



*Where PA
Businesses
Go to Grow*

SMC Business Councils 2018

State Position Papers
April 30, 2018





**Where PA
Businesses
Go to Grow**

CONTENTS

SMC Business Councils 2018 State Position Papers

- I. Prescription to Grow PA's Economy
- II. Energy & Regulations
- III. Conformity with the New Tax Law
- IV. Labor Costs - Minimum Wage
 - Health Care Services and Insurance
 - Workforce and Work Skills
 - Workers' Compensation

This document is online at:

<https://smc.org/wp-content/uploads/2018/04/2018-STATE-POSITION-PAPERS.pdf>

I. Prescription to Grow PA's Economy:

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

Top quote from a small business owner:

"Small businesses are busy enough just keeping their companies running, trying to grow and succeed or just stay alive."

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 6th **(3rd in 2017)** worst funded public pension system in the country which is one of the main reasons behind 6 credit downgrades. Based on the median age of the population, PA was the 6th oldest state in the nation in 2016 according to the Independent Fiscal Office, (Five Year Outlook Report, 11/2017).
- **PA suffers from an economic health problem.** PA was not included in Site Selection Magazine, 2016 or 2017 "Top 25 State Business Climate Rankings." Our business tax policy consistently lags other states.
 - o 24th – Tax Foundation's "2017 Business Tax Climate Index." **(24th in 2016)**
 - o 38th – ALEC-LAFFER "2017 State Economic Competitive Index: Economic Outlook" **(39th in 2016)**
 - o 41st – Wallet Hub's "2017 Economic Health Index" **(44th in 2016)**
 - o 20th – Independent Fiscal Office's - State and Local Taxes - Total Tax 2018 (ratio of total taxes to personal income) **(24th in 2017)**

PA can grow our way out of our perception and economic health 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 Total Manufacturing Output" **(8th in 2016)**. It's important for PA to take advantage of our natural gas resources, the Commonwealth's competitive edge; we are home to the world's largest unconventional natural gas field and we are the 2nd largest producer of natural gas in the U.S. and the 3rd largest producer of energy in the U.S. (The PA Advantage, Department of Community and Economic Development)

Manufacturing and plentiful gas go hand-in-hand in with job creation by downstream businesses.

[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.](#)

It's important to consider small business input in decision-making because we 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.

ENERGY & REGULATIONS

- **Energy** – 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.
- **Regulations** – PA needs regulatory policies that protect our economy from undue burdens on business and job creation. That means improving the regulatory culture by stopping bad regulations before implementation and by systematically reviewing existing regulations.

CONFORMITY with the NEW TAX LAW

- State tax policy is an important tool that can be used to attract growth, feed innovation, and encourage businesses to invest no matter what type of business they are. Lower taxes mean more resources for
- business owners to invest in and grow their business.

LABOR COSTS

- **Minimum Wage** – An increase to \$12.00/hr. would impact small businesses and manufacturers more than any other segment of the economy because they offer more entry-level jobs.
- **Health Care Services and Insurance** – 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.
- **Workforce and Work Skills** – Unless we take the time to rectify the problems that are faced by today’s small businesses and manufacturers in finding their skilled workforce, Pennsylvania will suffer major setbacks. It is imperative for PA to retrain displaced workers, attract and train young people to replace the retiring baby boomer workforce, and given state demographics, it is imperative to tap new pools of potential workers.
- **Workers’ Compensation** – The PA Supreme Court held that the Impairment Rating Evaluations process was unconstitutional because of the medical guidelines currently in use. This resulted in a 6.06% increase in WC rates. The PA Compensation Rating Bureau estimates the costs could be \$160 million/year to employers who buy WC insurance and twice that to those who self-insure. An update to the IRE process is urgent.

Who is SMC Business Councils?

For more than 70 years SMC Business Councils has served as the voice of small business and manufacturing in Western and Central Pennsylvania. We believe small businesses and manufacturers are the backbone of Pennsylvania’s economy. SMC provides business solutions and advocates on behalf of this community. Our members’ products and services are diverse, and their sizes range from sole proprietors to manufacturers with several hundred employees.

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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. The sixth downgrade was in September 2017.

- 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)*
- September 2017 – Standard & Poor's.

