

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES

APPROPRIATIONS COMMITTEE HEARING

STATE CAPITOL
MAJORITY CAUCUS ROOM
ROOM 140
HARRISBURG, PENNSYLVANIA

FRIDAY, MAY 22, 2009
9:00 A.M.

PRESENTATION ON SENATE BILL 850

VOLUME I OF IX

BEFORE:

HONORABLE DWIGHT EVANS, MAJORITY CHAIRMAN
HONORABLE WILLIAM C. KORTZ III
HONORABLE DEBERAH KULA
HONORABLE TIM MAHONEY
HONORABLE JOSH SHAPIRO
HONORABLE MATTHEW SMITH
HONORABLE MARIO J. CIVERA, JR., MINORITY CHAIRMAN
HONORABLE GORDON DENLINGER
HONORABLE JOHN R. EVANS
HONORABLE MAUREE GINGRICH
HONORABLE DAVID R. MILLARD
HONORABLE RON MILLER
HONORABLE DOUGLAS G. REICHLEY
HONORABLE RICHARD R. STEVENSON

ALSO IN ATTENDANCE:

HONORABLE KEVIN P. MURPHY

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ALSO PRESENT:
MIRIAM A. FOX
MAJORITY EXECUTIVE DIRECTOR
EDWARD J. NOLAN
MINORITY EXECUTIVE DIRECTOR

HEATHER L. ARTZ, RMR, CRR
REPORTER

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MAJORITY CHAIRMAN EVANS: I'd like to ask the panel to join us at the table there, please. Now the hour being 9:00, we'll reconvene the House Appropriations Committee public hearing on Senate Bill 850.

The panel this morning is on economic development. So what I would like to do is have each person introduce themselves and then you can make your presentation before the House Appropriations Committee. Identify yourself for the purpose of the stenographer so she knows who you are.

MR. ROTZ: I'm Joel Rotz, governmental relations director for Pennsylvania Farm Bureau.

MR. BARR: My name's Gene Barr, vice president government public affairs for the Pennsylvania Chamber of Business and Industry.

SECRETARY CORNELIUS: George Cornelius, acting secretary for the Department of Community and Economic Development.

MR. OLIVER: I'm John Oliver, president CEO of VisitErie, incoming president of the Pennsylvania Association of Convention and Visitors' Bureaus.

MAJORITY CHAIRMAN EVANS: So you want to

1 start first.

2 MR. ROTZ: Good morning. Thank you,
3 Mr. Chairman. Again, I am Joel Rotz, state
4 legislative director for the Pennsylvania Farm
5 Bureau. Appreciate the opportunity to address you
6 this morning on the budget issues. I'd like to start
7 out by saying that -- obviously I have extensive
8 testimony in front of you. I will not be going
9 through all that. And we'll just be making some
10 brief comments.

11 I think it is a bit of an understatement to
12 say, but I will say it this way, the farmers are
13 troubled with the severity of the proposed cuts to
14 critical agriculture programs outlined in both
15 Rendell administration's proposed state budget and
16 the Senate passed proposal. In the Governor's
17 proposed budget cuts are proposed for 23 of 27 line
18 items in the agriculture department, including the
19 elimination of 11 of those 23 line items. The Senate
20 passed budget cuts far deeper into the agriculture
21 priorities than the Governor's proposal and
22 eliminates an additional seven lines.

23 Pennsylvania farmers believe these budget
24 proposals for agriculture did not reflect the
25 magnitude and importance of agriculture, which

1 generates 5.8 billion in annual cash receipts and
2 translates into a 45 billion in total economic
3 benefit to the state's economy, while creating at
4 least one in every seven jobs in the state. I might
5 also add these ag related jobs have proven to be
6 highly recessionary proof employment in times like we
7 are experiencing today.

8 Pennsylvania farmers understand the need to
9 take fair and reasonable cuts in the upcoming state
10 budget. In fact, we had 400 farmers here in the
11 capitol at the end of March delivering that message
12 to their lawmakers that agriculture will take its
13 fair share of cuts again this year. But we don't
14 believe an industry that generates billions of
15 dollars in income to the state's economy each year
16 should suffer dramatically higher cuts than other
17 departments on average.

18 Farmers are asking little out of a
19 \$29 billion state budget. We are asking for
20 restoration of less than \$8 million for the
21 Governor's proposed budget. Agriculture would be
22 taking -- still taking an 8.8 percent overall
23 reduction in current funding for agriculture
24 programs, which is the same average percentage that
25 most programs are cut under the Governor's proposed

1 budget. This reduction would still be in addition to
2 those suffered in the last two years when budget
3 surpluses were projected.

4 Pennsylvania Farm Bureau has reviewed the
5 proposed budget and come up with proposal that
6 includes priorities for agriculture funding. The
7 proposals includes an overall reduction in
8 agriculture programs that prioritizes funding as
9 opposed to implementing an across-the-board reduction
10 in the funding for state programs. And I have
11 attached that proposal to your written testimony.

12 We are asking state senators and
13 representatives in Harrisburg along with Governor
14 Rendell to identify budget priorities based on
15 essential needs. We believe with more critical
16 review by lawmakers, agriculture related programs
17 will move higher on the priority list for funding.
18 Pennsylvania agriculture needs to remain economically
19 competitive with the rest of the nation and the world
20 to sustain its viability; however, more and more is
21 expected of production agriculture to meet ever
22 increasing standards to achieve environmental goals,
23 particularly as they relate to the Chesapeake Bay
24 watershed.

25 I noted with interest that just last week

1 our own Department of Environmental Protection was
2 announcing yet another renewed emphasis on nutrient
3 reduction to the Bay watershed. And the statement
4 was made in that press release that Pennsylvania is
5 leading by example in efforts to reduce nutrient
6 loading to the Bay. If we are leading by example in
7 efforts to clean up the Bay, the Bay is in big
8 trouble. It is lead -- is it leading by example to
9 cut conservation districts by 38 percent in the
10 agriculture budget for the past three years, and to
11 reduce funding to a bankrupt nutrient management fund
12 or to possibly eliminate the repeated tax credits
13 which are all programs that farmers highly utilize in
14 getting best management practices on farms to address
15 environmental concerns?

16 Are we leading by example by eliminating
17 public research funding in the agriculture budget
18 that is used to not only address environmental
19 concerns but developing new technologies that lead to
20 a more abundant, safer food supply grown right here
21 in Pennsylvania? Studies indicate for every dollar
22 of public research invested there is nearly a \$20
23 return in economic benefit.

24 The Governor and the Senate proposed an
25 animal health -- proposed the Animal Health

1 Commission funding to be reduced 27 percent from
2 2007-08, and 19 percent reduction from last year
3 adopted level of funding. With the proposal level of
4 funding for the Animal Health and Diagnostic
5 Commission, the Pennsylvania Animal Diagnostic
6 Laboratory System likely would lose its American
7 Association of Veterinary Laboratory Diagnosticians
8 accreditation. This could delay turnaround times for
9 cases. Early diagnosis is the producer's best
10 defense against disease outbreaks, diseases like E.
11 Coli, salmonella, rabies, mad cow disease, avian
12 influenza, TB, brucellosis, and numerous other
13 pathogens that affect animals and humans could get a
14 foothold if adequate testing is not available.

15 Pennsylvania farmers are not immune to the
16 economic downturn facing our state and nation. In
17 fact, prices the farmers are receiving, they are paid
18 for goods they produce, have dramatically dropped
19 over the past several months while production costs
20 in farms remain at high levels. If severe cuts
21 proposed in the Governor's proposal and the
22 Senate-passed budget are not restored, it will
23 further increase the strain on Pennsylvania farm
24 families.

