COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES

FINANCE COMMITTEE HEARING

STATE CAPITOL
HARRISBURG, PA

MAIN CAPITOL BUILDING
ROOM 60 EAST WING

MONDAY, SEPTEMBER 24, 2012
10:05 A.M.

PRESENTATION ON HB 2626
PROMOTING EMPLOYMENT ACROSS PENNSYLVANIA
(PEP) PROGRAM

BEFORE:

HONORABLE KERRY A. BENNINGHOFF, MAJORITY CHAIRMAN
HONORABLE RYAN P. AUMENT
HONORABLE SCOTT W. BOYD
HONORABLE JIM COX
HONORABLE GORDON DENLINGER
HONORABLE GEORGE DUNBAR
HONORABLE ELI EVANKOVICH
HONORABLE MATT GABLER
HONORABLE C. ADAM HARRIS
HONORABLE FRED KELLER
HONORABLE DUANE MILNE
HONORABLE KATHY L. RAPP
HONORABLE MARIO M. SCAVELLO
HONORABLE PHYLLIS MUNDY, DEMOCRATIC CHAIRMAN
HONORABLE MATTHEW D. BRADFORD
HONORABLE MADELEINE DEAN
HONORABLE FLORINDO J. FABRIZIO
HONORABLE SID MICHAELS KAVULICH
HONORABLE RICK MIRABITO

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Pennsylvania House of Representatives
Commonwealth of Pennsylvania

ALSO IN ATTENDANCE:

HONORABLE LYNDA SCHLEGEL CULVER
HONORABLE TINA M. DAVIS
HONORABLE DICK HESS
HONORABLE KURT A. MASSER
HONORABLE MIKE TOBASH

COMMITTEE STAFF PRESENT:

TAMARA LYNN FOX
MAJORITY EXECUTIVE DIRECTOR
JERI G. DAVIS
MAJORITY LEGISLATIVE ADMINISTRATIVE ASSISTANT

CHARLES W. QUINNAN
DEMOCRATIC EXECUTIVE DIRECTOR
KRISTEN M. BERNARD
DEMOCRATIC COMMITTEE LEGISLATIVE ASSISTANT
KATHRYN L. ZERFUSS
DEMOCRATIC RESEARCH ANALYST

I N D E X

TESTIFIERS

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SUBMITTED WRITTEN TESTIMONY

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P R O C E E D I N G S

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MAJORITY CHAIRMAN BENNINGHOFF: I call this meeting to order.

Representative Evankovich, if you would like to take roll, we will proceed.

REPRESENTATIVE EVANKOVICH: I seem to be conveniently missing the roll sheets.

MAJORITY CHAIRMAN BENNINGHOFF: In the interim---

REPRESENTATIVE EVANKOVICH: I can do it from memory, but that would probably be rather ugly.

MAJORITY CHAIRMAN BENNINGHOFF: As we have technical difficulties, I also want to let the Members know that we're going to try a little technology advancements here. We have some gentlemen from Kansas who are going to come in by phone, if I can operate this little stealth fighter or whatever it is over here. But we've got some great testimony, I believe, that they're going to share on this legislation, along with the CEO of the State College Chamber.

But before that, now that we have our technical difficulty taken care of, Representative Evankovich, feel free to take roll.

REPRESENTATIVE EVANKOVICH: We are ready to go. Thank you, Mr. Chairman.

(Roll was taken.)

MAJORITY CHAIRMAN BENNINGHOFF: Thank you very much. Having a quorum, we will proceed.

We are here to discuss HB 2626. I appreciate everyone joining us. I know it's a crazy morning, and I welcome you all back. The Finance Committee likes to continue to be busy, even though we're waning down the session.

We are joined by several other Members: Mr. Tobash, Representative Culver, and Representative Masser, the nicest gentleman I could ever meet, who I just embarrassingly forgot his name. I apologize.

MINORITY CHAIRMAN MUNDY: It's age.

MAJORITY CHAIRMAN BENNINGHOFF: As a senior member of the Finance Committee, we welcome you.

We are also now joined by Representative Kathy Rapp. Thank you, Kathy.

HB 2626 is a bill to do with economic development. As you know, all of us have been working diligently to try to find different ways to entice businesses; one, to stay here and to grow their business; but more importantly, hopefully to come into the Commonwealth to establish new businesses and with hopes of greater employment and good family-sustaining jobs.

HB 2626, it's a little bit different type of incentive program. In the past, we have used either tax credits or tax forgiveness of some sort. What we're trying to do is encourage people to bring a company to Pennsylvania by allowing them to keep a portion of the payroll tax and reinvesting it within their company to grow jobs within that company.

Now, this is specifically for companies that are not presently in Pennsylvania. We're enticing them to come to Pennsylvania and enjoy all the other wonderful amenities here, including our workforce and our geography, our infrastructure, et cetera. But this would also encourage them and actually in some ways require that they have to earn this benefit, because they do not get it unless they establish in the Commonwealth, and more importantly, unless they grow the jobs. The incentive is based on the number of jobs, and that is also based on the type or size county that they have to the minimum amount of jobs that they would have to produce.

These jobs are not minimum-wage jobs. They have to be on a county average wage. We're also providing 50 percent of the benefits for their health care. We want to have good, strong, family-sustaining jobs through this legislation.

Now, this is not costing the taxpayers money up front in order to entice them to come here; it's encouraging companies to earn their way by investing in Pennsylvania, staying in Pennsylvania, and growing more jobs. The incentive obviously grows as they create more jobs, and I would ask for your serious consideration.

Vern Squier is the CEO of our Chamber in Centre County. He comes from the State of Kansas, and he is going to give us a presentation of their results and what they did in the State of Kansas. We're honored to have him here today. We're honored to have him as our CEO in Centre County. We will also be joined by some other individuals on line momentarily.

Vern, if you could join us in that one lonely chair up front there, and when you're comfortable, there is a microphone. Just push the center button and proceed at your will, and then the Members will probably take some questions afterwards. Thank you.

MR. SQUIER: Thank you.

Good morning, Committee Members. Thank you, Representative Benninghoff, for allowing me to speak this morning.

We do have some information on the screen we're going to be showing you, in addition to the bill language that you have at your stations. Just a couple of housekeeping comments very quickly.

As the Representative mentioned, there are going to be two people joining us. The first will be a gentleman named Dennis Donovan. Dennis is a consultant, a longtime veteran in the industry of economic development. He has advised companies and States and major companies alike in his endeavors, but a well-respected, highly respected individual.

At the latter part of the presentation, we're going to hear from a gentleman named John Lenio. John is with the world's largest real estate firm, who has a section that deals exclusively with economic development opportunities, economic development incentives, and he analyzes those and really helps factor those on behalf of their clients. So he sees the gamut nationwide as to what's going on from the competitive standpoint, and again, he'll be joining us around the back end of this program.

There are two people that are submitting testimony in the packets from the State of Kansas -- as the Representative mentioned, the Representative's counterpart in Kansas who helped author the bill and put it out in front of the Legislature. His name is Marvin Kleeb.

MR. DONOVAN: Good morning.

MAJORITY CHAIRMAN BENNINGHOFF: Hi. Representative Benninghoff. We met before in Centre County.

Vern is just giving his preliminary remarks. You're welcome to stay on and listen.

Is John on?

MR. SQUIER: John will not be on until the later part.

MAJORITY CHAIRMAN BENNINGHOFF: John is scheduled for 11 o'clock.

Do you want to stay on, Dennis, and listen to Vern's presentation?

MR. DONOVAN: Well, you tell me. What's the best way?

MAJORITY CHAIRMAN BENNINGHOFF: We just as soon he do it now.

MR. DONOVAN: Okay.

MAJORITY CHAIRMAN BENNINGHOFF: Thank you very much, Dennis.

MR. DONOVAN: My pleasure.

MAJORITY CHAIRMAN BENNINGHOFF: Dennis Donovan, a Partner and Consultant.