Pension Funds

Bloomberg, ("Pension Fund Problems Worsen in 43 States," by Laurie Meisler, 6/30/2017, Updated 8/29/2017)

II. Energy & Regulations

BACKGROUND

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 PA.

"Which of the following energy cost issues is more important to your business?" Of three possible answers the top reply was stable energy costs (48%).

...*National Small Business Association, 2017 Mid-year Economic Report, 7/ 2017*

Reliability and cost of utilities is the #3 most important criteria behind #1- work skills and #2 - transportation and infrastructure.

...*What Matters Most: Site Selector's Most Important Location Criteria*

"Employers crave not only reasonable, balanced policies towards companies but equally want to see certainty and stability. Lack of a comprehensive energy plan is one of the main reasons that oil and gas companies look at other states to locate"

...*adapted from Stone Pier Capitol Advisors, report, 9/20/2017*

Given all of the above and given that PA has the world's largest unconventional gas field and is the nation's 2nd largest producer of natural gas, SMC identified the following problems when it comes to developing PA's energy resources:

I. PROBLEM: Lack of a long-term policy for PA's most valuable commodity – What do corporate executives looking to locate a business think when they see that PA does not have a long-term energy policy to build out that asset in a timely, thoughtful and beneficial way? Lack of a comprehensive energy policy creates uncertainty of costs and reliability of energy sources. Who's in charge of this resource?

“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. 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.”

...SMC Business Councils State Energy Policy

Manufacturers consume more than 30% of the nation’s energy consumption. Industrial users consumed 31.5 quadrillion Btu of energy in 2014, or 32% of the total.

... National Association of Manufacturers, (“Top Twenty Manufacturing Facts,” Source: Annual Energy Outlook, U.S. Energy Information Administration, 2015)

SOLUTION: Create a Long-Term State Energy Policy – SMC members request a voice in in shaping that policy. The policy will save the state government money and clean up the environment at the same time. We are without a long-term policy mostly due to the nature of election cycles. Just like a restaurant menu, the energy policy “du jour” is dependent on whoever sits in the Governor’s office.

- Governor Rendell focused on energy conservation and efficiency.
- Governor Corbett’s administration published a long-term energy plan focused on job creation through the development of energy assets.
- Governor Wolf’s administration focus switched to the severance tax and climate change action.

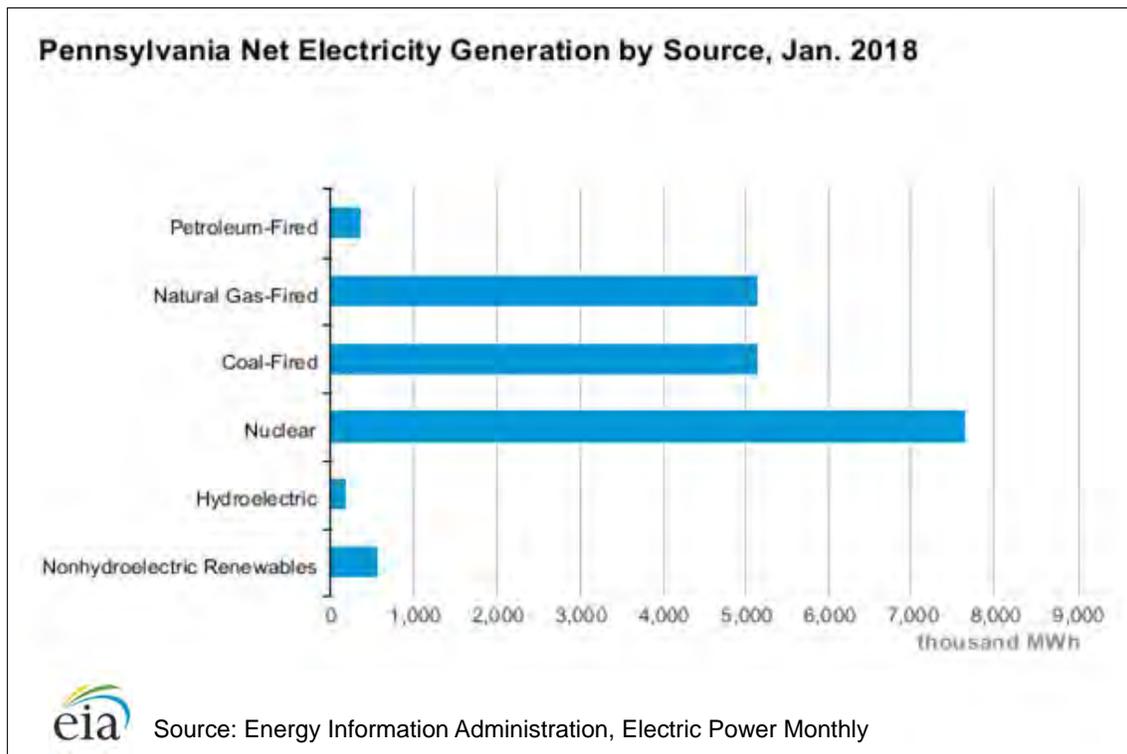
Here’s a quick snapshot of PA’s “default” energy plan – According to Office of Pollution Prevention and Energy Assistance, Department of Environmental Protection (DEP), PA has not had a formal state energy policy since the ‘90s. A climate change action plan, updated every 3 years, has taken its place and is due for updates in 2018.