25 I will close by reemphasizing that

1 Pennsylvania Farm Bureau does not expect to have the
2 agriculture budget held harmless during these bleak
3 economic times in the state's economy. However, we
4 do believe that if the legislature and administration
5 do the hard work of a more critical review of
6 priorities, the relatively small amount of
7 restoration we are seeking for critical programs can
8 be achieved. Thank you.

9 MR. BARR: Mr. Chairman, thank you. I'd
10 like to thank you, Chairman Civera and the members of
11 the committee, for the opportunity to talk here
12 today. As I said, my name is Gene Barr. I'm vice
13 president government public affairs for the
14 Pennsylvania Chamber of Business and Industry. The
15 chamber is the largest broad-based business advocacy
16 group in Pennsylvania. We have 24,000 members and
17 customers, and our members represent about 40 percent
18 of the private workforce here in Pennsylvania.

19 At the Chamber, we've had our own difficulty
20 in this time. You've heard over the last day already
21 the problems and we all know the problems that this
22 Commonwealth and this country is facing. Even at the
23 Chamber we had to deal with it in the last year when
24 we had to have a reduction of workforce. We had to
25 make other changes as well. We all know the problems

1 that we're experiencing.

2 One of the things that I think has been
3 heartening to us has been the way that this
4 legislature has reflected back on what happened the
5 last time we saw something comparable to this, which
6 was 1991, in which we made some decisions that
7 unfortunately had an adverse impact on economic
8 development and jobs in this state and arguably from
9 which have never recovered. In '91 we decided that
10 pretty much take the entire deficit we faced and put
11 it on the backs of business, raising tax rates to
12 extremely high levels. And, again, we're still
13 trying to recover from those.

14 As personal experience, I was not here in
15 '91. I actually worked for a Fortune 100 company in
16 an adjacent state. And we watched as Pennsylvania
17 increased those rates. And I can recall the
18 management of that company looking at Pennsylvania
19 and kind of washing their hands and saying there goes
20 direct investment. I will say that that company at
21 this point has little, if any, direct investment left
22 in Pennsylvania. And again, we are trying, working
23 with all of you to -- to make those improvements that
24 we need to do. And, again, we appreciate the fact
25 that we're having this dialogue and not simply

1 saying, let's raise taxes.

2 Because in reality, the goal that we have, I
3 believe you have, is to come out of this recession
4 that we're in hopefully stronger and more competitive
5 as a state than we went in, hopefully stronger and
6 more competitive than surrounding states. In our
7 view the way that we accomplish that is not by
8 raising taxes, and in all honesty not by raising
9 spending that will inevitably lead to higher taxes,
10 which is why we appreciate and recognize the budget
11 that you have in front of you that has come over from
12 the Senate which we believe directionally is the way
13 that we need to go.

14 Are there tough choices? Absolutely. Are
15 people hurt? Absolutely. Are there programs that
16 business supports that are probably going to be cut?
17 Absolutely. They include R and D tax credits, some
18 of the other tax credits, EITC program, all of these
19 things unfortunately are things that we may not be
20 able to fully fund here.

21 We believe that now, though, is the
22 opportunity to think and talk a bit about what we
23 really want in terms of economic development. The
24 programs that truly do work, to have that dialogue
25 about how we want to proceed and how we need to

1 proceed.

2 We've been part of a group called CompetePA.
3 And that group is composed of statewide associations,
4 local chambers, individual companies, that talk again
5 about some of the structural changes that we need to
6 make here in Pennsylvania. And again, we need to
7 continue to look at those, continue to push for
8 those.

9 We continue to have an extremely high
10 corporate net income tax rate, second highest in the
11 United States. We unfortunately continue to penalize
12 companies for hiring Pennsylvanians based on the way
13 that we calculate our corporate net income rate, and
14 the way that we treat operating losses is among the
15 worst in the U.S. Unfortunately, it particularly
16 hurts cyclical businesses and start-up companies here
17 in Pennsylvania.

18 Unfortunately, higher taxes don't just mean
19 for companies as they look at the bottom line, gee,
20 we're going to have a little bit less. When our
21 companies look at that, many cases it means less,
22 many cases they have to layoff workers, many cases
23 they look at relocation. We've heard stories of
24 companies here in Pennsylvania looking at that exact
25 case now. And, unfortunately, sometimes it means

1 going out of business. And one of the real reasons
2 that we need to look at avoiding higher taxes is when
3 we're in the economic downturn that we're in, many
4 cases those higher taxes simply accelerate that
5 downturn. They create a situation where it continues
6 to have an adverse impact on the companies and we
7 exacerbate and accelerate the problems that we're in,
8 again, making it much more difficult to come out of
9 this recession. And you can make sure Pennsylvania
10 comes out of this in as good a shape as we can, not
11 hamstringing ourselves and, again, not creating a
12 1991 situation.

13 The one thing that I will mention before I
14 close, and, again, I'm trying to be very brief and in
15 appreciation of your time and the fact you have a
16 very long day and a number of people who want to
17 talk, and of course I'll be happy to take questions
18 as we need to.

19 The other situation that we are dealing with
20 which probably has not been brought up is the very
21 difficult unemployment compensation situation right
22 now.

23 By the end of this year we will be about a
24 billion dollars in debt on unemployment compensation.
25 The chamber was appointed to a commission that the

1 governor asked for us to take a look at about the
2 solvency issues. And, unfortunately, Pennsylvania's
3 problems exist even without the economic downturn
4 that we're in. We've simply spent much more money
5 than we've had coming in. We have, from the business
6 community perspective, know we have to put money on
7 the table. We've offered money on the table so there
8 will be high likelihood tax increases on business
9 this year to take care of the unemployment
10 compensation problem.

11 We have said going in we do not want to cut
12 unemployment across-the-board. We do not want to
13 make a across-the-board 10, 15, 20 percent cut to
14 unemployment comp. The people who -- what we do want
15 to do is identify the people who truly need those,
16 truly need those dollars, get those people the
17 dollars, get them the help they need, but also create
18 a system that's going to be structurally viable for
19 many years to come. And unfortunately right now we
20 don't have that. So we do have a huge unemployment
21 comp problem. We are looking to deal with that.

22 And, again, thank you for your time. Thank
23 you, again, for treating this on a thoughtful basis
24 and looking at how all of these things are going to
25 impact our long-term viability as a commonwealth.

1 Thank you.

2 SECRETARY CORNELIUS: Good morning,
3 Mr. Chairman. Thank you for the opportunity to
4 afford me -- to afford me an opportunity to comment
5 on Senate Bill 850. To put it in context, the
6 situation in Pennsylvania is this. When I look at
7 the unemployment rate for the past 15 years, last
8 7 years we have been below the national average.
9 Prior to that we were always at or above the national
10 average. I think part of the reason for that is,
11 quite frankly, the aggressive effort the state has
12 made to retain and attract and to develop business
13 and opportunity in this state. We have strong
14 momentum in this regard. And the last thing I want
15 to see us do is gut that momentum and put us in a
16 worse shape when we come out of this session. At the
17 same time I recognize revenues are down
18 substantially. We are going to have to make tough
19 choices. We are going to have to be very aggressive
20 in how we assess our programs, and as we assess our
21 expenditures to make sure we are putting the money
22 where we're getting a good return.