MR. SQUIER: Okay. And again, in your packets you have two letters. You'll have one from Representative Marvin Kleeb of the 48th District in Kansas. He helped author the bill, which ran in its first year in 2009. We'll be talking a little bit about its life cycle here in the presentation. And then the Deputy Secretary of

Commerce for the State of Kansas -- his name is Steve Kelly -- there’s a letter in your packet from Steve.

So with that, let’s get started in the program. I just want to make a couple of introductory comments before we turn to Dennis, and if we could change the slide. One more, please.

The “Incentive Spectrum” slide we have up here, as we talk about incentives -- and I know we’re compressed for time here. Again, I appreciate your indulgence. The notion, though, when we talk about incentives and competitiveness as it relates from a State-to-State competition for economic development opportunities, we have to realize essentially what that competition can look like, and it really is this spectrum.

On one end, it can be those types of enticements or inducements or incentives -- call them what you will -- that a State can put out to try to attract business to look at that respective State and to make that decision to put jobs and wealth creation and investment into their locales, and they can take the form of tax credits.

Tax credits are now an aging tool, still can be effective, but tax credits are not always usable by the company, depending on their tax liabilities. They’re not always monetizable in certain States, and they’re harder, in fact, for the companies to really calculate what the net benefit is. The trend today is that companies will calculate the net present value of all the benefits, all the incentives, all the tools you put on the table. They're going to calculate that down to a bottom line. In the lower right corner of the spreadsheet it's going to say how we stack up against Virginia or Ohio or New York or whatever State we're competing against. That's where it goes, and tax credits are difficult for them to do that with.

On the far end of the spectrum, you see the other side -- cash; outright cash. Many States now -- in fact, a growing number of States -- have cash-based tools and an outright cash tool often in the form of a Governor's deal-closing fund or some derivative of that. Texas is the State in the nation that leads the pack in that arena. Arkansas is in the top five. You see that Michigan has in recent years tried to create or I think has created a deal-closing fund. But it's their decision and their change, if you will, in their respective inventories to get away from some of the older tools and try to get to something that's more meaningful to the companies that is helping win deals and make the decisions happen more cleanly and more clearly.

Can we change the slide?

This is an aging study here, but it does frame up a little bit of what I'm talking about. It's 2007. A regional accounting firm in the Kansas City area did a study, looked at incentives nationwide, and came up with the following. I've taken two slides out of her total presentation.

Next.

This is an older slide here. Just, again, because of its age, 2007, the numbers are a bit hard for you to see. But in 2007, those were the top 10 States -- shaded -- for expansion, and that recipe has changed a little bit. But you look at the competition around us, and that is kind of what we're dealing with here as we talk about enhancing our abilities as the Commonwealth.

Go to the next slide.

These States that are listed up there, and that list has enhanced a little bit -- I'll give you an update in just a moment -- but these are the States trying to deal with a payroll-based incentive or a cash-equivalent incentive. When we use that term "cash equivalent," if we think back to that line graph just a moment ago, tax credits on one end, cash on the other, cash-equivalent programs can fall midpoint in that spectrum.

What do I mean by that? Well, cash programs are just as they sound. Pure cash programs require a disbursement from the Commonwealth outbound to the company, or whatever State. It requires that allocation of funds. A cash equivalent program can be a cash program to the company, but it does not always require a disbursement. That is the beauty of HB 2626. There is no money allocated or doled out, if you will, but it is an earn-as-you-go from the company that would come in, and we'll talk about the details of the program in just a minute.

In fact, the States now that have a similar payroll-based program that are of note -- this is a quick list and a short list -- Ohio, Kansas, Missouri, Oklahoma, Louisiana, Arkansas, Mississippi, Georgia, South Carolina, North Carolina, New Jersey, New York, and Kentucky are but a few that have that type of program. Others have various derivatives trying to achieve a balance between not having to put cash out and yet developing and enhancing their inventories from where they have been in times past.

With that, I'd like to turn to Dennis, now that he's listening to us and on line, and I'd like Dennis to comment to you a little bit about where we stand as the Commonwealth in terms of our rank in competitiveness and what we can do in general terms to become stronger in our ability to get jobs and investment to locate here to the Commonwealth.

Dennis?

MAJORITY CHAIRMAN BENNINGHOFF: Dennis, if you can hear me, this is Kerry Benninghoff.

MR. DONOVAN: Kerry, Dennis Donovan. How are you?

MAJORITY CHAIRMAN BENNINGHOFF: Good. Just one second.

I just want to let everyone know that the Commerce Chairman, Dick Hess, has also joined us. We're trying to have a multitude of people listening and observing.

Dennis Donovan, you have the floor, and we'll let you know if we can't hear you, but the microphone is on.

MR. DONOVAN: Thank you very much again.

I'm Dennis Donovan of Wadley-Donovan-Gutshaw Consulting. We're a national site-selection firm based out of New Jersey. We work throughout the country and in a variety of industries for industrial and office operations with a client base of about a third of the Fortune 500.

We're very familiar with Pennsylvania. Some of our recent projects were the Gardner Denver headquarters relocation to suburban Philadelphia; Lowe's DC in the Lehigh Valley; ADP shared services in Pittsburgh; wire/plastics in central Pennsylvania, so I have a pretty good feel for this.

I'm here today really to discuss the criticality of expeditiously passing HB 2626. You know, why do I say this? Well, Pennsylvania definitely has many competitive advantages. This includes talent base, transportation, education, and on balance, moderate costs, particularly in the northeast part of the country. In short, I believe Pennsylvania is a value proposition, so this means that it is an attractive tool of a variety of industries.

You have to remember that other locations also have impressive locational resources. So, you know, the short list on projects tends to be, usually when you get three to five locations, and they may spend various fates, tends to be fairly even. So with projects among well-qualified locations -- again, well qualified -- incentives come into play, and they can be influential in the ultimate selection of a particular location.

Today, I believe Pennsylvania is marginally competitive on incentives -- marginally. In my opinion, deal flow and success closing rates, I can't prove it, but I strongly believe that they could be significantly increased by implementing the Job Creation Tax Credits Program.

Now, what's the rationale here for me saying this? Well, HR costs are by far the most important geographically variable expense item. They typically represent well over 60 percent of costs. The proposed legislation is modeled after the Kansas program, which is meaningful. We're seeing out there today programs such as Kansas, Oklahoma, or whatever, up to 5 percent of payroll, cash-based up to 10 years. This is a significant incentive. And the beauty of it is a win-win incentive. You don't get this incentive until you meet the performance metrics. So it's a win-win.

I believe that instead of 95 percent, it should be 100 percent, because the income tax rate at the State level -- this doesn't include local, I take it -- is only 3.07 percent. That is good, but it also lowers the incentives, so I would call for 100 percent of a cash rebate. Most States have higher rates, like Missouri, 6 percent; Kansas, almost 5 percent.

About 20 States have this kind of a program. They range from competitive States in the region -- New York and New Jersey -- to other States that you might compete on for high-technology projects such as Kansas, Missouri, Indiana, and Ohio.

Down the road I would consider, and I didn't see this in the legislation, but I do believe that there should be a retention component as well, particularly in States in the Northeast. Down the road, you may want to consider including this in some kind of a discretionary program for industry retention.

I really commend Vern and other ED pros and government leaders for being at the forefront here. This, to me, is overdue in Pennsylvania. I know incentives have not really been recalibrated for many years. Other States have done so. I applaud you for doing it. There probably are some other incentives that I would recommend you consider, but clearly this is an influential win-win type of incentive, and I would urge its passage as soon as possible.

So I'm available for any questions if you'd like.

MAJORITY CHAIRMAN BENNINGHOFF: Thank you, Dennis, and I think we'll take questions from the Members at this point, if you are gracious enough to answer those.

MR. DONOVAN: Absolutely.

