



*Where PA
Businesses
Go to Grow*

SMC Business Councils

2017

State Position Papers

May 8, 2017





*Where PA
Businesses
Go to Grow*

CONTENTS

SMC Business Councils 2017 State Position Papers

- I. Prescription to Grow PA's Economy
- II. Financial Management & Taxation
- III. Workforce
- IV. Regulations & Energy
- V. Labor Costs – Health Care
- VI. Labor Costs – Minimum Wage

This document is online at <http://smc.org/services/issues-advocacy/>

I. Prescription to Grow PA's Economy:

Align Government Policy to Capitalize on our Strengths to Make PA More Competitive and Attractive to Businesses

SMC Business Councils researched states with a similar profile to PA to find out where we stand as an attractive location for businesses, why or why not, where we excel and how we can improve in the future. Here's what we found:

- **PA suffers from a perception problem.** PA is a rust-belt state. At 9.9% we have the 2nd highest corporate net income tax in the U.S., the 3rd worst funded public pension system in the country which is one of the main reasons behind 5 credit downgrades, the 6th oldest population in the U.S., and the 2nd worst state budget deficit at \$3 billion.
- **PA suffers from an economic health problem.** PA was not included in Site Selection's Top State Business Climate Rankings. Our business tax policy consistently lags other states.
 - o 24th – Tax Foundation's "2016 Business Tax Climate Index"
 - o 39th – ALEC-LAFFER "2016 State Economic Competitive Index: Economic Outlook"
 - o 44th – Wallet Hub's "Economic Health Index"
 - o 35th – Tax Foundation's "State-Local Tax Burden Rankings for FY 2012"

PA can grow our way out of fiscal problems by capitalizing on our strengths. There are very few areas where PA is in the Top 10, HOWEVER, PA ranked 8th in the National Association of Manufacturers "Top States for Manufacturing" and we are home to the world's largest unconventional natural gas field. Manufacturing and plentiful gas go hand-in-hand in with job creation by downstream businesses.

SMC is encouraged by the Governor Wolf's steps to streamline government programs, departments and create efficiencies. We agree that the state's fiscal challenges require responsible state spending and appreciate his efforts to identify new ways to save taxpayer dollars.

Likewise SMC is very encouraged by Secretary Davin's statement, "DCED's top priorities are creating a pro-business climate, building PA's manufacturing sector and creating jobs for the Middle Class."

... "Interview with Pennsylvania Secretary, Department of Community & Economic Development, Sec. Dennis Davin," *Pennsylvania Economic Quarterly*, Vol I, Issue I, 2015-16

But there is much more to be done.

To become a more competitive and attractive state where businesses want to locate, [PA can align pro-growth public policies with our strengths to spur the economy and raise revenue](#). SMC has identified several of the most important policy areas that corporate executives use for location criteria.

MANAGEMENT & TAX SCHEME

- **Reform the pension systems** – The systems currently have an estimated \$64 to \$70 billion in unfunded liabilities. They are one of the largest cost drivers in the budget and the #1 reason for property tax increases.

- **Net Operating Losses (NOLs)** – PA is one of only a few states that cap NOLs. That means tax rates here are several times higher than other states.
- **Appeals Process PA Department of Revenue (PADOR)** – SMC worked with the PADOR to reduce the number of inaccurate business tax notices. The next step is to make the appeals process more efficient for both.

WORKFORCE & LABOR COSTS

- **Minimum wage** – An increase to \$12.00/hr. effective 7/1/17 would impact small businesses and manufacturers more than any other segment of the economy because they offer more entry-level jobs.
- **Health care costs** – Anything that can reduce the cost of health care helps employers and employees. Legislation is needed to protect consumers from getting stuck in the middle of a billing issue over which they have no control. A provider acting in a network should accept the network payment.
- **Workforce skills and development** – A 2013 study by the PA Chamber found a majority (72%) of the 464 PA companies surveyed reported difficulty hiring qualified employees with adequate skills, training, or education.

REGULATIONS & ENERGY

- **Ease of permitting and regulatory procedures** – Energy resources are an economic driver for the Commonwealth. While we understand the economic aspect it is also critical that PA has clean air and water. Lawmakers can make it easier for energy companies to operate and keep energy affordable.

WHO IS SMC BUSINESS COUNCILS?

At SMC Business Councils we believe small manufacturers and businesses drive the economy in the state of Pennsylvania. These companies represent 98.3% of businesses throughout Pennsylvania and employ over 48% of the private sector workforce. Their products and services are diverse and their sizes range from sole proprietors to manufacturers with several hundred employees. For over 70 years SMC Business Councils has served as trade association advocating on behalf of, and providing products and services to this community. They are the lifeblood of our economy and define the types of businesses we proudly call members of SMC.