23 And there are a few points in the Senate
24 Bill I'd like to comment on because I think it, quite
25 frankly, goes in just the opposite direction.

1 Number one is the Ben Franklin Technology
2 Development Authority. I think it is imperative we
3 support innovation and entrepreneurship because that
4 is where the next generation's jobs are coming. We
5 want to position Pennsylvania to come out of this
6 recession strongly. We have to help keep alive some
7 of the innovative companies, some of the
8 entrepreneurs who are struggling right now because of
9 the unavailability of credit and the unavailability
10 of venture capital. The state's role has never been
11 more crucial in the past ten years than it is right
12 now. It is absolutely the worst time to cut back on
13 the investment that the Ben Franklin makes through
14 its Ben Franklin partners and otherwise.

15 Now as you know, the Governor had already
16 proposed very significant reduction of about
17 20 percent in that. We can live with that, but I
18 would urge you not to cut any deeper in this very
19 crucial area.

20 Number two is the world trade which has been
21 zeroed out in the Senate budget. We grew our exports
22 in Pennsylvania last year by 18 percent, compared to
23 a national average growth of 11.8 percent. That
24 isn't just by coincidence or happenstance. It's in
25 part because of the very hard and excellent work of

1 our teams and their partnership with small and mid
2 size manufacturing around this Commonwealth and our
3 network of trade partners around the globe.

4 I was in Reading two days ago in Carpenter
5 Technology, raved about the contribution this team
6 has made in helping them to develop their export
7 market. This is a highly successful program, one
8 that results in jobs. It's job retention, job
9 creation among the most critical aspect of our
10 economy here and that's manufacturing.

11 It is exactly the wrong time to pull back
12 because those manufacturers need our help. If you're
13 a large conglomerate, if you're an international
14 company, you don't need our help in accessing foreign
15 markets. If you're a small, mid-size manufacturer in
16 Pennsylvania, you desperately need our help. And now
17 is exactly the wrong time to pull back.

18 Third is tourism. We grew our tourism last
19 year in this state by 25 percent. Prior year it was
20 also over 20 percent. Last year we had the highest
21 growth among the top 15 states in tourism in this
22 country. We're ranked 11th. We have over a million
23 visitors now. We have had an incredibly successful
24 program in our partnership with regional and local
25 players. This is something that creates jobs.

1 Here I think more about the impact of this
2 than just Erie, but it's a -- the same story is
3 across the state. This is an investment. These are
4 dollars well spent because it employs people in
5 Pennsylvania and we're getting high growth rates and
6 high return on this investment. Again, it's not a
7 good time to cut back because, quite frankly, a lot
8 of Pennsylvanians, a lot of people in this region are
9 more inclined to stay near home this year for obvious
10 reasons. We want to be sure Pennsylvanians spend
11 their vacation dollars in the state and, quite
12 frankly, we want to be sure the people in New Jersey
13 and New England and New York and other places come to
14 Pennsylvania because we have a lot to offer.

15 The fact of the matter is you got to
16 advertise. You got to market this if you're going to
17 bring in the dollars, and it takes money. There are
18 very significant cuts proposed in the Governor's
19 budget, but the cuts gutting basically the program in
20 the Senate Bill is just, I think, in the wrong
21 direction.

22 Business attraction, we have done a good
23 job. We wouldn't have the unemployment rate below
24 the national average that we've had 73 in the last
25 75 months if we had done a lousy job. We have

1 attracted business and, quite frankly, we're
2 continuing to attract business.

3 It is a critical time to take advantage of
4 consolidation. Yesterday in Lancaster County I met
5 with two large employers, very large employers, both
6 of whom were consolidating plants, operations,
7 closing down operations in other states and
8 consolidating in Lancaster. Again, it just doesn't
9 happen by accident. A lot of hard work goes into
10 that. That's the kind of thing we can't take our eye
11 off the ball right now because that's going on all
12 across corporate America. I've been across this
13 state past several months working with companies in
14 Indiana County, in Pittsburgh, to the northeast, to
15 the northwest, in the southeast, and central
16 Pennsylvania, to try to be sure Pennsylvania is the
17 beneficiary of those consolidations and not the
18 victim.

19 Again, some of the critical programs, our
20 Opportunity Grant Program, some of the infrastructure
21 programs are vital for us to be able to attract that
22 investment. And contrary to what people think, there
23 are lots of deals still out there. Yes, our deal
24 flow is down, but some of those deals that are out
25 there are very attractive and we need the tools to be

1 able to bring in those jobs.

2 Lastly, and I'm not going to go through
3 every line item because, you know, I could have a
4 case for each of them, but these are the strongest
5 case, but I just want to touch on revenue briefly.

6 I fully appreciate the need to be
7 competitive. Pennsylvania absolutely has to be
8 competitive from a corporate standpoint to be able to
9 retain and attract jobs. The one thing I don't,
10 however, understand is the state's position on
11 Marcellus shale gas, that valuable natural resource,
12 just like coal was a valuable natural resource for
13 this Commonwealth. When that gas is extracted,
14 basically the question is who gets to share in that
15 wealth. If we have no severance tax, who gets to
16 share in that wealth are the property owners. And
17 that's appropriate and right. No problem with that
18 at all. And then the stockholders of all the
19 companies that extract and sell the gas. Again, same
20 scenario we had in coal.

21 Who gets the shaft, quite frankly, is the
22 citizens of this state. They're going to use our
23 roads, they're going to use our water, they're going
24 to use our forest, they're going to use our people,
25 they're going to use -- the list goes on and on.

1 Yes, will it create jobs, absolutely. But I don't
2 understand why Pennsylvania does not adopt a policy
3 of at least ensuring a reasonable severance tax so
4 that people of this Commonwealth actually get to
5 share in the wealth that lies beneath our land.

6 Now, I have no idea how much that's going to
7 generate. The Department of Revenue could give you a
8 better idea. But I do know one thing because I
9 purchased gas in my entire life, tens of millions of
10 dollars a year of gas. Right now gas prices are
11 depressed, obviously. And that will inhibit and slow
12 down the exploration of this field undoubtedly. But
13 gas will return, probably to double digits in the
14 not-too-distant future. And we've all seen the
15 profits of oil and gas companies. I worked for an
16 oil and gas company ten years and I benefited from
17 those huge profits. All I'm asking is take a very
18 serious look at how that wealth should be
19 distributed. A reasonable tax that does not inhibit
20 exploration, I think, is clearly appropriate and
21 could help fund some of these vital programs we need
22 to ensure job creation and retention in this
23 Commonwealth.

24 Thank you for your attention.

25 MR. OLIVER: Good morning. I'd like to

1 thank the House Appropriations Committee for the
2 opportunity to testify about funding for tourism
3 promotion in the coming year's state budget. As I
4 said before, I'm John Oliver. I'm president and CEO
5 of VisitErie, but I'm really here appearing as the
6 incoming president for the board of directors for the
7 Pennsylvania Association of Convention and Visitor's
8 Bureaus.

9 The PACVB represents 49 different tourism
10 promotion agencies in the Commonwealth. These
11 organizations are the lead tourism promotion and
12 marketing agency for every county and region in the
13 Commonwealth.

14 Our organization understands and appreciates
15 the tough challenges that you face today trying to
16 balance the state budget in the face of declining
17 revenues and increasing program needs while working
18 to create new and retained existing jobs. I urge
19 everyone on this committee and the entire House and
20 Senate to take some time and visit the website PA
21 tourism equals jobs. The site has been developed as
22 a cooperative effort by the members of PACVB to
23 provide legislators and the public with accurate
24 information on the immense economic impact tourism,
25 travel, and hospitality have in Pennsylvania.