MAJORITY CHAIRMAN BENNINGHOFF: I think Representative Chairwoman Mundy -- she's my counterpart; she's a former businesswoman herself -- I think she has several questions.

MR. DONOVAN: Sure.

MINORITY CHAIRMAN MUNDY: Thank you, Mr. Donovan and Mr. Squier, for being here this morning and for making this presentation.

Can I just -- Mr. Donovan, you're a partner in Wadley-Donovan-Gutshaw Consulting?

MR. DONOVAN: Yes, ma'am.

MINORITY CHAIRMAN MUNDY: So you help companies with site selection?

MR. DONOVAN: That is our core specialty. That's what we've been doing for 35 years. Yes.

MINORITY CHAIRMAN MUNDY: Okay. Obviously HB 2626, the result of it would be to take money out of our General Fund and use it in this fashion. So I guess I'm curious as to what you believe the role of an educated workforce plays in site selection, because in the last two budgets we have had to reduce our funding for public education, K through 12 and early childhood among them, and also we have given less to college, to our PHEAA college program. So basically education in Pennsylvania has, I believe, suffered in the last couple of years.

So I'm curious as to what you believe an educated workforce, educated and well-trained workforce, what are we letting ourselves in here for as we have less money in the General Fund to educate our children to make sure that they're prepared for success in the workforce?

MR. DONOVAN: Well, Madam Chairwoman, I'm not an expert on this, but in my opinion, because we study this around the country, clearly a well-prepared workforce with business-ready skills is absolutely essential. From what I can discern, this is not about funding. Pennsylvania is well funded and a lot of other States are well funded and we still have underperforming in education, so I think there are other issues at play.

I see a major problem, not only in Pennsylvania, but we have a lack of skilled labor. This is a major issue relative to particularly manufacturing, and it isn't because the programs aren't there, we do not have the students going through the programs. So to me, one of the roles of government -- this doesn't cost a lot of money; it's attitudinal change -- I think there needs to be a promotional campaign of business and government demonstrating the socioeconomic value of technical careers so we can get more people into the workforce. There are a lot of jobs now going vacant in Pennsylvania, not because of your funding in education but because we don't have the right mix of skills in the market. That is absolutely critical.

So I think there are a lot of things that should be done in public education from consolidation and other issues that I don't know how much the funding has been curtailed, but I do know one thing: You can do all the things you want in public education; if you don't have the jobs, then it really is for not, because education is supposed to teach people to get good careers and advance.

To me, this legislation creates more and better quality jobs. And you're not giving money away, because basically, you know, it's earned by the companies as they go. So as they're paying into the system, it's taken out. And I believe that incentives are, you know, it's a fact of life here in every industry, incentives -- every industry. I don't care; Mercedes-Benz. Every capitalistic industry -- and it's not going to change -- needs to have incentives to close deals, and Pennsylvania needs to have this or something similar to be able to close deals to provide the jobs so that the kids can get a good education.

But again, I can't stress enough the mismatch of you've got great community colleges, decent vocational high schools, depending on where you go, and we're not getting the students into the system. That's a failing on the part of leadership, in my opinion.

MINORITY CHAIRMAN MUNDY: I missed that part.

MAJORITY CHAIRMAN BENNINGHOFF: We missed the last sentence you said there.

MR. DONOVAN: Say again?

MAJORITY CHAIRMAN BENNINGHOFF: We missed the last sentence.

MR. DONOVAN: Oh, yeah. To me, that's a failure of leadership -- I think we all, all of us -- and it requires an attitudinal change. And in my opinion, if we're all at a cocktail party and we're saying our son or daughter is going into the plumbing business and we're not proud of it, then we haven't done our jobs in terms of changing the attitudes necessary to get the true put in these technical programs, and that is going to curtail the ability to create R and D and manufacturing jobs.

MAJORITY CHAIRMAN BENNINGHOFF: Thank you for that clarification.

MR. DONOVAN: Sure.

MINORITY CHAIRMAN MUNDY: Well, I would hope that we're not only talking about manufacturing jobs. I would hope that we're talking about skilled employment, maybe financial services, medical services, all kinds of other high-tech, well-educated skills. But I couldn't agree more that an educated and well-trained workforce is a huge part of what I consider to be the infrastructure of the Commonwealth.

MR. DONOVAN: Madam Chairwoman, to me, that's the number-one factor. An abundance of qualified labor would be, at a moderate price, would be the number-one locational consideration.

MINORITY CHAIRMAN MUNDY: Well, we certainly agree on that.

MR. DONOVAN: Yes.

MINORITY CHAIRMAN MUNDY: And then the other thing that I would ask, you know, just this past Friday I was in a meeting with some of my economic development professionals in Luzerne County in Pennsylvania---

MR. DONOVAN: Sure.

MINORITY CHAIRMAN MUNDY: ---who really, they were trying to promote government funding for an arts project, a venue in Greater Wilkes-Barre, that is deteriorating and needs some funding. And one of the things, you know, I asked the man who was leading the tour, I asked him, you know, how does this play into job creation and what are your thoughts on that, and one of the things that he talked about was you have to have a place where people want to live; it's not just about taxation. In fact, he thinks taxation is rather low on the list when it comes to job creation. And he has had many CEOs come to Wilkes-Barre and say, oh, you know, you have an arena; you have some great arts and culture here; I can see me and my family living here and I can see bringing my CEOs here.

So they believe that it's not just about taxation or incentives or tax credits or tax breaks, that it's also about community development, and I'm wondering if you could again -- you see, I see that as part of the infrastructure of Pennsylvania, an important part of it, so could you comment on that, please?

MR. DONOVAN: I can't disagree. It's all part of the package. You know, to me, what companies are looking for is moderate taxation. Pennsylvania is pretty good except for the corporate net income tax, which is just way,

way too high. But companies are looking for moderation in taxation. They're looking for win-win propositions and incentives. And you've got to have a good cultural infrastructure. In fact, I think there's a lot of technology that's being used in the arts today that is also transferable and directly linked into business. So I see a real establishment there, not just for quality of life but also business development. So I think it's very important.

Yeah; I mean, it has got to be a place where people want to live, not only to CEOs -- most of them have families -- but you want to be able to attract young, vibrant talent to areas as well and with really a live downtown and culture and arts. It can be done. So it's very important, no question.

MINORITY CHAIRMAN MUNDY: Well, thank you very much. I certainly agree with you on those two points. I guess my only concern is that every time we offer more tax breaks, tax incentives, and tax credits to companies, we reduce the amount of money available for just this very thing, education and community development, among many, many other things. So that really is one of my big concerns with these types of bills.

You may be aware that we had another hearing last week, a package of tax credit bills, and I shared my same concerns. I would personally like to see more tax fairness in Pennsylvania. We still use the Delaware loophole, or allow companies, I should say, to use the Delaware loophole to avoid taxation, and if we would close that and do some other things, perhaps we could reduce taxes on all the businesses in Pennsylvania, both the existing and in luring new businesses here.

So thank you again. I appreciate your testimony very much.

MR. DONOVAN: Thank you, ma'am. Those were very insightful comments on your behalf. I appreciate it.

MAJORITY CHAIRMAN BENNINGHOFF: Dennis, we have another gentleman: Representative Scott Boyd out of Lancaster County, Pennsylvania.

REPRESENTATIVE BOYD: Thank you, Mr. Chairman.

I just wanted to follow up on the gentlelady from Luzerne's comments. I guess one of the things, and I want to make sure I understand this bill correctly, there's no existing revenue that would be taken from the General Fund, there's no revenue that goes to, there's no incentive unless there's a new job created, which is new tax dollars that would generally be coming into the State, but because of this incentive, it would go back to the employer. Do I understand the text of the bill correctly?

MR. DONOVAN: Yeah. The incentive is that you have to earn the incentive.

REPRESENTATIVE BOYD: Right; okay.

MR. DONOVAN: You don't get credit just for showing up. You have to come, establish yourself, create the jobs, and then you get the incentive.

