



TESTIMONY

OF

THE PENNSYLVANIA CHAMBER OF BUSINESS AND INDUSTRY

ON

ECONOMIC DEVELOPMENT ACCOUNTABILITY

BEFORE

**JOINT HEARING OF THE PENNSYLVANIA SENATE FINANCE COMMITTEE AND
HOUSE FINANCE COMMITTEE**

HONORABLE PATRICK M. BROWNE & HONORABLE DAVID LEVDANSKY

JUNE 29, 2010

On behalf of the Pennsylvania Chamber of Business and Industry and its thousands of statewide business members, thank you for the opportunity to present and discuss our views on economic development transparency and accountability.

The PA Chamber applauds both Senator Browne and Representative Levdanky's leadership on increasing the standards of accountability and transparency when taxpayer dollars are used to create jobs and spur economic development. Senate Bill 1279 and House Bill 2340 represent significant steps in attaining these goals. The Chamber supports the goal of these bills, but opposes several key provisions that go far beyond the ideals of accountability.

The PA Chamber supports the following important measures to promote accountability and transparency in economic development programs:

- *Job Verification*: Mandated reporting and verification of actual jobs created by recipients of tax dollars that have guaranteed jobs as part of the application process. For some DCED programs, this already occurs.
- *Annual report*: Compile a comprehensive report on dollars utilized and jobs created, as well as list tax dollar recipients. The PA Chamber recommends that all programs related to economic development beyond those of DCED be part of the conversation on accountability and transparency. This includes DEP, Labor and Industry, Education and others. The current bills do not include Industry Partnerships.
- *Accountability*: Applicable state agencies should have the ability to recapture taxpayer dollars from recipients because of negligence, noncompliance or intentional wrongdoing. DCED has the authority to recapture dollars that were not utilized as promised for programs.

But, as stated earlier, these bills go beyond the scope of ensuring accountability. As a result the PA Chamber opposes these measures because they would increase the cost of and create a chilling affect on economic development in Pennsylvania.

Mandated Wages

Senate Bill 1279 and House Bill 2340 mandate¹ the use of prevailing wage for all companies or organizations that accept economic development dollars. The Pennsylvania Chamber strongly opposes prevailing wage, as it can increase the costs of construction and labor from 10% to 30%. Under these bills, the benefits of economic development assistance would be greatly reduced due to mandated wage requirements. Further, because of the problems associated with implementing prevailing wage laws and the great discretion given to the Department of Labor and Industry in setting the "prevailing" rate, the amounts required often exceed the actual market-based pay rate and usually reflect the union rate. This amounts to higher labor costs on state-funded projects, which ultimately are paid for by taxpayers. This may also lead to higher prices for contracted goods and services or to less goods being provided to offset the costs incurred due to these mandated wages.

¹ SB 1279 Section 7 (2) requires that companies pay a mandated wage – average of wages paid to employees equal to or greater than 80% of the average hourly wage paid to non-managerial employees in that North American Industry Classification System (NAICS) sector or 70% for small businesses.

Application and Reporting Requirements

Accountability can be obtained in economic development programs, but onerous and excessive reporting requirements will eliminate the cost effectiveness of many programs.

- *Itemized Job Classifications & Salaries:* The legislation² requires recipients to report annually itemize job classifications, salaries of all employees within a company and the type and amount of health coverage. The PA Chamber believes this information is, in many instances, proprietary. Making it publicly available could hinder recipient's ability to compete in the marketplace. This would be especially true in the research and development industry.
- *Corporate Parent Relevance:* The legislation³ requires a statement as to whether the subsidy may affect employment at another site or parent company. Applicants who apply for state dollars do so, in most cases, to address specific projects. Businesses/Corporate parents, subsidiaries must maintain the freedom to acquire, merge or restructure in response to market forces. What should be of concern is how recipients are utilizing the dollars received to create jobs at the specific project, not what a parent company elsewhere in the nation is doing. This bill goes one step further by mandating that the company and all other corporate parent sites maintain their level of employment and not go below 90% of total workforce from the time of receiving funds.

Recapture Funds

The legislation⁴ requires a complex formula of penalties based on the number of unfilled jobs or percentage of employees that are removed from the workforce. A company that is not able to create the promised jobs should be required to equitably repay the state for not fulfilling its promise - not pay the full amount of the subsidy with interest. Further, DCED should be given the latitude to determine if claw backs are necessary. A fair and equitable means to recapture funds must be developed

Inconsistencies

Requirements within the bills⁵ impose excessive monetary penalties for noncompliance on the company. The PA Chamber believes that an equitable penalty should be assessed for noncompliance. Further DCED already places penalties on noncompliance. These two enforcement guidelines should be made consistent.

Inconsistencies within the current state agency guidelines exist: the DCED definitions of full or part-time employee, small business, etc. should be made consistent with the law. These instances must be aligned to avoid reporting and requirement confusion.

The PA Chamber welcomes a conversation on how the state's economic development programs can be held more accountable. Companies that use these programs should be held responsible for specified promises made in project applications. However, we do not fully agree with the approach laid out in both SB 1279 and HB 2340.

The PA Chamber believes strongly that economic development programs have a role in job creation and retention, but that the most effective broad-based economic development engine is a more competitive tax, legal, labor and regulatory environment.

²SB 1279: Section 5 (a) (15), page 9

³SB 1279: Section 5 (a) (18), page 10

⁴ SB 1279: Section 8 (c) (1-2)

⁵ SB 1279: Section 6 (f) on page 13