For more information, contact:

Eileen Anderson

Director, Government Relations

Phone: 412-342-1606

Eileenanderson@smc.org

SMC Business Councils/Western PA
600 Cranberry Woods Drive, Suite 190
Cranberry Twp., PA 16066
Phone: 412-371-1500
www.smc.org

SMC Business Councils/Central PA
1017 Mumma Road, Suite 204
Wormleysburg, PA 17043
Phone: 717-761-1660
www.smc.org

II. FINANCIAL MANAGEMENT & TAXATION

I. PROBLEM: Unsustainable pension systems and unfunded liabilities – What do corporate executives looking to locate a business in PA think when they see PA has nearly \$70 billion in unfunded pension liabilities, has the 3rd worst funded public pension system in the country, 5 credit downgrades since 2013 and a \$3 billion dollar structural deficit? It points to the inability of the administration and legislature to keep PA's financial house in order. [See examples A & B.](#)

SOLUTION: SMC supports reforms of the state pension systems – 2017 marks the 3rd year that pension reform has been at the top of SMC's legislative agenda. The state pension systems currently have a public pension debt that's anywhere between \$60 billion to \$74 billion. It is one of the largest cost drivers in the budget, the No. 1 reason for property tax increases and a major reason why our schools are struggling financially. Pension payments will add another \$700 million in costs to the 2017-18 budget before any other spending.

The pension crisis is the leading cause behind continued downgrades of Pennsylvania's credit rating making it less competitive and harder for PA to borrow money. [See example B.](#)

Currently both the House and Senate have pension reform proposals that meet 3 critical goals:

- They shift future financial risk away from taxpayers.
- They enhance choice and portability for new state and public school employees.
- They slow the accumulation of taxpayer-backed pension debt.

The pension reform proposals are a good start but more needs to be done. SMC supports companion legislation to pay down the unfunded liability. The proposed bills do little to address the unfunded liability which advocates calculate is growing by about \$172 per second. (That adds up to more than \$14 million per day). [See example C.](#)

A plan is needed that would increase state and school district contributions above existing levels and retire the current liability problem by 2037 when many state and school employees will retire. If there is no companion legislation then payments to retirees will come out of the PA's general fund and consume more than 40% of that fund.

...Adapted from *Central Penn Business Journal*, 1/24/17

Those who use placement agents – middlemen who collect a fee for introducing money managers to PA's pension funds – should follow the lead of Secretary of the Treasury, Joe Torsella. He banned the use of placement agents in all Treasury investment contracts on his first day in office.

...Adapted from "State Treasury hopes to save \$5 million with new investment strategy," *Pittsburgh Post-Gazette*, 4/11/17

II. PROBLEM: Uncompetitive Net Operating Losses (NOLs) policy – What do corporate executives looking to locate a business think when they see that PA's is one of only a few states in the country that caps the amount of the NOLs at 30%? They know immediately that it is a disadvantage to manufacturing start-ups and cyclical industries.

SOLUTION: The 30% cap on Net Operating Losses (NOLs) should be eliminated. – SMC supports a revenue neutral cap at 44% and a total phase-out over 4 years. Governor Wolf wants to cap NOLs by changing the current NOL from the greater of \$5 million or 30% of taxable income to solely 30% of taxable income. The

Independent Fiscal Office estimates Governor Wolf's plans to modify the state Corporate Net Income Tax and changing caps on NOLs would raise \$18 million while the budget figures project \$81 million.

One of the most important steps PA can take is to uncap NOLs completely, not lock in a permanent disadvantage. PA is one of a handful of states that caps the amount of NOLs. This makes it harder to attract investment to PA and it is especially burdensome for start-up ventures and cyclical industries like metals manufacturers.

When big businesses are successful that creates opportunities for small businesses downstream but the uncompetitive NOL policy puts PA at a great disadvantage for business growth and investment. According to the Kauffman Foundation's "State Rankings, Larger States: Start-up Activity - Rate of New Entrepreneurs," PA is 24th lowest out of 25 as of August 2016. That's the opposite direction of where PA needs to go. Instead, the growth of manufacturers and start-ups should be encouraged.

BACKGROUND

The PA Department of Revenue (PADOR) sends out numerous incorrect tax notices – This was one of SMC's top issues in 2016. The tax notice issue is very time-consuming and expensive for businesses because the owner is left to defend his company. Even though a tax notice may be for \$200-\$300, it often requires the hiring of an outside accounting professional who must file a petition and attend a hearing on behalf of the client to resolve the issue. The cost can be 3 to 4 times the original tax bill and in many cases exceeds \$1,000. The tax notices are incorrect 95% of the time.

Progress was made on the inaccurate tax notice issue. SMC and members have an ongoing dialogue with PADOR, and the PA Auditor General. According to PADOR inaccurate business tax notices are now the exception now rather than the rule.

III. PROBLEM: Lengthy and expensive appeals process for tax notices – What do corporate executives looking to locate a business think when they hear that the PADOR has a lengthy and expensive appeals process to resolve tax notices? They know that will add to overhead without adding any value to the bottom line.