1 To date, tourism ranks as the second largest
2 industry in the state, and Pennsylvania is the fourth
3 most visited state in the country. In 2007 alone
4 direct spending by travellers to the Commonwealth
5 generated \$28 billion and state and local government
6 received 2.8 million in tax revenues from tourism
7 spending. Tourism generates \$10.7 billion in wages
8 and benefits and accounts for almost 7 percent of all
9 individuals employed in Pennsylvania. 400,000 people
10 in Pennsylvania who worked in hotels, amusement
11 parks, restaurants, ski areas, and stadiums are
12 dependent upon the efforts of the TPA's and the state
13 to attract visitors to Pennsylvania. These facts are
14 proof that during this national economic downturn
15 tourism is the solution to jump-starting
16 Pennsylvania's economy and getting more people
17 working.

18 I can tell you that in Erie County we have
19 seen hospitality employment increase this past winter
20 and spring compared to a year ago. The impressive
21 numbers are the result of a powerful Pennsylvania
22 partnership between state government and the private
23 sector tourism industry. Over the course of the last
24 15 years, through republican and democratic
25 administration, the executive and legislative

1 branches of state government have made a significant
2 commitment to funding tourism promotion programs that
3 focus on trying to bring people to Pennsylvania,
4 letting them know what tourism and hospitality
5 options are here for them, and helping to lure major
6 national events and conventions to Pennsylvania.

7 This strategy has been a huge success.

8 In this year's budget process that
9 successful partnership is threatened and
10 Pennsylvania's proven strategy of funding tourism to
11 create new economic activity is at risk.

12 In fiscal year 2008 after the Governor's mid
13 budget reductions, Pennsylvania state government will
14 invest a little over \$32 million to promote
15 Pennsylvania tourism and hospitality industry. The
16 Governor has proposed in his fiscal 2009 budget
17 reducing that figure to a little over \$20 million,
18 and SB 850 passed by the Senate two weeks ago reduced
19 tourism spending further to a little over
20 \$13 million. If these steep reductions in tourism
21 funding hold, they will have a real negative
22 consequences on Pennsylvania's economy.

23 In 1994 Colorado made significant and
24 drastic cuts to their state tourism promotion
25 programs. The result was that Colorado, a national

1 tourism leader, saw significant reduction in tourism
2 activity and the economic benefits of tourism.
3 Colorado tourism industry still has not recovered
4 from the downturn in tourism activity.

5 While Pennsylvania considers large
6 reductions for tourism funding, our neighboring
7 states of Ohio and Michigan have increased tourism
8 funding and are spending more to promote their states
9 and grow jobs. Their extra effort will put
10 Pennsylvania at a real disadvantage in this highly
11 competitive marketplace. We cannot allow this to
12 happen. Michigan, a few years ago, was spending
13 \$5 million in tourism promotion, but will invest 30
14 million this year.

15 I urge you in the next fiscal year's budget
16 to maintain funding for tourism promotion at levels
17 that are at or near the present year's funding level.
18 Tourism promotion has proven to be an excellent
19 investment for Pennsylvania, one that provides a
20 great return in jobs and tax revenues. We need your
21 help to continue this partnership and to help grow
22 Pennsylvania's economy.

23 Again, thank you on behalf of the tourism
24 industry for allowing me to testify before you today.

25 MAJORITY CHAIRMAN EVANS: What I'm going to

1 do is say to the members, I'm going to end this at
2 10:00 because some of my members want to have a
3 discussion, because we have a lot of panels so we're
4 going to end this at 10:00, and I'm just going to
5 start that rule.

6 And I want to start off by saying thank you
7 for testifying, because this is really a
8 conversation. This is not us versus you, right, or
9 vice versa. I know that we refer to the past, but I
10 hope we refer to the past in the context of doing
11 things for the benefit of the future. It's the way
12 I've tried to approach this.

13 So this has been open to everybody. If you
14 are a Pennsylvanian, you're welcome to come testify,
15 to have this discussion. So this is a discussion.
16 It's not us versus the Senate or republicans versus
17 democrats. So the Republican Chairman would like to
18 make, Mario Civera.

19 MINORITY CHAIRMAN CIVERA: The Chairman
20 wants to have a conversation the day before Memorial
21 Day.

22 MAJORITY CHAIRMAN EVANS: I wanted to spend
23 my time with you. And I mean, you and I are such
24 good friends.

25 MINORITY CHAIRMAN CIVERA: But no, I like

1 that approach. Let me just as we have this
2 conversation and we start to head into the budget
3 season, which in the month of June is critical, and
4 hopefully that we can have some kind of a compromise
5 that gets us to where we want to be.

6 The problem that we are having, and we keep
7 on saying the Senate and the Senate Bill 850, and the
8 Senate did write the bill, and as I said yesterday, I
9 think the economy really wrote the bill. And you
10 have to start somewhere as far as to know where
11 you're going to wind up, in what place you're going
12 to wind up with.

13 Hopefully this economy will start to pull
14 itself where we can start having some breathing room,
15 but unfortunately at the moment as we speak that's
16 not the case.

17 So Gene, Gene Barr, I want to ask you some
18 questions. And I asked you these questions
19 yesterday. I'm a small businessman and I have an
20 outlook of what my business is going to do from this
21 year till next year. So I have some kind of an idea
22 what I can spend and what I cannot spend.

23 What are you hearing back from the business
24 community of where do they think we're going to be,
25 say, within six months or a year as far as

1 Pennsylvania's concerned?

2 MR. BARR: Mr. Chairman, that's a great
3 question. It varies by industry; varies sometimes by
4 company. Some are better positioned than others.
5 Some have been dealing with this for over a year.
6 Some are just now starting to deal with it. And I
7 think it's hard to separate the issue.

8 Pennsylvania's dealing with things going on at the
9 federal level. There's clearly a lot of angst on the
10 part of employers in Pennsylvania about what's
11 happening.

12 As I mentioned, we've had to take steps, our
13 members have had to take steps. Some of that
14 unfortunately is having to lay people off, which is
15 arguably, other than closing the plant, the most
16 difficult choice you can make. They're making all
17 kinds of adjustments out there. They're cutting
18 their budgets. They're -- I think you'll hear later
19 today from some employers who are on about they've
20 not been paid themselves. Extremely difficult
21 choices being made on the business community in terms
22 of what they can do. It's very tough without -- it's
23 tough on everyone out there and, of course, the
24 employers are no different. They're having a
25 difficult time in most cases, many cases meeting and

1 moving forward.

2 MINORITY CHAIRMAN CIVERA: The concern, I
3 believe, that the legislature, and I'm talking about
4 the entire General Assembly, has at this point is
5 that if with the unpredictable economy and the
6 direction that it goes and with the budget that's
7 presented to us and the federal money that's coming
8 in, in two years if this economy doesn't respond in
9 the way that -- in a favorable way, and we impose
10 some type of a tax and then we have to go back and
11 look at another, how would that -- how would
12 Pennsylvania be viewed -- you're the chamber. How
13 would Pennsylvania be viewed at that point in time as
14 far as the hole would be a little bit deeper? Can
15 you give me some -- because you talk to these
16 industries more than we do.