REPRESENTATIVE BOYD: And it's strictly PIT.

MR. DONOVAN: Correct.

REPRESENTATIVE BOYD: Okay. So those individuals who would move into the area conceivably, or not necessarily move, who would now be employed, would be spending money and buying things which generates sales tax. It's quite possible that with the way the wage is structured on this, they may actually be able to get into their first home.

MR. DONOVAN: Correct.

REPRESENTATIVE BOYD: That would be generating property taxes. So there would be a net revenue gain to both local and the State Treasury if this was implemented on a broad scale and created hundreds or even thousands or tens of thousands of new jobs. So I want to emphasize that point.

The second point that I want to bring up is, as a small employer before I got elected, one of my biggest frustrations was, and I'm going to probably stir a little controversy here, but I would suggest that the education system, both at the pre-K, K-12 level and at the university level, is not in fact preparing people for the workforce, and I would suggest that while we're concerned about the dollars spent on pre-K to 12 education, we should be focusing on skills that are more job ready.

I don't know of any employer that I've talked to through the last decade or decade and a half who feels that the workers who are coming out of school are prepared for the tasks, the simple, basic tasks that are necessary in the modern-day workforce. And in fact the Commonwealth spends millions, tens of millions, arguably hundreds of millions of dollars on job-training programs, that if in fact there was an integration between the public education institution and the corporate world where they were actually working together, I think we would be able to take some of those dollars that go into job-training programs and actually go into the K-12 education and the postsecondary education system and not have to have employers sort of retraining the workforce. So I don't think that it's the amount of dollars that we spend on education; I think that it's the way those dollars are spent and what the focus of those dollars are spent on. So I just wanted to make those two comments. I think this is a unique approach.

One question I have and one concern that I want to express on it: Basically, this is just for new companies who relocate to Pennsylvania. Am I understanding this correct?

MR. DONOVAN: Yes, sir.

REPRESENTATIVE BOYD: Because one of my concerns is you're basing the tax incentive or the tax credit based on wages. So if in fact they pay 100 percent of the county average wage, they get a certain tax incentive, 110 percent and 120 percent if I understand the bill correctly.

Here's my concern: I'm an existing employer who has lived in Pennsylvania my whole life and I'm paying -- I helped establish that average wage, and now my competition is going to set up shop next door, and he's going to get to keep his taxes and really is going to trump my wage base and going to raise my existing costs. So while I'm all about attracting new business to Pennsylvania, and I like it, Kerry, it's a great idea, I think you're slapping some of us that have been here for 25, 30, 50 years upside the head, and I think we ought to talk about maybe providing us a little tax incentive since we've been faithful and loyal to the Commonwealth for the last 30 years. Just a little comment on the side.

Thanks, Mr. Chairman.

MAJORITY CHAIRMAN BENNINGHOFF: Are you going to bail me out on this one, Dennis?

MR. DONOVAN: Well, here's the thing: I mean, this is designed strictly for new employment that is generated by a company. So everybody is entitled to it, whether the company moves to Pennsylvania or they move some other place.

And quite frankly, I believe that a company coming in, yes, maybe, you know, you're not going to make shoes anymore in northeast Pennsylvania, things do change, but as companies move in and create a greater need for suppliers and customers and support services and education, everybody does benefit. And if we do our job in terms of training the workforce, you know, the whole idea is you want to have a good supply -- and that's really critical -- a good supply of ready workers in the market so that we don't get into this imbalance of supply and demand. And Pennsylvania, I think, has enough communities that are represented across the spectrum that not everybody has got to go to the same location and drive up the cost and a shortage of labor. So I believe it is fair, because if you don't add new employment, you don't get it.

Now, this is totally off the subject and I don't want to screw it up, but I hear what you're saying, Representative Boyd, and my opinion is that all States need to have tax credits similar to this for investment in technology, in lean manufacturing and robotics, to be competitive globally. That's a different situation.

That’s how I would address that.

But this one here, to me it’s fair, because it’s only new jobs. So if you create new jobs or a new company creates new jobs, it doesn’t matter, you all get it. And the beauty of this, too, you need to remember that this is designed for businesses that, they’re not local; you know, you’re not going to get into retail. In other words, you’re serving outside markets. Typically if you’re a back officer or a manufacturer, you’re going to create another one to two jobs, spinoff jobs. They’re not getting an incentive for this. So those jobs are going to be created, and there’s nothing given to those jobs that are being created; it’s only to the direct job being created. So usually when you run the cost benefit analysis on these programs---

MAJORITY CHAIRMAN BENNINGHOFF: You raise good points there, Dennis. And I would also say to Representative Boyd that I’m first in line to vote for any other good tax policies that help preexisting businesses. I think we’re trying to do that here in the Commonwealth by phasing out the capital stock and franchise tax, but there’s plenty of room to do more.

MR. DONOVAN: Yep.

MAJORITY CHAIRMAN BENNINGHOFF: Other Members?

I also want to acknowledge Representative Harris has joined us, Representative Tina Davis, Representative Matt Gabler, and Representative Jim Cox. I apologize, Dennis, but Mondays are crazy days down here. We're struggling between different committee meetings.

The Chairwoman has an additional comment or question she'd like to make.

MINORITY CHAIRMAN MUNDY: Yes. I'd like to ask Mr. Squier -- if you don't mind, Mr. Squier?

I notice that in the bills in other States or the programs in other States that employees are not notified---

MAJORITY CHAIRMAN BENNINGHOFF: I was trying to do just Dennis first.

MINORITY CHAIRMAN MUNDY: Oh, I'm sorry. Okay. Well, maybe Mr. Donovan can speak to that, too. But I'm noticing that in the programs in other States, there is no notification of the employees that their withholding is being kept by their employer, and I'm wondering if there's a reason for that? Is there a rationale for not notifying employees that the boss is keeping their PIT?

MR. SQUIER: Well, I'll take a stab at that.

I don't know of any particular reason or anything draconian as to why that's not listed, but let's go down the path of the taxes that they're paying to current employers at this time. You know, let's take John Doe and Jane Doe. They're paying their taxes in. Those moneys are coming through the State system to go all kinds of places, including education. But let’s say some of it, or let’s note, actually, that some of those are going to DCED for current economic development programs, so their employer could be the recipient of a PIDA loan, a grant, a tax credit. And so I guess the challenge back in reverse would be, are we in fact notifying all employees of all segments of, you know, the State tools that are being utilized by their employer and to what degrees, and I think that answer is no. So this program is no different than our existing programs in that regard. If you want to insert that, that’s something certainly you could take a look at.

MINORITY CHAIRMAN MUNDY: Well, I do think it’s different. If I’m an employee of the Commonwealth, I know that my taxes are going into the General Fund, and then through the State budget each year, I know how that General Fund is being allocated. In this particular case, the money is not going into the General Fund, it’s an incentive to the business that I work for to come here, and it just seems to me that it would be wise to notify employees of that.

MR. SQUIER: Well, again, I can’t disagree in concept. I think the truism, though, is some small portion of all of our State withholding taxes is going to incentives to companies today, prior to this bill.

MINORITY CHAIRMAN MUNDY: Thank you.

MR. SQUIER: Thank you.

MAJORITY CHAIRMAN BENNINGHOFF: I would add to that, keep in mind that when the money goes to the Commonwealth we have less control of where that's heading, and some of that money could actually go to these employees' competitive businesses. So at least they know that their payroll taxes, which are going to be withdrawn anyhow from their payrolls, are going to be reinvested into their own company, in their own neighborhoods, to sustain jobs in their own communities.

Any additional questions for Dennis?

Seeing none, Dennis, we can't thank you enough for joining us. We look forward to meeting with you later and continuing to update you on our progress.

MR. DONOVAN: Well, my pleasure. Good luck to you.

MAJORITY CHAIRMAN BENNINGHOFF: Thank you, Dennis.