SOLUTION: The next step is to simplify PADOR's appeals process. – SMC supports legislation to simplify the appeals process for both the businesses and the PADOR. It will expedite the process for those who do not appeal while giving more time for providing proof and filing appeals for those who wish to appeal. SMC supports the inclusion of a small claims court in the appeals process.

IV. PROBLEM: Income and sales tax spikes to eliminate property tax reductions – What would corporate executives looking to locate a business in PA think if the personal income tax and sales tax rates were increased and many sales tax exemptions were eliminated? They know that PA already lags in tax policy and that more tax increases will only make it worse.

SOLUTION: SMC believes that the biggest step that PA can take to reduce property taxes is to fix the public pension system. – Considering property tax reform without addressing the cost-drivers for school districts is short-sighted. See pension reform.

SMC understands lawmakers have been pressured by constituents regarding the rising costs of school district property taxes for a number of years. However, property tax reform legislation similar to Senate Bill 76 from the 2015-2016 session will place undue burdens on PA's business community. SB 76 simply shifted the burden to businesses and their employees. Many businesses would experience a significant tax increase particularly small businesses that file at the individual rate and pay at the Personal Income Tax (PIT) rate.

BACKGROUND

School property tax elimination facts from a new Independent Fiscal Office (IFO) report show the following:

- Any proposal to eliminate school property taxes will have to generate billions in new revenue. School property tax collections are projected to total \$14.294 billion for the 2017-18 fiscal year and will grow by an estimated \$500 million to \$600 million annually.
- Between 17% and 20% of the annual property tax revenue collected is spent to pay down school district debt.
- If PA capped district-levied income taxes at no greater than 0.5% then \$347 million in new revenue would need to be generated for FY2017-18 by some other means to make up for the lost revenue in 85 school districts that have income tax rates exceeding .5% That figure grows to \$406 million by FY2021-22.

To view SMC Property Tax policy, go to <http://smc.org/services/issues-advocacy/>

Example A – Credit Downgrades

The Commonwealth has had five credit downgrades since 2010. They increase the state's cost of doing business. Unfunded pension liabilities are a part of the reason those downgrades took place.

- April 2013 – Moody's
- October 2013 – Fitch
- February 2015 – Standard & Poor's
- February 2015 – Moody's
- February 2015 – Fitch

...“Economic & Budget Outlook,” Independent Fiscal Office, 1/2016

Example B – Second Worst or Third Worst Funded Pension Plan?

- A recent report by **PNC Bank** rated PA as 3rd worst funded pension in the country. It also ranks PA as having the 2nd worst state budget deficit.
- A recent study by the **National Association of State Retirement Administrators** found that PA's pension plan is 2nd most underfunded in the country.

Example C – Central Penn Business Journal, 1/24/17. The unfunded liability is growing by \$172 per second.

“There is still time to cut Pennsylvania's public sector pension liability, which now stands at an estimated \$74 billion, according to a pension debt clock unveiled last year by state retiree and pension reform activist Barry Shutt...

...The biggest problem with most recent reform bills, reform advocates said, is that they address only future benefits of new state and public school hires. They do little, if anything, to tackle the unfunded liability, which advocates calculate is growing by about \$172 per second.”



III.

WORKFORCE

I. PROBLEM: Shortage of skilled workers – What do corporate executives looking to locate a business think when they see that PA has a shortage of skilled workers and the 6th oldest population in the country?

They will ask: What is PA is doing to train the workforce? How are they are attracting young people to high priority occupations? Can they tap a new pool of workers?

Dennis Davin, PA Secretary, PA Department of Community & Economic Development (DCED), emphasized the importance of workforce during the Senate Appropriations Committee budget hearing. When asked about efforts to improve the workforce, Davin explained that DCED meets with site selection consultants throughout the country and the state. The site consultants say investments and the tax incentives grab headlines but what they really look for is workforce. It is their #1 priority and the key piece that companies need.Adapted from *PA Legislative Services*.

If Pennsylvania is to take advantage of our energy and manufacturing assets then a qualified, confident workforce is needed. It is critical to retrain displaced workers for new careers and even more important to train young people to replace the retiring baby boomer workforce.

The Allegheny Conference on Community Development predicts a shortfall of 80,000 workers in the Pittsburgh region by 2025. According to the *Post-Gazette*, "Helping Hands," 3/29/2017, in 2017 construction projects are expected to grow to \$5 billion and steadily increase around Shell Chemical's ethane cracker plant in Beaver County. [See examples A, B, C, D, and E.](#)

SOLUTION: An important part of growing and training the workforce is exposing young people to opportunities and careers in manufacturing and encouraging career and technical education.

HB 25 – Career Bound – Provides for the creation of workforce development programs for middle and high school students. Local workforce investment boards, businesses and schools will work together to develop innovative school-to-work pilot programs that expose youths to high-priority careers. Tax credits will be available to businesses who participate. This is a step in building the workforce pipeline of new, entry level workers with the aptitude to train for advanced manufacturing, construction and the energy industry.