17 MR. BARR: Clearly, as I said in my
18 testimony, the more tax we put on the more difficult
19 it makes for us to come out of a recession, and I
20 think that the -- unfortunately the more of a red
21 flag we put up for the businesses who might be
22 looking to come to Pennsylvania or grow in
23 Pennsylvania.

24 I think that we don't know when we're going
25 to come out of this. There's various estimates that

1 it might be late this year; it could be early next
2 year. And I think based on what we know, you know
3 better than we do, Pennsylvania has other problems
4 that we know are going to be coming up in the next 12
5 to 24 months and on that we're going to have to
6 address, which is why I think that we said it's
7 prudent to take the kind of approach that we're
8 looking at here in terms of controlling spending and,
9 again, appreciate the, as Chairman Evans said, the
10 conversation we're having here, which is from our
11 perspective tremendous.

12 But there is a huge amount of uncertainty.
13 Lots of problems that are -- that are out there. And
14 it makes it very difficult for businesses in a lot of
15 cases to invest their own dollars, when they don't
16 have the dollars coming in; and two, if there's that
17 amount of uncertainty over what's going to happen
18 with your major supplier or your major customer,
19 those uncertainties lead to tremendous problems in
20 our economics here in Pennsylvania.

21 REPRESENTATIVE CIVERA: One more question.
22 Mr. Secretary, opportunity grants, and you're our
23 favorite person from DCED and, you know, we've gotten
24 a lot of different things out at the department and I
25 think you've done a good job with it. But we're in a

1 situation where legislative initiatives,
2 opportunities, all that is on board right now. It's
3 on -- it's whether we do this, do we fund it, do we
4 not fund it. What -- how many -- I mean, jobs are
5 created by some of these grants that we -- we put out
6 there?

7 SECRETARY CORNELIUS: One of the reasons I
8 referred to the unemployment rate is my view it's a
9 better metric than the jobs created. There are over
10 300,000 jobs created under the Rendell administration
11 in these programs. The fact of the matter is when
12 you look at all of our programs, probably 40 plus
13 percent come up short on the job creation. And that
14 is against what was expected at the time the program
15 was funded. Quite a few exceed, so we're over
16 90 percent when you look at the total jobs created.

17 So the bottom line on these opportunity
18 grants and one thing I've instituted since I've been
19 there is we do payback calculations, so we look at
20 the state investment. In other words, we look at the
21 job opportunity grants, we look at the job tax
22 credits, whatever money state might be putting in,
23 even in the form of a low interest loan. If we're
24 putting in a loan below market rate, we calculate the
25 value of that state -- quote, state subsidy. And we

1 look at how long it would take the state to recoup
2 its investment based on the additional PIT, personal
3 income tax, based on the new jobs.

4 And the reality is most of these paybacks
5 range anywhere from several months to maybe
6 three years. So, I mean, it's a net win for the
7 state. Yeah, in the short term it seems like a cost,
8 but the reality is we recoup that investment. In
9 business it's expected.

10 So I don't like the system, quite frankly.
11 I wish the states had never gotten into the business
12 of disincentives, subsidies for job creation and
13 expansion, but the bottom line is they are. And if
14 we pull back and don't play that game, I guarantee
15 you who's going to be the beneficiary will be
16 Maryland, North Carolina, Michigan, the list goes on
17 and on. So that's why we have to play the game.
18 We're not putting in huge sums in most of these
19 deals. It's just enough sweetener that, you know,
20 gets us over the hump and we -- and again, we recover
21 that investment, anywhere from six months to normally
22 three years.

23 MINORITY CHAIRMAN CIVERA: So you're saying
24 with the opportunity of those grants that we have
25 created 300,000, is that what you're saying?

1 SECRETARY CORNELIUS: Well, that's the
2 number of jobs that were promised to be created. So,
3 again, you know, one of the problems I had with the
4 job data is how you know for sure. You're comparing
5 a reality to what would have been if you had not
6 given the subsidy. But no one can ever know with
7 absolute certainty what that reality would be.

8 MINORITY CHAIRMAN CIVERA: Because my
9 concern is that the unemployment rate and because of
10 the way the economy is increasing at the moment,
11 because we talked about the unemployment compensation
12 and the debt that it's creating, and my point is if
13 we're not putting people back to work and you're not
14 paying the PIT, you know, down the road if we really
15 get ourselves into a problem and we don't do the
16 right thing right now, that that is really going to
17 be a major, major situation as far as increasing a
18 tax to balance our budget.

19 And that's why I'm asking you those
20 questions. I mean, 300,000 jobs is a lot of jobs. I
21 didn't realize that -- I would like to see if you
22 have any kind of documentation as far as what we
23 really have actually created through these grants and
24 how they work in Pennsylvania, if you could.

25 SECRETARY CORNELIUS: But, again, the

1 problem with that is you'll never be able to go into
2 any company and look at the other scenario, and that
3 is if the state hadn't been a partner, what would the
4 situation be. There's no way to recreate that.

5 So that's why I look at the unemployment
6 rate, both Pennsylvania compared to the national
7 average and to its neighboring states. We look at
8 Pennsylvania comparison to the contiguous states.
9 And reality is because Pennsylvania is now under the
10 national average and has been 73 out of the last
11 75 months, the reality is tens of thousands of
12 Pennsylvanians have jobs now that they wouldn't have
13 had if our rate would have been at or above the
14 national average.

15 We look at the regional comparison, the
16 reality is we've done better than most of our
17 region -- our contiguous states, but with maybe the
18 exception of Maryland because they get the benefit of
19 the huge federal and defense spending out of the
20 Washington, D.C., area. But if you take that out of
21 the mix, we do as well or better than New York; we do
22 better than Ohio, West Virginia, the list goes on.
23 So we're doing a good job and that's all more tax
24 revenue. More Pennsylvanians are working obviously
25 the more tax revenue.

1 I think you have to look at all these budget
2 items in one of two buckets, expense or investment.
3 Some are purely expense, and certainly I have expense
4 in my department. Every department has expense. The
5 goal there is to drive down the expense, absolutely
6 to the lowest level. Look at the investment. And
7 here's where companies make mistakes time and time
8 again. There was just an article last week in the
9 *Wall Street Journal* about Intel. Intel has been very
10 smart. In down times Intel has not pulled their
11 investments and as a result recession after
12 recession, downturn after downturn in technology,
13 they have come out with a spring and outperformed
14 their competitors because they haven't pulled the
15 plug in investment.

16 It's absolutely critical on these budget
17 items that are investments that pay for themselves.
18 In fact, they more than pay for themselves. It's
19 absolutely critical we not take all the money out of
20 there. Focus on the expenses, get the efficiencies
21 down, the productivity up, but don't pull the plug on
22 the investments or we will, believe me, be back in a
23 situation where we exceed the national average in
24 unemployment rating.

25 MINORITY CHAIRMAN CIVERA: Thank you,

1 Mr. Chairman.

2 MAJORITY CHAIRMAN EVANS: Representative
3 Josh Shapiro.

4 REPRESENTATIVE SHAPIRO: Thank you,
5 Mr. Chairman. I'll be conscious of the time, so let
6 me just jump into questions. And Secretary Cornelius
7 and Gene Barr, I want to talk about the tension we
8 have obviously between cutting spending and raising
9 taxes.

10 Gene, I've heard from many in the business
11 community that raising taxes at this time would be
12 counterproductive, it would slow the momentum that
13 we've built up. And I want to try and see if you can
14 provide perhaps some empirical data or some real
15 tangible, you know, data points to show what an
16 increased, potential increase, some of the taxes we
17 talked about would have on business in Pennsylvania.