- A major shortfall is it contains no real triggers for action.
- An outside consultant performs a comprehensive energy assessment and looks at what other states such as New Jersey, Ohio, and Maryland use for CO2 reduction benchmarks. Goals are set for clean energy but other goals are not included.

SMC’s energy policy points to the need for an “all-of-the-above” strategy. As we migrate to sectors other than fossil fuels and nuclear it is important to keep in mind that we should not put all of our eggs in one basket. PA cannot continually make the assumption that natural gas will always be there.

We don’t want to be dependent on any one energy source. The problem that occurs when “all of the eggs are in one basket” and the energy landscape changes was recently illustrated by China. Previously China used mostly coal for power generation but because they had tremendous problems with smog, they moved to natural gas. Now they do not have adequate gas supplies for both industry and home heating.

PA is fortunate to have a wide variety of sources and we should consider that a strength. Resiliency and reliability are required.



SMC Business Councils State Energy Policy

SMC Business Councils supports balanced policies that allow producers and suppliers from all energy sectors located in our Commonwealth to compete and that enables 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.

II. PROBLEM: Price increases for products and services – Small businesses cannot continually raise prices to cover increasing utility costs. There are too many additional factors that push prices up such as the cost of labor and health care.

“In what ways have you coped with rising and/or volatile energy costs?” Of 10 possible answers, the top reply was “Increased prices” (38%)...*National Small Business Association, 2017 Mid-year Economic Report, 7/2017*

SOLUTION: SMC supports cost-effective energy and conservation steps –To implement these concepts SMC will take on the role of a resource and educator to help small businesses and small manufacturers lower energy costs, reduce waste in their facilities, and reduce their carbon footprint to increase profits. SMC will do the following:

- Teach them to become responsible consumers of energy.
- Teach them how to shop and save money with electric choice programs.
- Promote resources such as PennTAP (Pennsylvania Technical Assistance Program) who do free energy assessments and provide technical assistance.
- Build awareness of available state grant programs and rebate incentives through power companies under Phase III of PA Act 129.

SOLUTION: SMC supports Senate Bill 234 (SB 234), Property Assessed Clean Energy Program (PACE)

– Many businesses cannot afford energy efficiency upgrades so SB 234 may make it more feasible. It authorizes local governments to spur economic development by making it possible for commercial and industrial property owners to obtain low-cost long-term financing for energy efficiency projects through voluntary tax assessments. The upfront capital is paid back in the form of a voluntary property tax assessment. Energy improvements enhance property values and lower the cost of doing business. PACE financing does not require any public funds. Even if a property is sold or transferred that assessment simply continues with the new property owner. Thirty-three states have similar programs. PACE can pay for improvements such as:

- Insulation
- New heating and cooling systems
- New lighting
- Solar panels
- Water pumps

Regulations

I. PROBLEM: What do corporate executives looking to locate a business think when they see that PA has pages and pages and pages of old regulations and a development process for new regulations that can lead to a disproportionate economic impact especially on smaller businesses? They would be interested to know if there were efforts underway to systematically review old regulations and base new regulations on cost-benefit analyses and sound science.

SOLUTION: PA needs regulatory policies that protect our economy from undue burdens on business and job creation. That means improving the regulatory culture by stopping bad regulations before implementation and by systematically reviewing existing regulations.

