

TESTIMONY

OF

FRANK SNYDER, SECRETARY-TREASURER

PENNSYLVANIA AFL-CIO

ON

SENATE BILL 1279 AND HOUSE BILL 2340 - SUBSIDY ACCOUNTABILITY

FOR

**SENATE COMMITTEE ON COMMUNITY, ECONOMIC & RECREATIONAL
DEVELOPMENT**

SENATE CHAIRWOMAN JANE EARLL, SENATE CHAIRMAN WAYNE FONTANA

AND

HOUSE FINANCE COMMITTEE

HOUSE CHAIRMAN DAVID LEVDANSKY, HOUSE CHAIRMAN SAM ROHRER

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HARRISBURG, PA

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Senate Bill 1279 and House Bill 2340 - Subsidy Accountability
For the Senate Committee on Community, Economic and Recreational Development
and the House Finance Committee
Submitted by the
Pennsylvania AFL-CIO
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Good morning, Senate Chairman Earll, Senate Chairman Fontana, Chairman Levdansky, Chairman Rohrer and to all of the respective members of both the Senate Community, Economic and Recreational Development Committee and the House Finance Committee. Thank you for giving me the privilege to testify before you today regarding Senate Bill 1279 and House Bill 2340, the issue of Subsidy Accountability.

My name is Frank Snyder and I am the Secretary-Treasurer of the Pennsylvania AFL-CIO. On behalf of President Richard Bloomingdale and our 900,000 working men and women all across this great state, I thank you for the opportunity to testify on this important subject.

The Commonwealth and its localities spend millions of taxpayer dollars each year in economic development subsidies and tax breaks targeted to individual businesses. The intent of these subsidies is to create or retain jobs in Pennsylvania, thus raising the living standards for working families.

The Pennsylvania AFL-CIO recognizes the value and importance of economic development subsidies in our State's local economies. However, it is equally important that businesses who receive economic development subsidies in exchange for a promised amount of created or retained jobs actually deliver on their promises.

State government needs to collect, analyze and make publicly available exactly where and how grants, loans, tax credits, tax forgiveness and infrastructure subsidies are

spent. It must also be made public the amount and quality of jobs that each recipient business has created.

If subsidized businesses do not follow through with their obligations to spend state and local money accordingly, they must be held accountable for the repayment of the taxpayers' money.

Businesses have eluded the watchful eye of the Commonwealth for far too long. Pennsylvania tax payers deserve to know how, why, and where their hard earned money goes when it is taken out of their paychecks. In the current economic recession, restoring transparency and accountability to the Pennsylvania tax system will make sure that every dollar is accounted for and spent with a great deal of fiscal responsibility.

I would like to share with you a couple of examples of how taxpayer money is being spent. In 2007, the Pennsylvania Department of the Auditor General released a special performance audit of the Pennsylvania Department of Community and Economic Development and its administration of the Opportunity Grant Program for the period of July 1, 2000, through June 30, 2005.

This report demonstrated the great successes that can come from such programs, such as the FedEx Package System, Inc. in Allegheny County which was awarded \$750,000 and created 900 new jobs – 400 more than projected – and retained 1,062 jobs.

However, there are also instances in this report of astonishing failure, such as AcceLight Networks, Inc. in Allegheny County. This business was awarded \$900,000 in the fiscal year of 2000 – 2001 for heating equipment. They were awarded the Opportunity Grant contingent on the projected 900 jobs that would be created and 14 that would be retained. The company did not create one job and lost 14 existing jobs when they closed

16 months after receiving the grant. The \$900,000 was never to be seen again. This is truly unacceptable.

Such irresponsible disregard for nearly \$1 million of taxpayer dollars should not be tolerated. As you are all well aware, this state is currently dealing with a budget crisis; determining how to pay for vital services such as education and health care for our senior citizens. On a parallel track to the state budget is a need to fund our transportation infrastructure. Given our Commonwealth's current economic situation, there is an ongoing and ever increasing need for the responsible allocation of taxpayer backed subsidies.

The system of economic development subsidies needs to have disclosure and accountability. Pennsylvania taxpayers need to know who gets subsidies and how much money they get. They need to know that businesses who receive subsidies have delivered on their promises to make GOOD jobs.

Those "good" jobs that economic development subsidies help create, need to have wages that are up to par with the standard wages of the surrounding areas, and include health care benefits.

If businesses do not create the good jobs they promised, they must be held accountable for part if not all of the taxpayers' money. When businesses use taxpayer subsidies it is based on the promise of a public benefit. This needs to be held as a binding contract between the State and the business. Failure to uphold its end of the bargain should result in the business refunding subsidies accordingly.

Pennsylvania needs a stringent subsidy claw back policy. It is imperative that businesses make job creation projections that are realistic, and not merely exaggerate them just to be eligible for a higher amount of grant money. This is recognizing that some of the most responsible projections may not materialize, especially in uncertain economic

times. Businesses that receive taxpayer backed subsidies must be under constant scrutiny to ensure that they meet their promised goals. Goals, that they themselves set and are committed to fulfill.

It is also very important that the State gives priority to high unemployment and distressed areas and areas accessible by public transit. These subsidies need to benefit the surrounding communities, not simply big business. The communities that will be affected should have a say in how their taxes will be spent.

Suburban sprawl causes harm to cities and workers by fueling the out-migration of urban jobs. Sprawl deprives low-income workers of good job opportunities. A national survey by Good Jobs First found that of all the 1,500+ economic development subsidy programs, not one gives preference to jobs that are accessible by public transit.

Through the use of smart growth incentives and community development programs, economic development subsidies will be spent in locations that are accessible by public transit and will help revitalize depressed areas.

Traditionally, businesses were centered in urban areas where the workers lived. Towns were traditionally built around large businesses, strategically placed so that workers could easily get to and from work. Additionally, this created a sense of pride within the community because the people were attached to the thriving local economy.

In today's economy, more and more businesses are experience sprawling growth due to subsidies and tax breaks. This tax-drain causes urban areas to have to cut taxes and public services for the people who need them the most.

The Pennsylvania AFL-CIO and its affiliates have fought for workers rights to quality jobs for the past 50 years in Pennsylvania. In the current recession, good paying jobs that provide health care are what workers need. Unions have traditionally been the best way

for workers to gain better job quality. Unfortunately, it is a proven phenomenon that as jobs spread out geographically, they tend to de-unionize. This not only hurts union workers, but nonunion workers as well. When union density declines within a city, the job standards for all workers within that city decline as well.

Economic development subsidies need to do exactly what they were designed to do – develop the economy. This is done by creating jobs that are at or above the wage standard of the surrounding working community. The taxpayers of the community want their money going towards good paying jobs that people can make a living off of. Businesses should not be rewarded with subsidies or tax-breaks for creating minimum wage jobs.

A system of transparency and accountability would assure taxpayers that economic development subsidies are cost affective. The Commonwealth should produce an annual report, available on the internet for researchers, which contains information on both direct subsidies and tax breaks given to businesses. The Commonwealth must also be constantly assessing the successes or failures of businesses to act in accordance with their promised public benefit.

It is important that I stress the fact that State taxpayer subsidies for economic development have spurred economic growth and created many quality jobs for working Pennsylvanians. The system as it stands is good. However, with added transparency and accountability it can be great.

To conclude my remarks I would like to thank the Committees and the Chairpersons for allowing me to testify before you today. The Pennsylvania AFL-CIO commends you for taking up this important issue which affects so many working families within this great Commonwealth.

Thank you for this opportunity and I would be glad to answer any questions you may have.

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