18 We talked about, for example, the 1 percent
19 sales tax increased Philadelphia would like us to
20 authorize that they put in place. What impact that
21 would have? The potential of a small PIT increase,
22 that's been talked about. Some have talked about
23 slowing down the capital stock and franchise, phasing
24 out. And these are not things I necessarily support,
25 but what I'm looking for is some data that suggests

1 why these things would be bad as opposed to just sort
2 of, you know, nebulous talking points, not from you,
3 from others, suggesting that, well, just raising
4 taxes is a bad idea. So perhaps you can and
5 Secretary could talk a little bit on those three
6 specific things or on other tax increases that have
7 been talked about.

8 MR. BARR: Sure. Let me take each of those
9 specifically. You've mentioned the sales tax and
10 what adverse impact that would have on business.
11 Business actually pays about a third, 35 percent,
12 sometimes slightly more, of whatever sales tax is
13 there. So while it's easy to say a sale tax would be
14 borne across a wide base as it is, business gets hit
15 with a pretty good size portion of any sales tax
16 increase that comes out. So I think that's why
17 you're hearing that.

18 In terms of PIT increase, of course there's
19 many small businesses, that is their business tax
20 rate. So they are going to look at that as a
21 business tax increase as they justifiably would if
22 you're going to increase the PIT.

23 On the cap stock, cap stock phaseout was
24 begun about 10 years ago. We had increased that in
25 '91 to about 12 or 13 percent. Pennsylvania

1 continues to be one of few states, small two or three
2 states that assesses both a corporate net income as
3 well as a capital stock and franchise tax, which is a
4 tax on your assets. Maybe arguing on the empirical
5 side, when as we have decreased that cap stock tax
6 each year, we have seen that the lower rate has
7 actually raised more money. So perhaps there's a way
8 of empirically look at that, we can see that as you
9 cut taxes, you do spur economic growth. I think
10 that's one way.

11 And again, in terms of the cap stock, if --
12 if there was a change made to that that would
13 actually be a tax increase because we would go back
14 to the first of the year, companies have already made
15 their projections in terms of revenue, and in this
16 climate with stock prices the way that they are, and
17 the way that we've changed accounting standards, to
18 have a company restate its financials could have a
19 real adverse impact on its bottom line. So I think
20 as you look at those taxes and trying to raise taxes
21 or, clearly in this climate particularly, could have
22 a real -- and is likely to have a real adverse impact
23 in terms of where we go. Again, our corporate net
24 income tax rate is second highest in the U.S. So
25 there are problems we need to address.

1 REPRESENTATIVE SHAPIRO: Contrast that with
2 the comment Secretary Cornelius made just a moment
3 ago in response to Chairman Civera's questions about
4 the opportunity grants and other programs from DCED
5 that have clearly created jobs and helped businesses.
6 If taxes need to be increased to sustain those
7 programs, is the benefit of those programs going to
8 outweigh the small increases in those taxes'
9 detrimental impact that they might have on business?

10 MR. BARR: First, let me say we've had
11 members that have taken advantage of those. I think
12 the DCED has done a tremendous job in terms of the
13 programs that they do, and we've worked very closely
14 with Secretary Cornelius and his predecessors on
15 things like the changes to the earned income tax
16 collection and we're working on other projects now.
17 So I have the greatest respect for the Department.

18 Consistently, our members have asked us to
19 work across the board to drop taxes so that everyone
20 will have equal access and opportunity in order to
21 grow the business. As opposed to the other, again,
22 we do have people that do take advantage of those.

23 I think that one of the things that concerns
24 us is that a -- any of these programs need to be
25 complementary to what we view as a positive business

1 climate. And unfortunately Pennsylvania has to take
2 additional steps. I've mentioned a number of
3 corporate net income tax rate, how we calculate
4 losses for a company, the fact that we penalize
5 companies for hiring Pennsylvanians the way we
6 calculate this, our lack of legal reform here in
7 Pennsylvania. One of the concerns that our members
8 have is that while we may utilize these dollars --
9 and the Secretary's right, companies have been
10 attracted -- in a lot of cases unfortunately we're
11 faced to kind of pay more money to retain them after
12 a period of time, and we've seen some of those
13 examples.

14 So the bottom line is our members have said
15 no, we want taxes low to have general competition
16 across those. And our members, in my view and as
17 they've told us, would not support additional tax
18 increases in order to re-establish some programs.

19 REPRESENTATIVE SHAPIRO: Thank you. Mr.
20 Secretary.

21 SECRETARY CORNELIUS: I'll just speak
22 principally on the corporate and the business taxes.
23 The corporate or the capital stock and franchise tax,
24 I strongly support the position we should not delay
25 the phaseout. We have a plan to get rid of that tax.

1 That tax should go. And we should continue the
2 phaseout of that tax in my judgment, and I think that
3 was the Governor's proposal in his budget address.

4 I strongly believe we should not increase
5 corporate net income tax. We have already a very
6 high corporate net income tax. Long term I think we
7 need to work on bringing that tax down. The last
8 thing we want to do, even on a short-term basis, is
9 to increase the tax.

10 I've given my views already on Marcellus
11 shale severance tax. My view that's an easy one, but
12 apparently not in everyone's view. And I do not
13 think that would -- I don't think that would have any
14 adverse effect on the development of that field one
15 iota, if it's a reasonable tax.

16 I don't understand why we continue to have
17 an exemption on certain tobacco products. It's a
18 mystery to me why certain people get a pass on tax
19 when I have to pay a tax on whatever I buy. My one
20 brother certainly won't like this because he uses
21 some of those product, but why it's a continued
22 exemption is beyond me. I don't think there's any
23 reason. So that's a no-brainer in my opinion, too.
24 That exemption should be withdrawn.

25 The gas tax comes up a lot when I go around

1 the state because I get the last two days complaints
2 about the condition of some of our roads. And the
3 reality is whenever I say we need more money on
4 economic development highway projects, we don't have
5 the money. I've got to spend \$0.95, I think, out of
6 every dollar just to maintain what we got. So long
7 term that's a big issue, I think, for the state. We
8 need to put more investment dollars into highway
9 projects that are truly economic development. My
10 personal view is we do. But on the personal income
11 tax I'll defer to the Secretary of Revenue on that
12 one. I really haven't studied that situation.

13 REPRESENTATIVE SHAPIRO: The Philadelphia
14 sales tax issue, do you have a comment on that?

15 SECRETARY CORNELIUS: I've worked in
16 Philadelphia. I live in the region. I think
17 Philadelphia has some very serious problems
18 structurally, but the reality is so do a lot of our
19 state. In fact, I intend to come back to the General
20 Assembly sometime later this year after a very
21 thorough study of conditions of our cities. Our
22 first, second, and third class cities are a train
23 wreck beginning to happen and train wreck has already
24 happened somewhere. Philadelphia is the biggest and
25 so its problems are bigger. It's struggling. I

1 don't think it's an easy solution, but I think it
2 takes a more holistic, comprehensive view on how
3 we're going to finance, deliver services in our urban
4 centers.

5 REPRESENTATIVE SHAPIRO: Thank you. Thank
6 you, Mr. Chairman.

7 MAJORITY CHAIRMAN EVANS: Representative
8 Gordon Denlinger.

9 REPRESENTATIVE DENLINGER: Thank you,
10 Mr. Chairman and thanks to each of you for your
11 testimony. For the Farm Bureau, Joel, if you can
12 answer the question for me. We wrestle with the
13 subject of corporate welfare and there is a, I think,
14 concept in the public mind about where farming has
15 gone with consolidations and that a huge percentage
16 of what is farming today in Pennsylvania is, in fact,
17 corporate in nature. And this is a sincere question.
18 What is the state of that? Could you kind of help me
19 understand where we are as far as corporate
20 governance over farming activity?