- **SMC supports House Bill 1237- (HB 1237) Economically Significant Regulations** – This bill enhances the General Assembly’s role in the regulatory approval process by requiring both the General Assembly and the Governor to approve economically significant regulations, that is, regulations with an impact or cost to the state, its political subdivisions, and to the private sector that exceeds \$1 million. Greater public comment and input on government regulations decisions strengthens political accountability for regulatory policy.
- **SMC supports the process of the Independent Office of the Repealer** – This office process would undertake an ongoing review of existing regulations and statutes to identify those that may be appropriate for modification, revision or repeal. This will ensure the sunseting of many outdated regulations that inhibit the growth of the economy. For example, for every new regulation an agency proposes, two existing regulations must also be offered for repeal.

“James Broughel from the Mercatus Center at George Mason University stated he produced a report on the regulatory environment in Pennsylvania and the Pennsylvania Administrative Code has about 13 million words with over 153,000 restrictive words. According to Broughel:

- *It would take someone 18 weeks to read the entire Pennsylvania Code.*
 - *Pennsylvania has a higher restriction count than some of its neighbors such as West Virginia and Maryland.*
 - *Regulatory reform is important because of the effect regulation can have on economic growth and living standards.*
 - *Pennsylvania has a modern system but could do more to analyze the consequences of old regulations, Broughel said.*
 - *PA can learn from other states like Kentucky, Nebraska, Missouri, and Illinois who are prioritizing the review of regulations on the books.*
 - *PA can consider a policy being followed by Texas and the United Kingdom such as “one in, one out” where an old regulation is removed for every new regulation introduced.”*
- ... Pennsylvania Legislative Services, (“Republican Representatives Announce Regulatory Reform Legislation,” 1/16/2018)*

III. Conformity with the New Tax Law

I. PROBLEM: Bonus Depreciation & Section 179 of the IRS Code – What do corporate executives looking to locate a business think when they see that PA has not conformed to the 100% Bonus Depreciation or increased the Section 179 expensing allowance to conform with the new Tax Cut and Jobs Act? They will wonder why PA wants to be left behind and executives may consider locating in another state. They know that decoupling from one or both of these changes discourages business expansion and adds to overhead costs due to separate PA capital expense deduction calculations and significant on-going tracking of depreciation.

BACKGROUND

State tax policy is an important tool that can be used to attract growth, feed innovation, and encourage businesses to invest no matter what type of business they are. Lower taxes mean more resources for business owners to invest in and grow their business.

Bulletin 2017-02, which was issued by the Pennsylvania Department of Revenue on December 22, 2017, addressed “Disallowance and Recovery of 100% Depreciation.” This ruling decouples PA from the recent federal tax change to 100% Bonus Depreciation, and does not allow a business to take deduction on their qualified property until that property is disposed of or sold, rather than an immediate 100% expense. While the federal government made tax changes that essentially broadened the tax base but lowered the overall rate for businesses, PA is making this change without any other reductions or adjustments. Corporations can claim 100% bonus depreciation on their federal tax returns for 2018 but not on their PA tax returns.

SOLUTION: SMC supports House Bill 2017 (HB 2017) – It will provide a legislative fix to the problem in Bulletin 2017-02.

SOLUTION: SMC supports House Bill 333 (HB 333) Small Business Equipment Deductions – Section 179 is an important tool for small businesses and manufacturers because it allows the immediate expensing of the cost of qualifying property rather than recovering such costs through years of depreciation. When the total purchases in a year exceed a specific cap, the direct expensing allowance cannot be used. PA's Section 179 expensing should conform to the same amount permitted under the new tax law. Now a taxpayer can deduct \$1,000,000, with a phase-out threshold of \$2,500,000. This increase enjoyed bipartisan support and it is now a permanent part of the federal tax code. Bonus Depreciation, in contrast, decreases over time and expires 1/1/2027.

The coupling of PA Section 179 with the federal Section 179 will provide relief for small businesses and small manufacturers. SMC fought long and hard for permanency of Section 179 because the expensing allowance and the purchase cap/phase-out threshold changed at least 10 times between 2001-2015. Permanency helps manufacturers and small businesses who make expensive capital acquisitions because it helps with cash flow, provides certainty for business planning, and simplifies and reduces the cost of compliance with the tax code.