MR. DONOVAN: Thank you. Have a good day.

MAJORITY CHAIRMAN BENNINGHOFF: You, too.

I'm going to turn this back to Vern, and then we have another gentleman coming on shortly. Vern?

MR. SQUIER: Okay. Thank you, Representative Benninghoff.

As we flip the slide to Representative Marvin Kleeb, as we're making this transition in the slide, I'd like to note or point out a couple of the comments, maybe help fill in a blank or two. If you have questions, perhaps we can deal with those either now or later, at the Representative's wish, at the Chairman's wish.

One of the questions or thoughts was, what types of businesses and industries could this in fact transcend, the manufacturing and the industrial component that has been, you know, a lone part of the Commonwealth's approach to economic development: It works for all. It works for manufacturing; it works for industrial. It can work for the service sectors and, as Representative Mundy just talked about, the finance sector, the insurance sector, back office. Those types of jobs are eligible.

In fact, it is only a small list in this bill that are not eligible, and they would be retail; public administration and educational services, the quasi-governmental types; utility companies; food service companies, et cetera. But there's a list of NAICS codes and/or we can get you the list of actual company categories that are not eligible. So it would in fact broaden handsomely the opportunities here in our State, and let's talk a little bit about that.

We talk about employment opportunities for folks.

I live in State College. At Penn State, there are new officials in place, some of whom I've come to know. My significant other, my spouse, and their spouses fall in the same category. There are a number of people, numbers in the thousands in the community, that are either underemployed or not employed at this time because as a trailing spouse or a trailing significant other, they're swept along in the tide, they come to that community, and those types of nonmanufacturing and nonindustrial-based jobs are not present in sufficient numbers to take care of the opportunities. In fact, it makes the recruitment process for the university that much more difficult. So as we talk about supporting education, as we talk about nurturing the economy and nurturing the Commonwealth, we really need to think about what we're offering, you know, to a family unit that's trying to come into the State, whether they're part of an existing company or not. So there is that comment.

On the issue of the higher/lower wages that Representative Boyd talked about, I guess, you know, it becomes a pretty short discussion, in my mind, but it's a pretty rough cut. It's a tough discussion, I understand, but do we as a State want higher wages ultimately, a trend upward either to stable or higher wages, or do we want a trend to stable to lower wages? I think this trend would be to ultimately have higher. And I know that will provoke a response here, but the idea is this program -- the neighboring company, as the Representative pointed out, that may enjoy this program may already be enjoying, again, a grant program, a tax credit, a PIDA loan, various kinds of programs that are already assisting that company, and that all transcends ultimately to the bottom line.

I would also mention the issue of just the new jobs coming in. To help existing in-State companies, this bill can be amended. In fact, that is the transition that the Kansas bill went through. In the year 2010 it was discussed further, ultimately accomplished in ’11, that in-State companies who are creating new jobs in certain scenarios could have the benefits of this program. So I just wanted to mention those things.

But ultimately, underemployment is a phenomenon. This bill will help us with -- and unemployment -- it will help us with solving both solutions.

Mr. Chairman?

MAJORITY CHAIRMAN BENNINGHOFF: Representative Boyd has a question for you, Vern.

MR. SQUIER: Sure.

REPRESENTATIVE BOYD: Yeah; and I appreciate, I like direct, you know, exchanges, not being political.

MR. SQUIER: Sure.

REPRESENTATIVE BOYD: You build in an assumption that existing employers have the capacity to raise wages. You know, I think NFIB, the average member of NFIB, their annual sales are 400,000 bucks a year and their net margin is less than 3 percent. So it’s not like there’s a lot of fat in small companies that they can just arbitrarily take wages up. I’m all for higher wages. I want people to make as much money as they can. I mean, ultimately I believe that that’s a sound model. But when a company sets up shop next door and they get to keep the taxes that their employees pay, to a company that doesn’t get to keep that money, it is a disproportionate disadvantage to the existing company. Whatever the transition was in Kansas for existing companies has to be considered as a part of this bill. I mean, we can’t take the existing employer base---

And I will comment that, you know, there are a lot of programs that are out there. Generally speaking, particularly anything that has to do with RCAP, anything that has to do with a lot of, you know, like the Chairwoman brought up the Delaware loophole, generally speaking, people who are driving through the Delaware loophole are the big guys. They’re not us small guys. So, you know, all I’m saying is that a part of this -- and I believe the Chairman, you know, it’s a great idea, I love the concept, but you can't set something up that's going to create an incentive for a company to set up shop and cherry-pick your best employees.

Representative Denlinger and I were just talking about situations where some of our companies, mine in particular that I'm no longer the principal of, but my design guys were my most important component -- well, not the most important. If any of my other employees are listening, you're all important. I loved you all; you were all important. But they were critical to come up with new and innovative designs of programs, all right? So I have two or three design guys on staff who somebody could come in, and within my geographic area there are probably five or six of us, because typically you'll find industries breed offshoots. You know, people start and they will all kind of stem from one family tree, and now you'll have six competitors. Well, you know, creating an incentive for somebody to start one of those startups and take an employee that I'm paying $65,000, $70,000 a year to as a designer, and all of a sudden you can increase that by 20 percent, who's not going to jump for a 20-percent increase? And, you know, that potentially can exist in this bill the way it's currently drafted. I'm just suggesting that whatever additional info was done in Kansas to help existing employers, and then that gets to the

Chairwoman's issue of now you are going to be taking existing tax dollars away. So, I mean, I think that this needs to have a little bit more conversation.

I'm a pro-business guy. I want to see these types of incentives; I want to see jobs created in Pennsylvania, but I don't want to see them done at the expense of those of us who have struggled through 8, 9 -- you know, we took a workforce. In 2009, we had 32 full-time employees when the bottom dropped out, and I watched sales go and drop close to 50 percent. I looked at my CEO and I said, "Here's the list of 32 employees." I said, "Pick 10." He said, "You mean 10 that we're going to lay off?" I said, "No, 10 that you're going to keep." We survived, and it wasn't pretty, so now to create an incentive for people to set up shop next to us and potentially pull employees really has me a little concerned.

I just want to make sure that that point doesn't, you know -- higher wages, you assume we can carry higher wages. Some of our companies are breaking even now.

MR. SQUIER: Well, if I may respond, Mr. Chairman.

MAJORITY CHAIRMAN BENNINGHOFF: Go ahead.

MR. SQUIER: Thank you.

I would respectfully agree with some of your concepts and respectfully disagree with the others, and here's the breakdown.

In the bill, the percentages that I believe you cited earlier, the 100, 110, 120, 130 percent, that is what the company is going to represent to DCED that they're paying that wage base out away from us at this point in time or what they're willing to pay when they come into the State. But once they set that bar, that is what they're going to be held to, and that establishes their length of time and length of endurance in this program.

On the issue of companies and what they choose to pay, it is true, companies can choose to pay whatever they wish, but the companies that we're talking about, they're being assisted by folks like Dennis Donovan and the consultant you're going to hear in a moment. When they come into a community, their whole issue from a business model is to not pay 1 cent more than they have to pay in that market to get their talent or they will bring talent with them, okay? But they're not just arbitrarily going to pay. There's no indexing that says they have to pay 120 percent of local wage or whatever compared to you. They're talking about to the county average. That whole feature is built into this, because in Kansas what we try to do is not build the model that incented low-paying jobs. That's all. And so competition is competition.

There’s nothing to say, though -- and this is the part, I guess, where we diverge a little bit -- the neighboring company to your business, again, if they were enjoying that PIDA loan, that tax credit, that MELF loan, any of our State tools, they were being incented and it was to their advantage, and in your case, in your example back to us, it’s to your disadvantage. That’s already happening. So what we’re talking about here is a tool that’s actually fairer. It is not your tax money going to, your direct tax money that you paid in back through those loans and grants. This one is simply the company has to come in and perform. That’s all.

