

TESTIMONY
ECONOMIC DEVELOPMENT, JOB CREATION & RETENTION

**Pennsylvania House of Representatives
Commerce Committee
Charleroi, PA**

April 8, 2010

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Good morning Chairman Daley and distinguished members of the House Commerce Committee. My name is Eileen Anderson. I am Government Relations manager at SMC Business Councils and also Vice President of Red Clay Tile Works, a small business I co-founded with my husband in 1980. I became involved in Government Relations at SMC because of my desire to fight for affordable health care for small businesses, an issue that has had a profound impact on my business over the last ten years.

SMC was founded in 1944. We are a trade organization with several thousand members in southwestern and central Pennsylvania. Membership is made up of 31% self-employed, 54% with 2-20 employees, and 15% with more than 20 employees. Companies are in the manufacturing, service and commercial sectors and range from small family businesses to sophisticated marketing companies, information technology firms, and environmental consulting firms, to manufacturers of ceramic resistors, solar panels, and components for medical and transportation industries.

SMC conducted a survey of members in February to assess top concerns and economic outlook. 71% cited the high cost of health care as their most severe business challenge. Among other top concerns were taxes, compliance with government regulations, and access to capital. In 2010 23% expect to grow their workforce moderately while 67% will stay the same and only 8% will lay off employees.

In answer to the question "How can we stimulate the economy, retain and create jobs in Pennsylvania?" our answer is "Set a goal of becoming the most business-friendly, competitive state in the Northeast and small business will create jobs."

With more than 576,500 unemployed, Pennsylvania needs every job it can get whether it's one person making the leap into self-employment, an existing business adding 2-3 more employees, or a fast growth company adding 25 new jobs. In this economy every last job counts.

It's time Pennsylvania helps it's own homegrown companies expand and create jobs. Here are 4 ways to help small business create jobs:

1. REDUCE HEALTH CARE COSTS TO KEEP INSURANCE AFFORDABLE FOR SMALL BUSINESSES

Do whatever it takes to reduce health care costs. Washington's reform does not get at the root cause of the problem - cost. The Congressional Budget Office has determined small business health premiums will continue to increase sharply.

SMC applauds the successes of the Prescription for PA, legislation to reduce hospital-acquired infections which saved \$372 million after the first year, legislation providing for a "no-pay" policy for obvious medical errors which will save an estimated \$337 million per year, and the state's very successful chronic care pilots. More must be done to control costs. Fighting high health care costs is a long-term proposition and the long way around to help small businesses create jobs but the alternative is spiraling health care costs that will continue to destroy jobs into the future.

SMC members, Keith & Carolyn Franks, have an auto service business in Pittsburgh. High health care costs have had a severe impact on their business and their ability to create jobs.

Last year they had a 65% premium increase. They reduced it to 35% by taking on larger deductibles and co-pays but they still pay more. Money that could be used for expansion is spent on health care. They have gone from 5 full-time employees to one. Health care costs were a contributing factor to the downsizing of their business.

The cornerstone of containing costs is reducing waste and reforming the health care delivery and payment system – changing the fee for service model so that providers are paid for good results – not just for the number of procedures performed.

The role of the state should be to use the public money spent on health care as a lever to make changes. The private sector will follow.

Public and private money should pay for superior care - standardizing best practices, risk-adjusted better patient outcomes, and encourage bundled payments for an episode of care.

Public and private money should pay for effective chronic disease care. Chronic disease treatment accounts for 75 cents of every health care dollar.

Public and private money should not pay for preventable medical errors, repetitive medication errors, patient harm resulting from patient identification errors, or preventable hospital acquired infections.

Public and private money should not pay for hospital readmissions caused by poor coordination of care, poor adherence to medications or poor primary care follow-up.

The state should support the Pennsylvania Health Care Cost Containment Council (PHC4). Payment and quality transparency are key elements of controlling costs. PHC4 has shown that some institutions charge two or three times more than others for identical procedures with no difference in quality or outcomes. PHC4 requires adequate funding to carry out its mission. Their budget has been cut by 47% and their work force has decreased from 46 employees to 30.