Congress passed Protecting Americans from Tax Hikes (PATH Act 2015) and by 12/31/2016 thirty-eight states, not including PA, conformed to Section 179 expensing of \$500,000 and purchase cap/phase-out threshold of \$2,000,000. PA was one of the six states who set expensing at \$25,000, and a purchase cap/phase-out threshold of \$200,000. PA maintains that same level today. "Pennsylvania is unique in being the only state that allows for full Section 179 expensing for large businesses while not allowing small businesses to do the same."

...*House Finance Sub-Committee on Tax Modernization and Reform, Sam Denisco, V.P. Government Affairs, PA Chamber of Business & Industry*

BACKGROUND

Sole proprietorships, S corporations, limited liability companies (LLCs), and partnerships are called pass-through businesses because their net profits are passed directly through to the business owner and taxed on the owners' individual income tax returns.

Pass-through characteristics:

- *They are more likely to be smaller firms.*
- *Most pass-through employment is either self-employment (33.6%) or firms with 1 to 100 employees (38.7%).*
- *The vast majority of manufacturing firms are pass-through businesses.*

...*adapted from The Tax Foundation, "Overview of Pass-through Businesses in US," (Kyle Pomerleau, 2015, based on 2011 census data)*

"Small Business – *The vast majority of manufacturing firms in the United States are quite small. In 2015, there were 251,774 firms in the manufacturing sector, with all but 3,813 firms considered to be small (having fewer than 500 employees). In fact, 75% of these firms have fewer than 20 employees." (Source: U.S. Census Bureau, Statistics of U.S. Businesses) National Association of Manufacturers, (NAM Manufacts)*

"Pass-Throughs – *Almost 66% of manufacturers are organized as pass-through entities in the most recent data. The remainder are C corporations. Note that this does not include sole proprietorships. If they were included, the percentage of pass-through entities rises to 83.4%" (Source: Internal Revenue Service, Statistics of Income) National Association of Manufacturers, (NAM Manufacts)*

"Tax data over the 2002-2014 period show that corporations, pass-through entities, and individual filers have tended to use Section 179 expensing in the 60 percent to 80 percent range, both in terms of the numbers of businesses claiming the deductions and for the deduction amounts and for the deduction amounts claimed."

Continued on next page....

BACKGROUND CONT'D.

...“Business Use of Section 179 Expensing and Bonus Depreciation, 2002-2014,” Working Paper 110, October 2016, John Kitchen, Office of Tax Analysis, The U.S. Department of the Treasury and Matthew Knittel, Independent Fiscal Office, Commonwealth of Pennsylvania. (This contains detail regarding the share of firms at the federal level that claimed the Section 179 deduction over time referred to as the “take-up” percentage. It is likely that those shares would be similar for PA).

	Businesses Utilizing Section 179 on the 2014 Federal Tax Form
C corporations	244,200
S corporations	945,900 (pass-throughs helped by Section 179)
Partnerships	296,200 (pass-throughs helped by Section 179)
Sole proprietors, farmers, rental	4,403,000 (pass-throughs helped by Section 179)

...Adapted from the “PA Fiscal Update, CompetePA Retreat,” (Independent Fiscal Office, 2/27/2018)

IV. Labor Costs – Minimum Wage

I. PROBLEM: What do corporate executives looking to locate a business think when they see that Governor Wolf calls for an increase in the minimum wage from \$7.25 to \$12.00/hour in his 2018-19 budget?

They would wonder...

- Why PA wants to have the second highest minimum wage of any state for 2018-19?
- Why PA wants a minimum wage well above any of our neighboring states?
- And why PA would increase the minimum wage when PA (44th) already has an unemployment rate of 4.8%, higher than any of our neighboring states except West Virginia (48th)?

...Unemployment Rate for States, Bureau of Labor Statistics, 2/2018

BACKGROUND

In 2016 SMC opposed a mandated minimum wage increase and stated 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.

In 2017 SMC conducted a minimum wage survey to determine where small employers stand in regard to Governor Wolf’s mandated increase to \$12.00/hour. (SMC received 450 replies from 10 business organizations). <https://smc.org/wp-content/uploads/2017/07/2017-Minimum-Wage-Survey.pdf>

Below are excerpts from the 2017 survey; several are updated to 2018.

2017 - Q. Does increasing the minimum wage to \$12.00/hour hurt small businesses more than it helps their employees?

Continued on next page....

