 98% of all employers in PA are small businesses defined as less than 500 employees
- There are more than 220,000 small businesses in PA
- Of those, 87% (197,000) have LESS than 20 employees

AGENDA

| | |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7:00 a.m. | Western PA SMC members meet the bus at SMC headquarters, Cranberry Twp. (2 additional pick-up locations) |
| 11:00 a.m. | Arrive in Harrisburg. |
| 11:00 - 12:45 p.m. | Join SMC Central members for lunch at the Pennsylvania Manufacturers Association and enjoy a guest speaker from the Commonwealth Foundation. (2nd speaker TBD) |
| 1:00 - 4:30 p.m. | Team visits to the Capitol. |
| 4:30 - 6:00 p.m. | Dinner in the State Capitol. Guest speaker (TBD), followed by team captains' debriefings. |
| 6:00 p.m. | Depart for Pitsburg. (2 additional drop-off locations) |
| 10:00 p.m. | Arrive at SMC Headquarters, Cranberry Twp. |

Contact: Eileen Anderson, Director, Government Relations
412 342 1606 or eileenanderson@smc.org

PROGRAM LOGISTICS

Date: Monday, May 8, 2017
Time: 7:00 a.m. to 10:00 p.m.
Location:
 Bus departs from & returns to:
 SMC Business Councils
 600 Cranberry Woods Drive,
 Cranberry Twp., PA 16066
Registration Fees:
 \$95 SMC Members & Guests
 \$150 Non-Members
Registration Deadline:
 April 14, 2017
Register Online:
www.SMC.org/events

Sponsors

Luncheon Sponsor:



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