21 MR. ROTZ: Well, let me start out by saying
22 sometimes it's pretty difficult to understand what
23 people are referencing when they talk about corporate
24 agriculture, and it seems to be a term that's used
25 pretty heavily when people want to attack agriculture

1 and funding for agriculture.

2 Well, first let's start with Pennsylvania
3 statistics. Statistics show that what I would assume
4 we're talking about is corporate farming, that it's
5 less than or a little -- I believe it's a little over
6 three-tenths of 1 percent of all of the farms in the
7 state would be corporate. Now, corporate meaning
8 owned by some entity that's off the farm, has
9 stockholders, you know, it's just -- it's, you know,
10 a factory.

11 So there's very, very little of that in
12 Pennsylvania. Nationwide I think it's about
13 2 percent of agriculture. So it's really well
14 overstated as to what role corporations are playing
15 in agriculture. Now, certainly we have a lot of
16 family farm corporations across the state, and those
17 folks are doing exactly what I think everyone in this
18 room would expect agriculture providers to do, and
19 that's trying to get to a level of production that
20 they can remain economically viable.

21 So yeah, we have large and growing numbers
22 of large farms as well as growing numbers of small
23 farms in the state right now.

24 REPRESENTATIVE DENLINGER: So the vast
25 majority of our farms would pay their taxes,

1 structured sub-S, subchapter S entities as at the
2 personal income tax rate, is that a fair --

3 MR. ROTZ: Yes.

4 REPRESENTATIVE DENLINGER: So increase the
5 PIT would land right there. Thank you.

6 MR. ROTZ: Yes.

7 REPRESENTATIVE DENLINGER: Thank you,
8 Mr. Chairman.

9 MAJORITY CHAIRMAN EVANS: Representative
10 Bill Kortz.

11 REPRESENTATIVE KORTZ: Thank you,
12 Mr. Chairman. Mr. Secretary, you have referenced
13 that the unemployment rate nationally, which is
14 8.9 percent and climbing compared to Pennsylvania is
15 about 7.8 percent, we're doing much better. Can you
16 elaborate briefly why PA is doing better than the
17 nation?

18 SECRETARY CORNELIUS: Just to make sure the
19 characterization is right, we're doing lousy. I
20 mean, the whole country and every state is doing
21 lousy, so we're not doing as lousy.

22 REPRESENTATIVE KORTZ: Correct. We are
23 doing better than the rest of the nation.

24 SECRETARY CORNELIUS: I think there's
25 several reasons. I think, number one, we have a more

1 diversified economy today than we have ever had in
2 our state's history, and I think diversification gets
3 you down through these downturn in a much better
4 position.

5 I think our meds and eds are partly
6 responsible. You look at Pittsburgh in particular,
7 the stories across the state, our meds are doing very
8 well. We've got various strong medical facilities,
9 including research facilities, they're getting a lot
10 of NIH money and, quite frankly, leading some of
11 the -- leading institutions of the country. I mean,
12 if you look at Pittsburgh, Philadelphia, even
13 Geisinger up in Danville, we've got some leaders and
14 they're great employment base that isn't as
15 susceptible. They had layoffs, absolutely. They are
16 hurting, but not as much as traditional
17 manufacturing.

18 Our eds, we've got research universities and
19 colleges all across this state and they're doing
20 pretty well. Franklin and Marshall where I was
21 yesterday, their enrollment's up for next year. So
22 that's partly. The bio sciences, and a lot, quite
23 frankly, this diversification gets into the strategy
24 of DCED and the strategy of Governor Rendell is not
25 only promotes growth but to diversify Pennsylvania's

1 economy. And I think it's, you know, a lot of
2 things. It isn't just one thing. It's just a
3 combination of all those things.

4 REPRESENTATIVE KORTZ: Thank you. One
5 follow-up question, Mr. Chairman. Gene, you had
6 mentioned or you had referenced about the CNIs being
7 the second highest in the nation. And it is and we
8 need to work on that. You also talked about the net
9 loss carry forward, single cells. Is it time and
10 would the Chamber be agreeable, it's time to look at
11 tax reform in the State of Pennsylvania and would the
12 Chamber be agreeable to something maybe revenue
13 neutral, a combined reporting with the lowering the
14 CNI and the net loss carry forward in single cells?

15 MR. BARR: We've always been willing to look
16 at tax reform. We think it's necessary. We've
17 looked at all of those things you've described. We
18 briefly address combined reporting for a moment.
19 Combined reporting tends to get you less money in the
20 first couple years after you do that because of the
21 extensive amount of litigation that typically occurs.

22 What happens is, for example, many people
23 believe looking at the numbers of, quote, companies
24 that don't pay, when you compare certain other states
25 that have adopted combined reporting, their

1 percentages are roughly comparable to Pennsylvania's.
2 What we have said for the last five, six, seven years
3 has been we're willing to sit down with the
4 Commonwealth to look at issues where we can identify
5 what we would call all would be egregious violations.
6 We've seen indications in the past where the
7 Commonwealth Department of Revenue has gone after
8 companies for improper use of what's called a passive
9 investment. We believe that there must be powers
10 there if they announced those settlements to do that.
11 We're happy to look at those in conjunction with
12 total structural tax reform.

13 We believe that the adoption, though, of
14 mandatory unitary combined reporting would be a huge
15 red flag for business development, business
16 attraction here in Pennsylvania.

17 REPRESENTATIVE KORTZ: Thank you. Thank
18 you, Mr. Chairman.

19 MAJORITY CHAIRMAN EVANS: Representative
20 John Evans.

21 REPRESENTATIVE J. EVANS: Thank you,
22 Mr. Chairman. And thank you again for spending your
23 holiday weekend here in our beautiful state capital.

24 MR. BARR: Where else would we want to be.

25 REPRESENTATIVE J. EVANS: If history repeats

1 itself, we'll be here Fourth of July as well, maybe
2 even Labor Day. Who knows.

3 My question for Gene Barr and also to
4 Mr. Cornelius, I wanted to elaborate a little on the
5 unemployment statistics, because in my view that
6 could be a bit misleading in Pennsylvania when you
7 have businesses in the Erie region like STERIS
8 Corporation with New Mexico, when you have GAF
9 closing shop, when you have places here in the mid
10 state that are considering laying people off like
11 Harley Davidson. When people lose those well-paying
12 jobs, take lesser jobs that perhaps don't have nearly
13 the salary or the health benefits or the other perks
14 that go along with that, they're employed but they
15 show up in those statistics as employed individuals
16 but they certainly aren't provided at the level they
17 previously were at. So I was just wondering if each
18 of you could comment on that, whether you think the
19 unemployment statistics are indeed the best metric to
20 use in talking about the state of jobs in
21 Pennsylvania.

22 SECRETARY CORNELIUS: Well, I'm not sure
23 about the best. I look at lots of metrics, including
24 medium household income, per capita income, just
25 attract the very things. Am I concerned about the

1 number of jobs we have in Pennsylvania that are,
2 quote, low pay? Absolutely. It's a national
3 problem, quite frankly. And we are going to lose
4 businesses and we've gained businesses. That's part
5 of a, you know, a dynamic economy.