HB 202 – Create an alternative pathway for career and technical education (CTE) students to demonstrate readiness for high school graduation – This bill removes the statutory requirement for the development and implementation of the 7 pending Keystone Exams. It provides that in any year in which a demonstration of proficiency on a Keystone Exam is required for high school graduation, a CTE student shall be deemed proficient provided that the student completes certain specified requirements and attains an industry-based competency certificate or demonstrates a high likelihood of success on an approved industry-based competency assessment.

SOLUTION: An important part of growing and training the workforce is tapping a new pool of potential workers such as the able-bodied on Medicaid – In PA there are 2.8 million people on Medicaid. The full Medicaid budget is projected at \$29,747,445,000 for 2017-18, almost equal to PA's general fund budget. According to SMC's 2017 Minimum Wage Survey 72% of employers (322 of the 446 reporting) support a major job training and re-training program. Under the Affordable Care Act, Medicaid expansion added approximately 700,000 new citizens and allowed the able-bodied to receive benefits. They are an untapped pool of potential workers that can be trained. That would enable people to learn a new skill, earn wages, pay income taxes and help reduce the state's Medicaid costs.

SOLUTION: SMC Business Councils supports expansion of opportunities for young people to participate in programs such as the Allegheny and Fayette County National Fluid Power Challenges. – As one of only 18 such competitions across the nation, this event provides 7th and 8th grade students the opportunity to compete as teams using real-life scenarios that apply STEM-related learning, to solve real-world problems and build machines that solves the challenge given them. The competition requires students to use math, science, project management and communication.

The Fluid Power Challenge was created by the National Fluid Power Association (NFPA) as a way to introduce fluid power engineering into high schools and middle schools. SMC supports amending the Educational Improvement Tax Credit (EITC) so that the scope can be broadened to include ancillary organizations like NFPA that directly benefit schools to qualify to receive tax credits. This will encourage more businesses to participate and sponsor so that the events can reach more young people and grow this type of grassroots/hands-on activity.

Example A – “The Skills Gap in U.S. Manufacturing 2015 and Beyond” Deloitte and the Manufacturing Institute

“Over the next decade nearly 3½ million manufacturing jobs likely need to be filled. The skills gap is expected to result in 2 million of those jobs going unfilled.” Unless we take the time to rectify the problems that are faced by today’s manufacturers in finding their skilled workforce, Pennsylvania will suffer major setbacks.

Example B – Matthew Knittel, Director, Independent Fiscal Office, House Appropriations Budget Hearing

- PA has a long-term demographic problem that is negatively impacting growth: From 2015-2025 the number of retirees is estimated to increase by 667,000 residents or 31%.
- We have a workforce that we think could contract over the next decade and that’s a major driver of economic growth: From 2015-2025 the working age population (20-64) will contract by 181,000 residents. (-2.4%)

Example C – Workforce skills and development

A 2013 study by the PA Chamber found a majority (72%) of the 464 PA companies surveyed reported difficulty hiring qualified employees with adequate skills, training, or education.

Example D – “Final Report of the Select Subcommittee on Tech Education and Career Readiness,” 11/3/16

The skills gap in PA according to PA Department of Labor states that by 2022 employment in PA is expected to exceed 6.5 million people, estimating a projected growth rate of 7.7% between 2012 and 2022. There are more than 200,000 openings projected each year in PA and more than 26, 000, or 13%, are expected in occupations in traditionally Career and Technical Education (CTE) related fields.

Example E – The Manpower Group Talent Shortage Survey

Results identified the skilled trades as #1 hardest to fill jobs across the country from 2009-2016.

IV.

REGULATIONS & ENERGY

I. PROBLEM: How to develop PA's energy resources – What do corporate executives looking to locate a business think when they see that PA has complicated permitting processes and regulatory procedures? They would be interested to know if there were efforts underway to streamline permitting and regulations based on cost-benefit analysis and sound science. They would also want to know if PA has a long-term energy policy to build out that asset in a timely, thoughtful and beneficial way.

Balance the development of our energy resources...

SMC member companies are consumers of energy and understand the economic aspect. Our energy resources are a key asset and an economic driver for the commonwealth. Manufacturing and plentiful gas go hand-in-hand in with job creation by downstream businesses. What's needed is a long-term energy policy to keep the price of energy affordable, build energy infrastructure, create accessibility to markets, and ease of transportation, and ensure ease of permitting and compliance with regulatory procedures.

...With environmental protections for local communities...

SMC understands and supports PA's constitutional obligation to provide clean air and clean water. We want lawmakers to make it easier for energy companies to operate and keep energy affordable for small employers and manufacturers while balancing that with environmental protections for local communities.

...And regulatory policies that protect our economy from undue burdens on business and job creation.

Small business owners and manufacturers desire to comply with regulations but are challenged with the stacking of regulations by the federal, state and regional regulatory environment. For the majority of small businesses, the owner is primarily responsible for learning about, navigating and managing regulations and compliance which can be difficult to understand and manage.

