



**Where PA
Businesses
Go to Grow**

Legislative Report

SMC Business Councils Vision for Pennsylvania

6 WAYS TO SAVE PENNSYLVANIA JOBS

An agenda for economic growth from SMC Business Councils, Where Pennsylvania small businesses go to grow

By Eileen Anderson

Today there are more than 576,500 Pennsylvanians looking for work. We don't need to add to those ranks with job-killing policies. Instead we need to help small businesses grow and create the jobs needed to put Pennsylvanians back to work.

Historically small business has been a leading force for job creation in the Commonwealth.

- Small business represents 50% of private sector employment and 98% of employers in Pennsylvania.
- Pennsylvania small employers created 60,338 net new jobs or 58% of total net new jobs compared to large business – 43,811 in 2005-2006

This growth situation is in jeopardy of changing because small businesses are facing serious problems that threaten their capacity to be robust contributors to the growth of our economy.

SMC conducted a survey in February 2010 to identify members' top concerns. Escalating health care costs, taxation, difficulties accessing capital, energy costs and regulatory burdens were cited as the challenges squeezing the state's small businesses.

If lawmakers create a more competitive, business-friendly environment here in the Commonwealth, then small businesses will create the jobs needed to put Pennsylvanians back to work. By setting a goal of becoming the most competitive, business-friendly state in the Northeast, Pennsylvania will ensure that the cost of running a business and providing jobs encourages companies to do business in our state.

Here are six ways to bring a competitive, business-friendly climate back to Pennsylvania:

1 REDUCE HEALTH CARE COSTS - KEEP INSURANCE AFFORDABLE

SMC is a staunch advocate for broad healthcare reform and cost containment. Washington's reform does not address the root cause of the problem - cost. SMC urges Pennsylvania to serve as an incubator for reform and work to bring costs under control.

In our recent member survey more than 70% cited health care costs as the most severe business challenge facing them. The cost of health care is destroying jobs.

- According to a recent National Small Business Association survey 1 in every 5 small-business owners had to reduce their workforce in order to deal with rising health insurance costs.
- Health care premiums for PA families have risen 5.4 times faster than earnings since 2000 according to a Families USA report. Premiums rose 95.2% in the last decade from \$6,721 to \$13,116 while median earnings rose 17.5%.

SMC applauds the successes of Act 52 – The Reduction of Hospital-Acquired Infections, and Act 1 – “Non-Payment for Never Events,” or obvious errors. But more must be done to control costs.

Enact Payment & Delivery System Reform - Focus on Preventable Errors & Chronic Disease Care - We all pay the bill in our small business insurance premiums for the 33% of health care spending wasted on poor care. The incentives that govern health care spending must be aligned to reward providers for good results – value - not just for the number of procedures performed. Chronic disease treatment accounts for 75 cents of every health care dollar. Better management of chronic disease should be the highest priority for all.

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

Deter Preventable Errors - Public and private payers should not pay for preventable errors, repetitive medication errors, and patient harm resulting from patient identification errors or additional hospital acquired infections.

Address Ineffective Chronic Disease Care & Preventable Readmissions - Public and private payers should not pay for hospital readmissions caused by poor coordination of care, poor adherence to medications, or poor primary care follow-up. Insurers must pay for many key, comparatively cheap provider activities that head off hospital readmissions.

Expedite and Expand PA's Regional Chronic Care Pilots - Pennsylvania should continue to experiment and increase the number of pilot projects and incorporate their findings as quickly as possible into mainstream practices.

Encourage Payment & Quality Transparency - Some institutions' charges are two or three times as expensive as others with no difference in quality and outcomes. Transparency will help drive payment reform and quality improvement and help employers and consumers bring costs under control as they negotiate for the best quality outcomes at the lowest prices in an open, competitive market.

Expedite Adoption of Health Information Technology - Adopt Uniform Electronic Billing Procedures - Follow the lead of New Jersey and give physician office practices a single online point of access to all major insurers to lighten the administrative burden. It has the immediate benefit of reducing paperwork costs and streamlining claims and ultimately has the potential to improve health care quality.

Reinvigorate the Pennsylvania Health Care Cost Containment Council (PHC4) - PHC4 is one of the few independent state agencies in the country to collect, analyze and publish provider payment and health care quality data on a hospital by hospital basis. It needs 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. PHC4 should be able to use revenue from all data sales to underwrite operating costs.