MAJORITY CHAIRMAN BENNINGHOFF: Thank you, Representative Boyd. Thank you, Vern.

I would also remind people that these companies are looking to locate, and they’re looking to locate somewhere, and I would prefer that they locate in the Commonwealth as we try to address some of these other concerns.

Other questions to Vern?

MR. SQUIER: Okay. Let’s go ahead and go on, if we can, through the presentation.

Representative Marvin Kleeb -- again, the counterpart to Representative Benninghoff in that State -- you have a letter from him. I don’t need to go through the extended slides here; rather to say that what he frames out here in the succeeding slides is the environment that the State found itself in, which was an aging toolbox, if you will; a cash-incentive program that was needed here, or an incentive program was needed.

In that particular State, in this next slide -- if you go up here; one more -- the top bullet in this one, in that State there had been a program where 2 percent of the State income tax withholdings financed an upfront cash-based program. We in fact wanted to phase that out.

As an example, we had a company, General Motors. In the early life of that particular State's program, called PEAK, they had a choice between that aging cash upfront program or this program, the equivalent to HB 2626, and they chose HB 2626, that equivalent, and the reason is, they knew they could control their own destiny by what they chose to pay their employees in wages versus what they would have to do and comply with relative to the upfront cash restrictions. So they saw it as a way to earn their way, control their destiny, versus to not be able to do that.

So let's go through a little bit to the slide that says "Overview."

Again, I'll be quick about this. This is just to show you, in full disclosure, the details of that particular State's program as they were brought into this one and refined as a result of the staff efforts and efforts by the Representative here to make this work even better for the Commonwealth. But again, the program was passed in '09, amended in the years '10 and '11. The approval in that State was required by the Commerce Secretary to get the program into being.

Let's flip slides.

In that State, very similar profiles. There was one differential between that State's program and HB 2626: Not-for-profits of a certain nature were allowed, and that is not contemplated here in HB 2626.

Let's go to the next slide that says "Benefits."

There are basically two streams of qualifying companies in these. In the basic stream, you have if a company meets or exceeds the county average wage, there are actually three tiers of county structures in the State here in this program as far as job creation. But it's a combination of job creation and minimum number of jobs produced. Here in Pennsylvania, it would be 15 in the top three tiers, the top three county tiers, and then 10 and then 3 -- or 10 and 5; I'm sorry -- 15, 10, and 5. In that State, there was just a simple breakdown between 5 new jobs in nonmetro areas and 10 jobs in the metro area, of which there were 6.

And then the time factor in the basic structure. Five years was the time the company could enjoy if they met 100 percent of the county median wage and then went 6 and 7 years, and that's where it topped out.

If the company was a high-impact company, in the next slide we'll see where it says "a minimum of 100 new jobs." That feature is also in HB 2626. The bar picks up at 7 years, goes 7, 8, 9, 10. You can go up to 10 years if they achieve at the 140 percent or more county median wage level.

You might see, as an example, a research organization or really a specialized company paying at that level. In our community's case, we have a company that does polymer coatings, and they would have some high-end individuals associated with that that can drive up their average wage, or median wage in this case.

There are other features embedded in that program that are not in 2626. I'm not going to take the time to go into that.

Ultimately, one feature on this next page that says "Requirements," the bottom line where it's underlined, it's an application-based program, and that's a key thing to mention. It's not an as-of-right program. It's not an entitlement program. Basically in that State they were required to make application to the Secretary of Commerce.

Here it would be the Secretary of DCED.

This next page I'll sit on just a moment -- the "Kansas PEAK Bill. Vote Count." This is something that might be of interest to you. Bear in mind 2009. That was immediately the first session past the recession, the onset of the recession. We were told at the time that we ran this bill in Kansas, having the same kind of conversation to not do it, they said, "Don't you try it. You're not going to get it through. It will not pass. This is not the time to do it given the economic pressures in the news we're hearing across the country." This is the vote record, and you will see, in 3 years total, two opposing votes for all 3 years combined in the Senate, and we see 45 opposing votes in the House -- all 3 years combined. This is the voting record on this bill equivalent in that State.

And the bill became more complex. In its first year, it very much mirrored this bill here. The second year, there were different features added to accommodate basic industry form such as warehousing that couldn't establish itself or compare to some of the county average wages and median wages that were going on in some counties that had high service-sector jobs. So we provided for those in a way that gave fairness and equity to those manufacturing jobs and warehousing jobs as they compared to peer groups but not to the county average wage or median wage. So we did some things of that nature.

And in the third year is when we induced the notion of, to a certain amount, energy being created for in-State jobs to retain certain companies at the Secretary's discretion. And we've had, as an example in the State of Kansas, aircraft companies would get marketed and sought after, solicited by other States, and there would need to be a tool to respond to that, as an example. So there are some of those specialized instances. But these vote counts are almost unheard of, even in ordinary times, let alone a brand-new economic development bill.

The next page, the report card. Let's look at the report card.

What you see in your deck is an older slide. We've updated it since. Over the weekend, we got some new numbers. So if you want to think of it this way, look at the evolution between what's in your paper slide and what's on the screen. What's on the screen, you'll show -- and I'll turn to talk about this -- the projected new jobs. So this is the Department of Commerce reporting out, and they have to do so every year to the legislative post audit group in that State. Other States have a similar feature. The projected new jobs, over 10,000; total new payroll annually, $781 million; estimated PEAK benefits per year,

$26, almost $27 million; almost $14 million actual PEAK benefits realized by companies to date, meaning it has had a fairly quick start to it; and the projected capital investment, $1.44 billion.

Now, this project and this tool have been used at the discretion of the department. It is not used in every case. Again, it is not an entitlement program, but I can tell you, I have worked projects in the community that I came from where this was the deciding factor. This kept us in the competition between, in that market, States like Texas or Illinois or Ohio. We were always in competition against those States. Here in Pennsylvania, we're going to be in competition with Virginia and Ohio, the Carolinas, to a lesser degree and different degree New York, New Jersey, depending on the type of industry that we're seeking. This program works, and it is, as you'll hear from the next consultant, something that really makes a difference in the bottom line.

In fact, I wish Representative Boyd were still here; this program can actually negate the need or lessen the need for some of the traditional programs to be used, as we have seen them, out of the General Fund. It actually slows the use of that and turns it more to this type of opportunity here.

Yes, sir?

REPRESENTATIVE MIRABITO: Let me ask you a quick question about this slide.

What was the cost to create this [inaudible]?

MR. SQUIER: Oh; you're looking---

REPRESENTATIVE MIRABITO: In other words, how much can you add up the amount of personal income taxes with -- I'm trying to get the costs of the job. How much was it to create these jobs [inaudible]?

MR. SQUIER: I don't have that number at hand, because I think it goes actually to the case that was built by Dennis, or another Representative, the notion being that if you do a cost-benefit ratio, it's to the positive.

Now, our revenue department there had to do that as we talked through the legislative process, the notion being if that company, Company X, that's outside the State currently comes in tomorrow, let's say they come into my area, between the employees -- You know, again, it's the waterfall -- buying homes, paying the taxes, the local income tax, et cetera, including 5 percent that's coming to the State that the State didn't have. All the revenue and all taxes, all purchases, all fuel, all everything is brand new to the State, and that's the point of the program. So does it offset this? Yes. Can I quantify that exactly how much it costs? No, because I would have to understand each of the costs of the wages of each of the companies.

Further complicating Kansas, we had a staggered income tax structure.

REPRESENTATIVE MIRABITO: The reason I asked is because we know, for example, in 2010 there were 510,000 jobs created by businesses that had less than 9 employees, over half a million jobs created by very small business people. And I'm concerned, and this is a great idea to try to bring business in, but I'm concerned that maybe we're targeting people who don't necessarily need the incentive and that we're not getting the bang for the buck.