SOLUTION: Require the General Assembly and the Governor to approve all regulations with an economic impact or cost to PA, to its political subdivisions, and to the private sector exceeding \$1 million. – This legislation is needed to strengthen political accountability for regulatory policy and protect our economy from undue burdens on business and job creation.

SMC Business Councils State Energy Policy

II. PROBLEM: The failure to commit to a long-term energy policy in view of Pennsylvania's energy resources will leave our state and its small businesses at the mercy of global politics, commodity markets and short-term extremes in availability and cost of energy. – Abundant, safe, reliable and competitively priced energy production and delivery are critically important components of a healthy economy for small businesses. Pennsylvania's energy infrastructure and regulatory climate must support the Commonwealth's economic development efforts as well as retaining existing employers. Energy costs can be a significant portion of any business operation and in certain energy-intensive industries, these costs account for more than 50 percent of total operating costs.

Pennsylvania has long been an energy exporter due to our historic strengths in traditional sources such as coal, oil, hydroelectric, nuclear and natural gas. Traditional sources and renewable / alternative energy sources such as solar, wind, biofuels and biomass can form a diverse portfolio of energy sources. All these forms of energy

are key products of our Commonwealth, and the production of competitively priced energy helps fuel our economy while generating significant employment in the Commonwealth.

SOLUTION: SMC Business Councils supports balanced policies that allow producers and suppliers from all energy sectors located in our Commonwealth to compete and that enable business to secure a reliable supply of energy produced and delivered on a competitively priced basis. This can be best accomplished by the following:

- Ensuring that energy policies and actual practices are competitive with other states and no more restrictive than federal law.
- Encouraging greater use of domestic natural resources while using appropriate, reasonable, and currently achievable environmental controls based on sound and verifiable science.
- Supporting cost-effective energy efficiency and storage.
- Avoiding price controls on any energy sources.
- Allowing the marketplace to select the most appropriate energy sources and avoiding governmental actions that select or force the choices of particular energy sources.
- Supporting programs that encourage research into new technology for energy development of power generation and fuels.
- Creating state policies that can leverage federal programs aimed at encouraging growth and energy technology adoption by small business.
- Reducing regulatory and other governmental hurdles to the utilization of all energy sources and to the implementation of energy infrastructure while ensuring appropriate environmental protection.
- Ensuring new or revised regulations adhere to Act 76 of 2012 - Regulatory Flexibility for Small Businesses.
- Ensuring that our energy supply and delivery systems have the appropriate physical and cyber security standards and enforcement mechanisms.



V. LABOR COSTS - HEALTH CARE

I. PROBLEM: Consequences of very narrow provider networks – What do corporate executives looking to locate a business think when they see that 17 of PA's counties have only one insurer and many health care plans have inadequate, narrow provider networks with very limited choices?

SOLUTION: SMC supports Surprise/Balance billing protections for consumers – Much of the state has provider networks which are designed to be narrow in order to cut down on costs. They may have a severely limited number of primary care and specialist providers and possibly only one hospital. Surprise billing legislation will mandate that providers and insurers who offer services within an in-network facility as part of a patient's treatment plan of care accept in-network rates, whether or not the providers are in that plan's network. This will remove consumers from disputes between providers and insurers over out-of-network bills. SMC asks that the following points are included in the legislation:

- There should be an adequate number of providers within networks available to plan participants such that insureds are not forced to go out-of-network to obtain medically necessary care.
- Consumers should be held harmless for surprise bills.

II. PROBLEM: Insurance deductibles, co-pays, and premiums are increasing – Corporate executives also know that as employers they are shifting more costs onto employees and increasing the use of high deductible plans with health savings accounts.

Consider these facts: In 2017, the maximum deductible allowed by law is \$6,550 for individual coverage and over \$13,100 per year for families. While deductibles, premiums and co-pays are increasing at least 46% of adults say that they could not cover an emergency expense costing \$400. Add to that the fact that there is no way for employees to know prices in advance and make informed decisions about health care services.

[See examples A, B, C, D.](#)

SOLUTION: SMC encourages its member employers to become better consumers of health care services. – Employers can educate their employees so that they are more fully engaged in their own health and can make informed decisions about purchasing health care services.

III. PROBLEM: No prices and quality information for consumers – For almost everything we buy, we know the price ahead of time, but not for health care services. Small employers and their employees need easily comparable measures of cost, options and quality information to become better purchasers of health care services. This will become extremely important as small employers decide that offering health insurance is no longer an affordable benefit and more employees are moved or forced into the individual market.

SOLUTION: Reauthorize and Modernize the PA Health Care Cost Containment Council (PHC4) – In 1986, PHC4 was created to be an independent state agency which collected data on health care costs in order to stem the rapidly growing cost of health care procedures. PHC4 must be modernized to meet the needs of today's consumers who often times have high deductibles and need current cost and quality information to effectively shop for services. PHC4's website should contain consumer-useful price data that is presented in a format easily usable by the general public.