BACKGROUND (CONT'D.)

2017 - A. 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.

2018 - In the new **Analysis of Revenue Proposals, Fiscal Year 2018-2019, Executive Budget, Independent Fiscal Office (IFO)** it is very challenging to compare the figures for the number of people who will benefit from a wage increase and number of people who will suffer job loss because different modeling was used in 2018. The IFO uses \$10.00/hour and a phase-in to \$12.00/hour by 2021, making the comparison of the 2017 report and 2018 reports like comparing “apples and oranges.” In addition the 2018 report did not include workers with tip wages which reduces the number of workers earning less than \$12.00/hour and also reduces the number of workers who lose employment.

2018 - Q. What about the revenue projections and savings from an increased minimum wage? Are the figures used in the 2018-2019 budget accurate? In the Governor’s budget address on 2/6/2018 he projected increased revenue of \$101 million/year based on a minimum wage increase to \$12.00/hour.

2018 - A. According to the **Analysis of Revenue Proposals, Fiscal Year 2018-2019, Executive Budget, Independent Fiscal Office (IFO)**, the projected impact on General Fund revenues, based on an increase to \$10.00/hour, is \$40 million and will require several years to fully materialize.

2017 - 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.

2017 & 2018 - 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 \$12.00/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 2020.
- 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.
- There should be public and private training and education programs to enable low-wage workers to move beyond the minimum wage.

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 pathway where increased pay and responsibility are tied to ability, training, education, and job performance.

“Climbing the Ladder”

- *The report found that smaller employers place a premium on their employees: nearly all small businesses provide opportunities for on-the-job learning.*
 - *While we tend to think of corporate America when we think of career ladders, small businesses also have ample opportunities for career growth.*
 - *66% of all small businesses offer opportunities for promotion, and at companies with more than five employees, that number is 85%.*
 - *Offering training and promotions helps small businesses retain employees: businesses offering neither are twice as likely to have an average tenure of less than those offering both.*
- ...The National Small Business Association, 2017 Year-End Economic Report, conducted on-line Dec. 18, 2017- Jan. 8, 2018, among 1,633 small-businesses*

- **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 job training and re-training programs** – That was 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.

PROBLEM: How?” and “What?” does the Wolf Administration think about an increase in the minimum wage?

SMC: This is where minimum wage theory and workforce collide with the reality of the marketplace.

“Rep. Roae explained Governor Wolf has proposed again to increase the minimum wage to \$12.00/hour, which the Independent Fiscal Office (IFO) 2017 report projects will result in 54,000 fewer jobs if this happens... Denis Davin, Secretary, Department of Community and Economic Development (DCED), explained he meets with a number of small businesses and does not believe there will be an effect.”

...adapted from Pennsylvania Legislative Services, (House Appropriations Committee Budget Hearing on Job Creation, 2/21/18) **SMC's 2017 Minimum Wage Survey makes the point that it depends on who you ask. Manufacturers may have few minimum wage workers so an increase may have little effect. But ask the owner of a home care agency, a pet grooming business, a campground, or an apple orchard who rely on unskilled hourly workers. They said an increase in the minimum wage will be harmful to their businesses.**

"When asked if there was a correlation between increasing the minimum wage and job losses, the Independent Fiscal Office (2017) report predicted a 4% job loss in Pennsylvania ... Sec. Albright explained that the administration does not agree with the report and believes the impacts on jobs will be modest..." "He said the administration is proposing increasing minimum wage to \$12 an hour and if companies like Wal-Mart can increase their wage to \$11 then it is appropriate for other employers."

...Pennsylvania Legislative Services, (House Appropriations Committee Budget Hearing with Budget Secretary, 3/8/18) **SMC believes that for small businesses, the down-side of a minimum wage increase to \$12.00/hour far outweighs any revenue advantages that Governor Wolf hopes to gain.**

SOLUTION: Show the Administration, Secretary Davin and Secretary Albright how the marketplace works. With a national unemployment rate at 4.1%, an 18 year low, a tight labor market has driven up competition for unskilled hourly workers. **Large companies have been forced to increase starting wages. The upside is that there is a domino effect; other large and small companies may be forced to follow the leader.**

"Americans with only a high school diploma are seeing faster earnings growth than their highly educated counterparts as employers in low wage industries search for workers to fill job openings...." "As the labor market has tightened more opportunities are opening for people with less education, less experience, and firms are competing more to hire people who they would not have fought as hard for a couple years ago."