In other words, if you took the same money and you invested it in smaller entities that are creating more jobs, they're not as high-wage jobs. That's probably, you know, a factor, and I appreciate your concern about trying to ever increase the wage rate. But I'm just concerned whether we're actually giving money to entities that are going to come anyway or go somewhere, and some of that has to do with the question about the factors that entice them.

I guess I have some of the concerns that Representative Boyd had also. But if you could get that number, it would be helpful to just sort of understand.

MR. SQUIER: Okay; we can do that.

Quickly, I'll just reference my own community. We have lost a number of employers throughout the years, but two I'll name: one is Corning, and one is Jostens, so just those two alone. What we're seeing in our community is a slow collapse of the corporate infrastructure, and specifically some service-sector jobs that we used to have, and we're just not seeing those be replaced.

So as we talk about, you know, all the fairness and equity issues, I really do sympathize. And this is not a bill to increase wages de facto; it is a bill that is not meant to incent low wages. That's all. But it's saying if you're going to come in and you're going to do good, we want you here. That's all.

REPRESENTATIVE MIRABITO: Just one last comment about it.

You know, we struggled -- I have so many businesses that come to me about the collecting sales over the Internet, the taxes. We just struggled to get large companies to collect the sales tax, and that's, you know, like a 6-percent difference. And as I was listening to Representative Boyd, I was thinking to myself, are we creating now a situation where there's another disincentive for our long-term bricks-and-mortar businesses that have been here against competition? That's my only concern.

MR. SQUIER: Well, if I could---

REPRESENTATIVE MIRABITO: Just a quick question for you.

MR. SQUIER: Sure.

REPRESENTATIVE MIRABITO: This bill would apply to the medical field?

MR. SQUIER: Yes.

REPRESENTATIVE MIRABITO: Okay. So if a for-profit MediExpress or some type of entity that came provided health care, brought over 100 employees, paid those wages, they would actually be in direct competition with our local nonprofits, which happen to have a large presence in our counties across the State, health-care facilities. They would actually be eligible for this?

MR. SQUIER: They would be eligible, but it would be up to the Secretary of Commerce or DCED here in Pennsylvania to approve the agreement.

REPRESENTATIVE MIRABITO: Okay.

MR. SQUIER: But one thing I would mention again, remember, that same enterprise could be in a building that was built with PIDA moneys. It could have a MELF grant or a MELF loan to help them.

REPRESENTATIVE MIRABITO: Right.

MR. SQUIER: We are fueling, as Pennsylvania, millions of dollars through DCED to be competitive and to engage in economic development. For every dollar we do that with, it's a tax dollar in its source, by definition. So that type of energy is already out there.

I really do applaud and understand the question.

The question is, are we going to be competitive against other States or not? Because what's happening, in our current situation, we're falling further and further behind.

MAJORITY CHAIRMAN BENNINGHOFF: Thank you, Representative Mirabito.

Representative Fabrizio.

REPRESENTATIVE FABRIZIO: Thank you, Mr. Chairman.

Thank you, Mr. Squier. And obviously there are a lot of compelling arguments supporting the merits of this particular bill, and I appreciate your concern.

I'm going back to, just for my own curiosity, to page 2 in your PowerPoint here. The two charts, the top 10 States for expansion projects and those that are using State incentives, I noticed that New York, Texas, Florida, and Tennessee are in the top 10 for expansion, but they're not listed, you know, in the other group that have cash and credit incentives based on new payroll. And I'm just wondering, do you have any idea what kind of combination they use in their expansion programs? Do they incorporate this along with some other things, or is it a more expansive program, one of their expansion projects?

MR. SQUIER: That's a terrific question. Thank you. And the fact is, and I'll cite Texas as an example, but in the top five you would have seen -- and this is in the old days -- but for a long period of years in economic development, Texas, North Carolina, Georgia were in the top three, and certainly in the top five. Texas has the strongest Governor's deal-closing fund in the country. It's $100 million plus. So they use other sources and other tools, if you will, other avenues, to accomplish the economic development goal instead of relying only on or so heavily on a program like this. They have a more robust, you know, inventory of tools or programs to use. So you don't see them mentioned as much as being a driver with a singular tool like this, or they may not need it at all because of their ability to compete in other ways.

REPRESENTATIVE FABRIZIO: That leads me to my concern then. It leads me to think that maybe, you know, we should look beyond just this and develop a whole toolbox that these other States -- and I don't know what the answer for New York's expansion project is. I like the idea, and as I said, there have been compelling arguments for this particular vehicle, but there are also some concerns that have been brought up today that make some sense to me. And I'm just wondering if there's, with all due respect to the Chairman, if there's a group of arrows that go into the quiver instead of just one arrow that goes into the quiver to help bring this new industry in and help those, you know, to retain those businesses such as Mr. Boyd runs.

MAJORITY CHAIRMAN BENNINGHOFF: Well, this is an additional arrow in that quiver, and I think it's an opportunity to do it without having to use current funding within the Commonwealth's budget rather than letting them reinvest with payroll taxes, and that's why we're trying to offer that. And as I think you saw in Kansas, they built on their own former bill and they added to it and enhanced it, and I would encourage---

REPRESENTATIVE FABRIZIO: And that may be how it evolved.

MAJORITY CHAIRMAN BENNINGHOFF: Right. And I think you've got some good ideas, and if you're willing, we could have you draft some additional legislation in the future and continue to build on that.

Vern, I'm not sure, but I think John might be with us.

MR. SQUIER: Okay. We'll go to John in just a moment. I do want to say one more thing.

MR. LENIO: Yes; I've joined.

MAJORITY CHAIRMAN BENNINGHOFF: Okay. Thanks, John. We'll be right with you. Thank you for your patience.

MR. SQUIER: Thank you, John.

As you talk about such a review of the programs that we have in this State, I think that would be actually a fantastic thing to do. That's really one of the things we try to engage in, and Kansas and I know other States are going through this right now trying to understand, are their tools useful, competitive, or are they modern, if you will, or have they aged in such a way that they need to be reviewed?

REPRESENTATIVE FABRIZIO: [Inaudible].

MR. SQUIER: Right. So this is not a fix-all, but this gets us back in the game. But we have other work to do.

MAJORITY CHAIRMAN BENNINGHOFF: And makes us attractive, hopefully, to those companies that want to go to some other States. Bring them here.

At this point, I think we're going to go on to John Lenio, the Economist and Managing Director of CB Richard Ellis.

Vern, is there any additional intro you need there?

MR. SQUIER: Well, as I mentioned earlier, John works extensively in the area of incentives, projects, has a nationwide scope. CBRE is the world's largest real estate conglomerate. But it's in this section of CBRE that John manages that and excels in his field, again, with a nationwide perspective, and I'd like him to share some thoughts with us about Pennsylvania and our competitive stance.

John?

MAJORITY CHAIRMAN BENNINGHOFF: If you can hear us, John, you're on.

MR. LENIO: I can. Can you guys hear me okay?

MAJORITY CHAIRMAN BENNINGHOFF: Very well. Thank you.

MR. LENIO: You're welcome.

Good morning, and thanks for listening to my voice.

To kind of follow up on Vern's intro, for CBRE, we have a consulting practice of economists and management consultants that really only work with economic developers throughout every State and every community in terms of crafting these public-private partnerships together. So we are often brought in with CBRE's corporate clients who have come down to a short list of States, but it kind of tends to average three to five States. And then our charge ultimately is to build a spreadsheet that helps them identify the pros and cons of locating in, let's say, you know, Pennsylvania, Ohio.

Ultimately, we will look at a number of nonincentive data points, like labor costs or infrastructure costs, State and local taxes. Inventory or gross receipts taxes tend to be on the list for distribution, and, you know, real estate costs are a part of that equation. When we start to sift through all those kind of cost data points, "incentives" becomes a line item at the end of the process. So I want to kind of make it understood that as we go through corporate site selection -- and it's not just a Pennsylvania thing; it's throughout the U.S. -- incentives very rarely drive the bus, but ultimately there are kind of two vantage points.