- PHC4 data on health care costs is often outdated and not readily usable by the consumer.
- PHC4 should have more flexibility in the type of information collected and the reports issued.
 - o The information provided by the health care facilities is based on the BILLED amount of the services not

- o In a normal market place, customers need to know what a seller will accept for payment, not what the seller would like to charge for a product. This is key to health care cost reduction.
- **All Payer Claims Database (APCD)** – The APCD, to be located in PHC4, will collect payment data from medical, pharmacy, and dental claims, and provider files from private and public payers, including Medicaid, Medicare and commercial insurers. It offers a way to comprehensively measure and bring transparency to health care spending and utilization in PA.

Example A – SMC Business Councils Member

The trajectory of premiums in the individual market is crippling. Insurance Commissioner Theresa Miller approved rate increases of more than 30%, in some cases double what carriers requested, so that carriers would not leave the exchange. Look at the real life sample below from one of our members with a family policy covering a wife and 2 teenagers. Imagine this premium continuing to rise – basically he has no coverage with \$12,000 in premiums and \$13,000 in deductibles. He is a long way from Medicare. He is main line middle class.

His family was previously on a group plan that was no longer available once the Affordable care Act became law. His biggest complaints are that the rates keep going up and up while the benefits decrease, and the networks become narrower and limited. To keep the premium similar to the previous year that is the carriers' only way to trim costs. Individual deductibles can range from \$2,600 - \$6,925 and family deductibles can be as high as \$13,000.

Last year he paid \$771/month. This year it increased to \$987/month. That is for a middle type network of 3 tiers of networks and a silver level plan. The out-of-pocket maximums have changed so once copays and out-of-pocket and co-insurance are paid, an individual in his family must hit \$7,150 before expenses are covered at 100%. The family would have to hit \$14,500 before all expenses are covered at 100%. These terms re-set every 12 months!

Example B – “Report on the Economic Well-Being of U.S. Households in 2015 Economic Preparedness,” Board of Governors of the Federal Reserve, 5/2016

Nearly half of adults are ill-prepared for a financial disruption and would struggle to cover emergency expenses should they arise.

- 46% of adults say they either could not cover an emergency expense costing \$400, or would cover it by selling something or borrowing money.
- 22% of respondents experienced a major unexpected medical expense that they had to pay out of pocket in the prior year, and 46% of those who say they had a major medical expense report that they currently owe debt from that expense

Of the 8,681 respondents contacted for the survey, 5,695 respondents completed it, yielding an overall final stage completion rate of 65.5%.

Example C – William Dunkelberg, “The Cost of Health Insurance Is a Big Problem for Small Business,” Forbes, 9/22/16

- The average premium for an individual health insurance plan costs \$2,889 per employee in 2001. By 2015, that number had ballooned to \$5,963, easily outstripping overall inflation and wage growth.
- Deductibles in health plans have increased dramatically from 2001-2015. For businesses with fewer than 50 employees the average deductible cost for a health insurance plan in 2001 was \$602. By 2015 it had increased to \$1,964.
- For businesses with fewer than 50 employees the percentage of businesses offering health insurance over the past 15 years has declined significantly. Between 2001 and 2010, the offer rate declined from 46% to 39%. But in the five years since the passage of the Affordable Care Act the offer rate has dropped 10 more points to 29%.

Example D – “Survey of Health Savings Account/High Deductible Plans (HSA/HDP),” Americas Health Insurance Plans, 1/16

Total Enrollment – approximately 20.2 million Health Savings Account/High Deductible Plans (HSA/HDP)

Individual Market – 1.9 million HSA/HDP

Small Group Market – 2.1 million (50 or fewer employees) HSA/HDP

Number of Health Savings Account Enrollees in PA – 407,000

Average Monthly Family Plan Premium – \$976.00

Growth in Health Savings Accounts

2005 TOTAL 1,031,000 lives

2016 TOTAL 20,164,930 lives

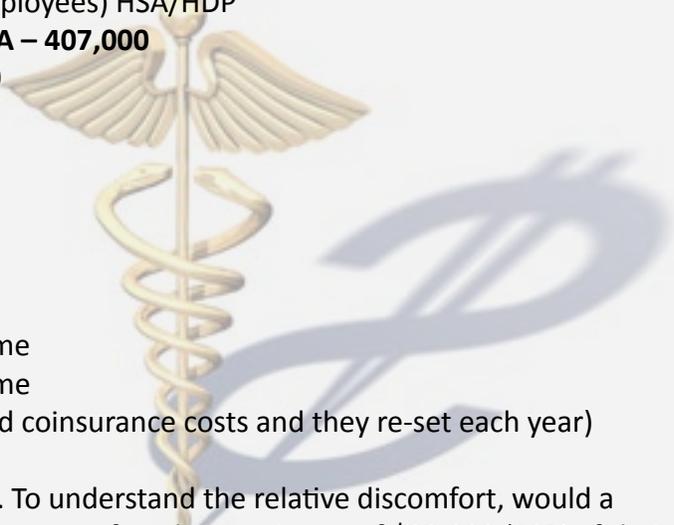
2018 Out-of-Pocket Maximums HSA/HDP

\$7,350 for individual -----13% of median income

\$14,700 for family-----26% of median income

(Expenses typically include deductibles, copays and coinsurance costs and they re-set each year)