2 REDUCE BUSINESS TAXES AND STATE SPENDING

Government must be run in the same way we have to run our businesses by not spending more than we have. Competitive tax policies will help retain jobs, keep facilities open and create new jobs.

Gov. Rendell's 2010-11 budget tops \$29 billion, an increase of about 4%, or nearly \$1.2 billion. The best away to increase state revenues is not to increase taxes but to stimulate economic growth.

SMC Opposes:

Elimination of Virtually all 74 Sales Tax Exemptions with a Rate Reduction From 6% to 4%. The tax exemptions fall primarily on business services - accounting, legal, advertising, and IT. A new tax on services will deter consumers and businesses from buying and increase the cost of doing business in the state.

Elimination of the 1% Discount to Companies that File Sales Tax Payments on Time - This discount helps defray the cost of doing sales tax bookkeeping.

SMC Supports:

Elimination of the Current \$3 Million Cap on Net Operating Loss (NOL) - Pennsylvania is one of only two states that prohibit companies from carrying forward the full extent of their NOLs to offset future income. Eliminating the cap will provide greater opportunities for employers with losses in the early years or those with losses during economic downturns.

Continued Phase-Out of the Capital Stock and Franchise Tax (CSFT) - Under current law, the CSFT will continue to phase-out dropping to 0.89 mills for tax year 2013 and 0 mills for tax year 2014.

Reduction of the Corporate Net Income (CNI) Tax to 6.00% from 9.99% - Pennsylvania currently has the second-highest rate in the country. At 6.00% we would be 15th instead of 49th among the states..... effectively rolling out the red carpet and welcoming businesses.

Move to a 100% Single Sales Factor - Pennsylvania's apportionment is based on asset and payroll ratios in addition to the sales ratio and penalizes companies for investing and hiring in Pennsylvania.

3 INCREASE ACCESS TO CAPITAL FOR SMALL BUSINESSES

Enabling small businesses to secure loans at affordable terms will allow them to stay afloat, expand, modernize, and create jobs.

SMC is deeply concerned about the access to capital difficulties entrepreneurs face and is exploring ways to make financing accessible to businesses. This is another front on which we must either stay competitive or risk losing business to other states, which may already have programs in place.

- Make advances on state contracts and pay final balance on completion so that small businesses don't have to borrow money to work on contracts or finance an extended wait for receivables.
- Form a non-government pool of funds and have a loan company or economic development group administer the loan fund. This will give small businesses that are unable to get traditional bank loans an opportunity to get funding.
- Change the state's loan requirements so it is easier to lend by moving away from a 50% bank match and job count as prerequisites for obtaining state funds.
- The state can give tax credits for fees paid by businesses on loans.

4 KEEP ENERGY AFFORDABLE FOR SMALL BUSINESSES AND MANUFACTURERS

An abundant supply of affordable energy is a key component of keeping jobs and businesses in Pennsylvania.

SMC Opposes:

SMC opposes HB 80 - This bill would significantly increase the amount of electricity to be generated from expensive alternative sources. The mandates are projected to add \$9-12 billion to the cost of electricity in future years and will put Pennsylvania at a competitive disadvantage compared to other states through higher energy costs. Electricity rates would increase by at least 10% to 13%. At a time when small businesses are stymied by slow sales, increasing costs, and the expiration of rate caps on electricity, it makes no sense to add to the burden.

5 ENCOURAGE SMALL BUSINESS REGULATORY REFORM HB 229

Creating an environment in Pennsylvania that lessens the regulatory burden on small businesses will help to retain and attract jobs to the state.

Compliance with agency regulations is a common problem faced by many small businesses. Small employers work to ensure their businesses are compliant, but they often lack the resources required keeping a steady pulse on the constant changes. They are also disproportionately impacted by regulations and pay 45% more than large businesses to comply with regulations. HB 229 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.

6 DEVELOP A SMALL BUSINESS RESOURCE PORTAL

Assembling all information into one, easy-to-access location will help make small businesses more productive and efficient.

Pennsylvania has worked to provide information portals on a variety of different subjects, such as starting a business, locating financing and so forth. However, many small employers lack the time to navigate through the sea of information available today. Many valuable resources that would help small business growth and productivity are often overlooked simply because businesses can't locate them.

A dedicated small business portal would serve as a clearinghouse for information making it easier and quicker for small businesses to find it and use resources. One way to make it easier to do business is to organize existing state business resources 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. ▼

For more information contact:

Eileen Anderson
Manager, Government Relations
412-342-1606
eileenanderson@smc.org