...*The Wall Street Journal*, ("Earnings Pace Rises for Less Educated," Sarah Chaney, 1/20/2018)

"CVS Health reports it will increase its starting hourly pay to \$11 per hour for U.S. workers. The company, with 240,000 U.S. workers, currently pays a starting wage of \$9 per hour, though many employees earn more." It also plans to increase pay for lower-wage retail workers at 10,000 U.S. stores... Wal-Mart, Inc. the country's biggest private employer, said last month it would lift its starting pay to \$11.00 per hour."

....*The Wall Street Journal* ("CVS to Raise Starting Wage," Sharon Terlep, 2/9/18)

In Oct. 2017 Wal-Mart retail rival Target Corporation lifted its starting pay to \$11.00/hr. and Costco Wholesale Corporation now starts hourly staff at \$13.00/hr.

...HOWEVER, there is also a downside clearly illustrated by Wal-Mart, Inc. and Sam's Club Warehouses.

"The giant retailer, which employs around 1.5 million people in the US, currently pays \$9 or \$10.00/hour to most new store workers. The wage increase to well above the federal minimum could pressure restaurants, warehouses and small retailers competing for unskilled workers.... The company also announced plans to cut roughly 10,000 jobs by closing about 10% of its 660 U.S. Sam's Club Warehouse stores.".....

... "To combat wage pressure, Wal-Mart has tried to save on labor costs by adjusting the number of workers per store and more recently by automating many rote tasks. It is adding more self-service registers and using robots to scan shelves for items that are out of stock. Last year, Wal-Mart had around 15% fewer workers per square foot of store than a decade ago, according to an analysis by The Wall Street Journal."

...*The Wall Street Journal*, ("Wal-Mart Boosts Wages After Tax Overhaul" Sarah Nassauer, 1/12/2018)

Labor Costs – Health Care Services and Insurance

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?

...Kaiser Family Foundation, 2017

SOLUTION: SMC supports Surprise/Balance Billing protection 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.

This bill provides for the protection of consumers of health care coverage against Surprise/Balance Bills for emergency health care services or for other covered health care services when health care services are sought from in-network facilities. It 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.

BACKGROUND

The small-business community requires relief from health care costs and health insurance premium costs. The National Small Business Association, NSBA, SMC's boots-on-the-ground lobbyists in Washington, D.C., recently completed a survey of smaller firms. It ranks health insurance costs as the single greatest challenge facing smaller firms and their highest priority for action at the federal level.

...2017 Year-End Economic Report, 12/18/2017 – 1/8/2018 among 1,633 small-business owners.

<http://nsba.biz/wp-content/uploads/2018/02/Year-End-Economic-Report-2017.pdf>

SMC believes improvements can be made at the state level.

II. PROBLEM: The third party payment system provides no incentives for consumers to take an active role in their own health care decisions – Employers want to provide attractive benefits to retain and attract employees and health insurance is a prized benefit. As the cost of health benefits spirals upward, employers in many cases have no choice but to shift more costs onto employees and increase the use of high-deductible plans. Health insurance premiums, co-pays, deductibles and out-of-pocket costs continue to increase, however, employees are partially shielded from knowledge of costs because of the third party payment system. What actions can be taken to engage employees in their own health care?

SOLUTION: SMC supports the education of employers and employees to become better consumers of health care services – When employees are more fully engaged in their own health care they will understand that more health care is not better health care and more expensive health care is not better health care. The health care marketplace does not operate like other market place where high cost relates to quality.

One of the best ways to educate employees to take a more active role and make informed decisions about purchasing health care services is very simple. They can ask providers questions about tests, procedures, prescriptions etc., just as they ask car salesman questions about a car before they make a purchase.

5 Questions to ask your doctor before you get any test, treatment or procedure.

- Do I really need this test or procedure?
- What are the risks and side effects?
- Are there simpler, safer options?
- What happens if I don't do anything?
- How much does it cost and will my insurance pay for it?

...American Board of Internal medicine ("Choosing Wisely Program.")

Labor Costs – Workforce and Work Skills

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? They will ask, "What is PA doing to train the workforce?"