The median family income in PA is \$55,702 (2015). To understand the relative discomfort, would a family with an income of \$150,000 be happy with an out-of-pocket maximum of \$22,000 (13% of their income) for an individual family member, or \$44,000 (26% of their income) out-of-pocket maximum for their family?



VI. LABOR COSTS - MINIMUM WAGE

PROBLEM: What do corporate executives looking to locate a business think when they see that in his 2017-2018 budget Governor Wolf calls for a mandated increase in the minimum wage from \$7.25 to \$12.00/hour effective on July 1st, 2017 with no phase-in period? They would wonder why PA would want to have the highest minimum wage of any state for 2017-2018, why PA would want a minimum wage well above any of our neighboring states and why PA would increase it when PA already has an unemployment rate higher than any of our neighboring states.

The question that must be answered is “Does the Governor’s minimum wage mandate help PA capitalize on strengths and make PA more competitive and attractive to businesses?”

BACKGROUND: In 2016 SMC opposed a mandated minimum wage increase, stating that employers should be allowed to set their own packages of wages and benefits to attract employees. We believe that an increase would impact the smaller business and manufacturers’ community more than any other segment of the economy since they offer more entry-level positions. SMC conducted a minimum wage survey in 2017 to determine where small employers stand in regard to Governor Wolf’s mandated increase to \$12.00/hour.

It’s important to consider small business input in decision-making because they are 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.
- Small businesses employed nearly 47% of PA’s private-sector labor force in 2013 (2.4 million).
- Small businesses made up 89.1% of PA exporting companies and generated 35.6% of PA’s known export value, and ranks 10th nationally.

.....U.S. Small Business Office of Advocacy, most recent PA profile.

QUESTION: Does increasing the minimum wage to \$12.00/hour hurt more than it helps?

ANSWER: Survey results show that few small businesses will go out of business if the minimum wage is increased to \$12.00/hour on July 1. However, the actions that small employers take will hurt workers more than help them and will have unintended consequences. More money will be put into the pockets of fewer workers with less hours and benefits.

- According to the **Analysis of Revenue Proposals, Fiscal Year 2017-2018, Executive Budget, Independent Fiscal Office (IFO)** there are nearly 1,288,100 million people who would benefit from the wage hike, but there are also 53,700 people who would lose their jobs.
 - o Many of these may be teens and young adults who already have a significantly higher unemployment rate than the general population.

QUESTION: What about the revenue projections and savings from an increased minimum wage? Are the figures used in the 2017-18 budget accurate?

ANSWER: When asked about the impact a minimum wage increase to \$12/hour would have on the budget and Pennsylvania families, Budget Secretary Randy Albright said that the Commonwealth would benefit financially on two counts: First, \$95 million would come from increased revenues from the Personal Income Tax and second, 145,000 people would be off Medicaid because of their increased income resulting in a \$50 million savings

for the Department of Human Services.

...House Appropriations Committee budget hearing with Office of the Budget

The Administration says the wage increase will create \$95 million in revenue the first year, but the IFO estimates a direct economic impact of \$40 million. "Overall, the projected impact on general fund revenues from the income gains to lower wage workers (\$15 million) and higher economic activity (\$25 million) is \$40 million. The latter effect may take several years to materialize."

Analysis of Revenue Proposals, Fiscal Year 2017-2018, Executive Budget, Independent Fiscal Office (IFO)

QUESTION: If the goal of the Administration is to save \$50 million for the Department of Human Services by increasing peoples' income so they are no longer eligible for Medicaid, then are there any downstream impacts that should be considered?

ANSWER: The IFO notes that the Department of Human Services estimates the wage hike could create savings of \$231.7 million, calling them "reasonable." In PA those with incomes up to 138% of Federal Poverty Level (\$16,642/year) are eligible for Medicaid services. If the minimum wage is increased to \$12/hour then a full-time minimum wage worker will earn \$24,960 and no longer qualify, thereby reducing the number of individuals on Medicaid and saving PA \$231.7 million. The IFO also notes that additional impacts are not good. While welfare costs might decline by \$231.7 million, gains are offset by \$88 million in increased annual costs for PA's state's child care subsidy program and \$96 million in added annual costs for PA's waiver programs providing nursing home, as well as home and community-based care.

Analysis of Revenue Proposals, Fiscal Year 2017-2018, Executive Budget, Independent Fiscal Office (IFO)

QUESTION: What are some of the financial impacts on other stakeholders?