6 Again, it's not fun if you're the victim of
7 that, absolutely not. And that's why, you know, to
8 put another bite in here for education and training,
9 that's why it's absolutely critical and I think the
10 number one priority for this state should be to
11 educate its people, because you have to in this world
12 economy be adaptable and flexible.

13 The likelihood is you are not going to be
14 working for the same company 30 years like folks in
15 the past did. You're going to have to be retrained.
16 You're going to have to constantly have life-long
17 learning.

18 And let me just go into the education budget
19 very briefly, because here's another area I feel
20 strong about. The economic driver in this state is
21 education and its workforce. The, quote, old days
22 you could come out of high school, you could come out
23 of grade school, or out of eighth grade like my
24 parents, and it was a brawn economy. There were lots
25 and lots of labor jobs. There were lots of jobs

1 where you weren't hired for your mind; you were hired
2 for your muscle. Those days are over.

3 The new global economy is technology driven.
4 We've got to prepare our citizens to compete with
5 their minds. And we've got to do a much better job
6 to graduating our kids. We have 50 percent of the
7 Hispanics boys in this state who don't even get a
8 high school diploma. We have 20 percent of kids who
9 don't get a high school diploma. I mean, the list
10 goes on and on. And by the way, with those who do
11 get a high school diploma, employers are telling me
12 they can't even do eighth grade math a lot of them.
13 I get this complaint across the state.

14 So I don't know how you're going to get
15 through this budget process. But one thing I'm
16 telling you, if you're concerned about the future of
17 this state and our competitiveness and our ability to
18 generate good paying jobs, because I totally agree
19 with you that's what it's about, good paying jobs,
20 education is key and essential.

21 MR. BARR: Representative, it's a great
22 question. A lot of what Secretary said I agree with
23 his comments about the fantastic educational and
24 medical facilities we have in Pennsylvania are among
25 the best in the world. However, I do think that

1 oftentimes the unemployment rate can be a bit -- can
2 be a bit deceiving. And I think the Secretary's
3 correct in that you have to look at other
4 measurements as well.

5 For example, our gross state product has
6 risen at a rate of about half of what the rest of the
7 U.S. average has done, not the best performers in the
8 U.S. but the U.S. average. And I think that to hit
9 on what you said, a lot of the folks who previously
10 had much higher paying jobs have had to settle for
11 others.

12 Some of the function, of course, of the
13 unemployment rate is a function of how many people
14 you have left in the particular workforce. And,
15 unfortunately, Pennsylvania's population has
16 significantly lagged the growth in the rest of the
17 U.S.

18 There's a study that's done by United Van
19 Lines and they each year they release their inbound
20 and outbound households and measure which states are
21 gaining households and which are losing households.
22 And unfortunately, Pennsylvania has been in the
23 bottom along with, I think, Michigan was number one,
24 Pennsylvania was three, four, or five, which shows
25 more outbound than inbound households. And that

1 becomes a problem.

2 And I think when you look at unemployment,
3 and again this is what has triggered some of the
4 concerns I expressed early about where we're going
5 with the unemployment compensation fund, Pennsylvania
6 in the last reportable year spent more money on
7 unemployment compensation benefits than any state
8 except California. We spent \$3 billion on
9 unemployment compensation benefits. And I think that
10 you're right, you got to look at all of these things
11 in totality. And the -- the quite simply the
12 unemployment rate may not be the best indicator of a
13 particular state's economic health. Thank you.

14 REPRESENTATIVE J. EVANS: Thank you very
15 much. Thank you, Mr. Chairman.

16 MAJORITY CHAIRMAN EVANS: That will be the
17 last questioner, Representative Ron Miller.

18 REPRESENTATIVE MILLER: Thank you,
19 Mr. Chairman. Secretary Cornelius, during your
20 testimony and in answer to questions you hit on a
21 topic that's bothered many of us for I believe many
22 years, basically the grant programs and other
23 incentives for business to locate here and the
24 competition between the states, not just other
25 countries, but the competition between the states to

1 attract business away from each other.

2 I, of course, being from York County, I was
3 very aware when -- the south really came hard after
4 the Amp/Tyco plants, and we know the devastating
5 effect that's had on some of our constituents with
6 job losses and things like this.

7 My point is you talked about we need to be
8 competitive. Are we tracking what's happening in the
9 other states as far as their cutting back on some of
10 these grant programs? Are we tracking that now?
11 Because as you recognize, many of the states have the
12 same economic situation we do, if not worse.

13 SECRETARY CORNELIUS: No, we track it. In
14 fact, often we're in direct competition, quite a few
15 of the projects we work on they're looking at. I
16 mean, it's a major project right now is between New
17 Jersey and Pennsylvania. Do we ever get exactly what
18 the offer is? Rarely do we get the offer of the
19 other state, but we track and we know where the
20 competition is and we try to be responsive to it.

21 REPRESENTATIVE MILLER: Okay. And with that
22 thought in mind, how -- you said you're trying to
23 track now, you've instituted a program to look at the
24 grant programs in the -- do a payback assessment.
25 Can you just briefly tell us what is included in that

1 payback assessment and then possibly continue to give
2 this committee in the future some ideas of what we're
3 seeing?

4 SECRETARY CORNELIUS: Sure. What we look at
5 on every deal is what's it cost the state. So
6 opportunity grants, an easy one because that's direct
7 X dollars per job created. If you look at a loan, a
8 low interest loan, we look at the difference in value
9 between that loan and the market rate loans, so in
10 other words, what is the state putting into the bank.
11 And then we look -- we do a calculation of the
12 personal income tax that would be generated by those
13 new jobs, and basically based on that tax revenue how
14 long does it take a state to recover its investment.
15 It's very simplistic but it's --

16 REPRESENTATIVE MILLER: But it's based on
17 personal income tax paid by the employees.

18 SECRETARY CORNELIUS: Right, yes. And for
19 instance an investment too, there are some projects
20 that involve hundreds of millions of dollars of
21 investment. Construction is one project. It's a
22 half a billion dollar investment, that generates a
23 lot of tax revenue just from the workers and
24 constructing that building. So it's potential such
25 investment, but each deal obviously is a little

1 different.

2 REPRESENTATIVE MILLER: Thank you. Thank
3 you, Mr. Secretary. Thank you, Mr. Chairman.

4 MAJORITY CHAIRMAN EVANS: Thank you,
5 Representative Miller. One, I want to thank you for
6 all that you do for the Commonwealth of Pennsylvania
7 in your different positions and organizations. We
8 want to really work with you. This is a challenging
9 time, but I do not believe it is an impossible time.
10 We will, one, have a budget. It's not even a debate.
11 It's just a question of when. And from now it's just
12 about us working to -- I think it's a give and take.
13 That's been my experience, being around here, that we
14 have to work this together. It's important to the
15 economy because that's what we need. Again, I want
16 to thank all of you sincerely.

17 SECRETARY CORNELIUS: Thank you, and spend
18 your vacation dollars in Pennsylvania this year.

19 MAJORITY CHAIRMAN EVANS: No problem with
20 that. Erie's one of my favorite places, I want to
21 let you know. I love Erie, especially in the
22 summertime.

23 (The panel concluded at 10:02 a.m.)

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1 I hereby certify that the proceedings and
2 evidence are contained fully and accurately in the
3 notes taken by me on the within proceedings and that
4 this is a correct transcript of the same.

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Heather L. Artz, RMR, CRR
Reporter

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