SOLUTION: SMC supports workforce training – Unless we take the time to rectify the problems that are faced by today's small businesses and manufacturers in finding a skilled workforce, PA will suffer major setbacks. It is imperative for PA to retrain displaced workers, attract and train young people to replace the retiring baby boomer workforce, and given state demographics, it is imperative to tap new pools of potential workers.

BACKGROUND

"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%)"

....2017 House Appropriations Budget Hearing, Matthew Knittel, Director, Independent Fiscal Office,

Dennis Davin, Secretary, Department of Community & Economic Development (DCED) emphasized the importance of workforce during the 2017 Senate Appropriations budget hearing. DCED meets with site selection consultants throughout the country and the state. The consultants say investments and the tax incentives grab headlines but what they really look for is workforce. It's their #1 priority and what companies need most. That was validated again in 2017 when Workforce Skills was #1 of 10 possible choices.

... What Matters Most: Site Selector's Most Important Location Criteria, ("Survey of Corporate Real Estate Executives," 10/2017)

The U.S. jobless rate is 4.1%, and at an 18 year low. PA's jobless rate, 4.8%, is above the national average but still the lowest since 2008. Employers are straining to hire whether they are large or small but it is especially challenging for small businesses and manufacturers. They may lack funds, time for training, or revenue to increase salaries to retain and attract workers.

"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."

...Deloitte and the Manufacturing Institute, ("The Skills Gap in U.S. Manufacturing 2015 and Beyond")

II. PROBLEM: “What Keeps You Up at Night?” was the question posed at SMC’s Small Business Issues Forum, 9/28/17. The number one issue at the forum was workforce. The 45 attendees cited:

- Staffing Challenges
 - Filling vacancies with qualified workers who want to work
 - Finding workers with a work ethic, soft skills, and reliability
 - Finding trades and crafts workers; the focus is on four year degrees
- Cost Challenges
 - Finding workers at a wage affordable for the employer
 - Hiring and training are very expensive
 - Employee turnover is expensive

“Congress passed the Workforce Innovation and Opportunity Act in 2014 to coordinate federal job training programs, *but the most successful initiatives tend to be long-term local or regional collaborations*, says Jack Mills, a workforce expert at research and advocacy group Insight Center for Community and Economic Development.” ...*The Wall Street Journal*, (“Employers Get Creative with Hiring,” 2/15/2018)

SOLUTION: SMC will create a regional plan to tackle the workforce issues of our small business and manufacturer members and potential members.

Labor Costs – Workers’ Comp (WC)

I. PROBLEM: No Impairment Rating Evaluation (IRE) process in place to modify WC benefits – The Protz decision by the PA Supreme Court struck down the existing statute and held that the IRE process was unconstitutional because the American Medical Association (AMA) guidelines currently in use (which have been updated twice since the law was passed in 1996) differed from the version used in 1996. They viewed that as an unconstitutional delegation of authority. This resulted in a 6.06% increase in WC rates. The PA Compensation Rating Bureau estimates the costs could be \$160 million/year to employers who buy WC insurance and twice that to those who self-insure.

BACKGROUND

An IRE may be conducted 2 years into a claim: a patient is evaluated using AMA guidelines to determine the level of impairment; if wage-loss benefits should continue indefinitely or be limited to 500 weeks. The IRE and AMA guidelines are a nationally accepted means of adjusting to changes that occur during an employee’s recovery from injury. IREs bring fairness when determining circumstances in which claimants can be expected to transition off wage-loss benefits and when benefits should be paid for the rest of an individual’s life. In the Protz decision, the Supreme Court did not object to the following:

- *Evaluating WC claimants to determine level of impairment*
- *Limiting the duration of benefits.*
- *Using AMA guidelines*

SOLUTION: SMC supports Senate Bill 963 (SB 963) - an update to the IRE process – Enactment will counter the court decision and update the IRE process with the 6th edition of the AMA guidelines and re-validate the process used to determine the severity of workers’ injuries.



**Where PA
Businesses
Go to Grow**

NOTES

Who is SMC Business Councils?

For more than 70 years SMC Business Councils has served as the voice of small business and manufacturing in Western and Central Pennsylvania. We believe small businesses and manufacturers are the backbone of Pennsylvania's economy. SMC provides business solutions and advocates on behalf of this community. Our members' products and services are diverse, and their sizes range from sole proprietors to manufacturers with several hundred employees.

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