ANSWER: Expected net salary gains for non-profit employees are \$331 million. Payroll taxes may add another \$25 million to non-profit employers' costs. For-profit employers may have to remit payroll taxes (7.65%) estimated at \$250 million. Local governments and school districts may have another \$107 million in payroll taxes and an estimated \$8 million/year for pensions and retirement benefits.

Analysis of Revenue Proposals, Fiscal Year 2017-2018, Executive Budget, Independent Fiscal Office

THE PROBLEM: When asked about Governor Wolf's proposal to increase the minimum wage from \$7.25 to \$12.00/hour effective July 1 with no phase-in period a whopping 85% of survey respondents disagreed. Knowing that minimum wage is a complex issue and that no matter what the solution, not all on either side will agree, this is an attempt to describe what small employers may support.

A SOLUTION: 90% of the employers in the survey pay above \$7.25/hour. Some employers noted that they don't know how they could get someone to work for \$7.25. The market seems to be showing entry level employees starting at \$9-10/hour. The starting wage numbers reflect a market price for wages not a government mandated number. If there is a desire for some sort of mandated minimum for "safety," then it should be gradual and should remain under the market price for entry level employees. To artificially make it \$12/hour may just raise costs and deter sales, resulting in fewer people employed. It makes no economic sense even if it seems politically compelling.

SMC supports an increase in the minimum wage that includes the following:

- A three year phase-in that increases the minimum wage by \$.50/hour to \$8.75 in 2019.
- A training wage for those under 18 should be maintained at \$7.25/hour.
- A seasonal worker wage should be maintained at \$7.25/hour.

- Training and education programs to enable low-wage workers to move beyond the minimum wage.

Note: In the second year some full-time minimum wage workers will move off of Medicaid and reduce costs to the state.

WHY THIS SOLUTION MAY WORK:

- **It calls for a wage under the market price for entry level employees.**
- **It includes a phase-in** – Any wage increase should be a gradual phase-in. The Governor’s \$12.00/hour increase which effectively increases wages by 65% overnight would cause labor market disruptions and could not be readily absorbed by small businesses. A gradual increase may also help to buffer the “ripple effect” problem on the pay scale for other employees, which was identified by respondents. A new, unskilled, entry level worker making a wage comparable to a skilled employee would put upward pressure on wages and possibly result in fewer hours, layoffs, and elimination of positions in order to increase wages for existing employees.
- **It suits diverse business types** – A \$12.00/hour increase on July 1, with no phase-in may suit a thriving IT company but may not fit a small business that relies on some unskilled labor. What was observed is that small businesses are very diverse in products, size, markets and employees. Types of businesses range from manufacturing companies, high-tech companies, to pet grooming, janitorial services, car washes and non-profits. A one-size fits all solution is risky.
- **It contains the “Climbing the Ladder” concept** – Employers are not hostile to workers and see them as an important asset that needs to be treated well. They like the entry level wage because it starts a path way where increased pay and responsibility are tied to ability, training, education, and job performance.
- **It allows for a training wage** – A training wage of \$7.25 for those under age 18 may insure that the lowest end will not be cut out. According to the survey, employers may react by taking a variety of actions from cutting back hours, eliminating positions, moving to automation, and hiring higher value employees, leaving fewer entry level jobs for the less skilled, trainees, high school students and part-time employees. A training wage is supported by half of the survey respondents.
- **It encourages a major job training and re-training program** – That is supported by 72% of the respondents.
- **It accommodates seasonal workers and those who need schedule flexibility** – In some cases workers such as part-timers, young mothers, college kids, high school students, and retirees’ value flexibility of hours more than dollars. Some businesses such as campgrounds, recreational programs and other seasonal businesses rely on unskilled/low-skilled entry level workers

To see SMC’s 2017 Minimum Wage Survey, go to <http://smc.org/services/issues-advocacy/>



**Where PA
Businesses
Go to Grow**

NOTES

WHO IS SMC BUSINESS COUNCILS?

At SMC Business Councils we believe small manufacturers and businesses drive the economy in the state of Pennsylvania. These companies represent 98.3% of businesses throughout Pennsylvania and employ over 48% of the private sector workforce. Their products and services are diverse and their sizes range from sole proprietors to manufacturers with several hundred employees. For over 70 years SMC Business Councils has served as trade association advocating on behalf of, and providing products and services to this community. They are the lifeblood of our economy and define the types of businesses we proudly call members of SMC.

SMC Business Councils/Western PA
600 Cranberry Woods Drive, Suite 190
Cranberry Twp., PA 16066
Phone: 412-371-1500

SMC Business Councils/Central PA
1017 Mumma Road, Suite 204
Wormleysburg, PA 17043
Phone: 717-761-1660

For more information, contact:
Eileen Anderson
Director, Government Relations
Phone: 412-342-1606
Eileenanderson@smc.org

WWW.SMC.ORG