2. REDUCE BUSINESS TAXES

Pennsylvania ranks 27th in the Tax Foundation's 2010 State Business Tax Climate Index which measures the business-friendliness of states' tax systems. One of the key ingredients necessary to keep businesses and jobs here in Pennsylvania is a competitive tax climate. High taxes are an incentive for businesses to flee.

Here's what some of our members are saying-

"If business taxes were lowered, business owners would use the money saved in taxes to reinvest in their business in terms of employees, equipment and technology." -*Glenn E. Miller, VCS Group Inc.*

"I'd like to hire some folks to grow my business, but payroll taxes are prohibitive, especially state unemployment taxes." – *A Pennsylvania employer*

One SMC member, Tom Parry, of American International Mailing, has partners in several other states. He said, “ We chose to incorporate in Maryland instead of Pennsylvania. I consider Pennsylvania a “high tax” state”.

Georgiana Riley, TIGG Corporation, headquartered in PA, purchased an out of state manufacturing company and pays the Capital Stock and Franchise tax in PA but not in the state where her plant is located. It’s a disincentive to build a facility in PA.

Running a business is like playing chess. Business owners respond by necessity to every change in the business environment with another move of their own. Our manufacturers get letters every week from other states asking them to move on the promise better business conditions. Businesses will go where they get the most value for their dollar. We don’t want to lose our businesses and jobs to other states.

3. ENCOURAGE SMALL BUSINESS REGULATORY REFORM - HB 229

“We just hired our first employees and I am inundated with paperwork. There are too many regulations, so much that it makes hiring unattractive”. *A micro-manufacturer*

“One of our greatest challenge is keeping up with excessive rules and regulations. Compliance is costly and requires research and administration time of management personnel. There are many gray areas so its difficult to determine what compliance entails.”

Kyle Knapp, DU-CO Ceramics

We encourage you to co-sponsor HB 229. Lessening the regulatory burden on small business will help retain and attract jobs.

Regulations and reporting impose burdensome legal, consulting, and accounting costs on small business. According to the Office of Small Business Advocacy, small businesses pay 45% more than large businesses to comply with regulations, money that could be spent investing hiring and creating jobs. This bill will give small business a voice in the regulatory process, provide for a review of existing regulations, assess the economic impacts of proposed legislation, and consider less burdensome alternatives.

4. MAKE IT EASIER TO DO BUSINESS IN PA - HELP OUR HOMEGROWN BUSINESSES BY DEVELOPING A SMALL BUSINESS RESOURCE PORTAL

In response to the survey question, “How would you improve the state business climate?” one of the answers that surfaced repeatedly was “Pennsylvania is unfriendly to businesses.”

Respondents cited slow response time by state agencies, difficulty in navigating government forms and websites to procure information and difficulty in keeping up with new state programs for business.

One way to make it easier to do business is to organize existing state business resources which are scattered over many state websites into one easy to access location. Business is all about making decisions quickly with accurate information. A dedicated small business resource portal will give businesses the information they need, when they need it, making them more productive an efficient.

Virginia was named the best state for business for 4 years in a row by Forbes magazine. Their small business resource portal has finance, workforce, procurement, and business information services all in one spot at www.vdba.virginia.gov/aboutus.shtml.

Their business Information services are outstanding. They answer all questions promptly. Their implicit message to business is “ We are going to make it as easy as possible for you to do what you do best - create jobs.” I emailed a question asking for the sales tax rate and had an answer the next day. I tried to find the answer to the same question on our state websites but ran out of patience and time.

In Virginia there are more than 35 state agencies that touch small business in some way, 100-business assistance and regulatory programs, and more than 300 different state business forms. Pennsylvania’s numbers are probably similar.

A dedicated small business resource portal could easily be promoted thru email tax reminders for Sales Tax and Withholding Tax. It’s a way to roll out the welcome mat and say to small business “ We want you here.”

SMC appreciates the opportunity to discuss ways in which Pennsylvania can work to facilitate job creation. We encourage you to utilize SMC as a resource for small business information and policy development.

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