For the corporation, economic incentives at either the State or local level can help either level the playing field between Pennsylvania and a compelling alternative or it can sway the business case so much in your favor that you give the company no choice but to want to, you know, hire people and spend their money on new facilities within the Commonwealth.

From the economic development point of view, incentives sometimes are used to, again, have a tool to try to control that you can win economic development projects, whether it's a 100-job call center, whether it's a 500-job distribution center, because the reality is, nearly every State around you, and even throughout the U.S. for the most part, is aggressively using their tax and incentive tools to try to basically bring business their way.

So kind of a couple of vantage points just to kind of bring everything down into the Commonwealth level. You know, we recently worked with PetSmart, who announced that they were building an 850,000-square-foot distribution center in Bethel Township. That was announced in July. So I can give you really a live feedback into how well the Community and Economic Development Department and the Governor's Action Team are really doing.

I think from a business development point of view, the Governor's Action Team is highly responsive and they are quick to review any requests for incentives and provide, you know, basically offers. And usually the only two programs that are really being used widely right now are the Job Creation Tax Credits Program, which is corporate income tax credits, and the Pennsylvania First Program, which basically is a discretionary cash-grant program.

From a competition point of view, those two items are, I think, competitive. You kind of look at competitiveness on a spectrum from being not competitive at all to being highly aggressive. So we rank Pennsylvania as kind of being in the middle of the pack, but oftentimes what is happening around you is that States are becoming wiser, and I saw Vern probably cover this a little bit at the beginning. They're trying to become wiser year in and year out, session by session, to try to either use an existing program or create new ones, like the PEP Program, to continue to be more aggressive. Because what's happening around your borders is, like Ohio and Kansas and New York -- and I'll get to New York in a minute -- Virginia, Indiana, Kentucky, they're making tweaks to their programs to try to be more financially significant to companies who are looking at multiple States. And so what's happening is, just from our point of view, Pennsylvania seems to be falling behind the curve just a little bit in terms of being highly aggressive and creative.

We reviewed the PEP Program that Vern was kind enough to share with us in terms of the draft legislation, and I think from our perspective the PEP Program will keep you from falling behind and actually, you know, put the Commonwealth into what we consider an aggressive category. Aggressiveness, from our point of view, it revolves around the ability to provide, and I'll just generally say financially significant incentive options, both at the State and local level. Tax credits that are not refundable have fallen by the wayside State by State, because companies are basically telling State economic development officials that they have no benefit, or corporate income tax credits tend to have very little benefit, because it all depends on how a company apportions their corporate income. So if you have a sales operation located in Harrisburg, for example, and if they project to have no new corporate income tax to the Commonwealth, then tax credits are, even if I'm offered a million dollars, I have no tax liability, and then I basically value that million dollars as zero.

So what some States are deciding to do is to be more aggressive with programs that we'll call generally payroll rebate programs. This is the PEP Program, where periodic cashed checks, whether its quarterly or annual, are paid to companies who bring quality jobs into a State, and ultimately, you know, these subsidies or incentives are directly tied to new personal income taxes that would be generated to the Commonwealth. So the way the PEP Program, as I read it, is structured, it is intended to be revenue positive so that as, let's say, we bring in $1 million of gross personal income taxes, 95 percent is returned to that qualified company and the Commonwealth still keeps 5 cents on the dollar.

So other States have -- there are about 13 States right now that have these kinds of payroll rebate programs. So you'll see that it's a combination of some States that do a percentage of gross payroll or others that follow what the PEP Program is intended, which is a percent of withholding tax. Either way, it's kind of the same structure. You're just saying "potato/potato" differently.

The intention, just from a competitiveness point of view, there are two vantage points. From the company's point of view, these kinds of payroll rebate programs have significant value on the pro forma, because they're actual dollars that can be relied upon if the company fulfills its promises, which is create above-average-paying jobs, invest a certain amount of capital investment. And from the State's point of view, most of these programs are set up so that, as Vern was mentioning, they're not entitlements, so they're not guaranteed to any company that can fog up the mirror like a tax credit. There's actually some rigor in the background that evaluates the economics behind a corporate site selection, meaning these payroll rebate programs, and our recommendation for PEP is to limit it to those companies that provide sufficient proof of, you know, non-Pennsylvania competition.

As one of the gentlemen was asking, well, you know, why should we give incentives away when we know certain companies don't need them? And that's a valid point. You know, from a policy perspective, it's hard to pass that face test when we might be awarding these discretionary incentives to companies who have to be in Pennsylvania. So these could be like the retailers. It could be those who feed from local activity. But for those companies that have choices and are indifferent in terms of the number of States that they locate to, whether it’s Ohio, New York, Texas, or Kansas, when the Commonwealth can adequately see that there’s competition and there’s a cost disadvantage or some type of gap to cover, that’s when having this payroll rebate tool in your toolbox is helpful, because you can actually control your destiny a little bit. Because ultimately, you can’t control what market labor costs are; you can’t control what real estate costs are; in the short term, you cannot control what your corporate income tax rate is. So these discretionary programs are a tool that the Commonwealth can have and use when it needs to, ultimately.

There was a comment on New York. In the last 2 years, New York has upped its toolbox. It used to be heavily reliant on the Empire Zone, which was nonrefundable tax credits. For the most part, they wiped that away and they created the Excelsior Program, which has two components. Just to give you a comparison, they do a payroll rebate up to 6.8 percent of gross payroll over 5 to 10 years, and so these are characterized as “refundable” tax credits, just like Ohio offers. But New York went through the same exercise that you’re going through right now to figure out, how do they tweak what otherwise was, you know, a heavy tax credit program into something that was monetizable? So they started that process in 2010, and from our perspective, they're seeing a lot of hits -- in terms of that map that you saw in the beginning of the presentation? -- you know, they're seeing some hits, because that's actually bringing business in and winning it once it gets in the game.

The 30,000-foot view here in terms of reviewing the PEP Program or any other tools in your toolbox is kind of twofold: How does Pennsylvania get in the game? How do you figure out you're on the short list? And then once you know you're on the short list, how do you win the deal? And so these creative incentive tools can be used to increase business activity, and it can be used to help increase the conversion rate of business activity to actual announced projects.

So I'll stop there just for a second and ask if there are any questions or observations that we can potentially offer.

MAJORITY CHAIRMAN BENNINGHOFF: Thank you, John.

I was just sitting here thinking, what would you respond to somebody if they said, what happens if Pennsylvania just doesn't do anything?

MR. LENIO: I think, because other States around you and even throughout the U.S. are continuing to tweak their programs every year, every other year, I think you start to become noncompetitive. Because ultimately, let’s say you were trying to compete for a computer manufacturing outfit who wanted to build a million-square-foot campus and the short list was between Pennsylvania, Ohio, Kentucky, and, you know, let’s say Arkansas for that matter. Those other States have the ability to put more incentive options on the table to sway the business case away from Pennsylvania.

Your toolbox right now has a degree of inflexibility, and just to be bluntly honest, Pennsylvania would not even be able to compete with Ohio, for that matter, because, let me give you two observations.

The Job Tax Credits Program? You know, the first thing that’s on an offer sheet?

MAJORITY CHAIRMAN BENNINGHOFF: Yeah.

MR. LENIO: Well, that’s limited to $1,000 a job, and there’s some discretion in terms of the number of years a company can take that. Well, if a certain company won’t have new tax liability in the Commonwealth, then I would have to value that program as zero.

Pennsylvania First is usable, but from my observation and in terms of working projects in the Commonwealth, there’s limited funding right now. There are a lot of requests to participate in that program. So, you know, in cases where you’re going after a hotly competitive pursuit, because of the budgetary constraints on that program, it might be hard to be flexible. So, you know, a potential tweak obviously is the PEP Program or figuring out kind of a policy solution where more funding could be available for Pennsylvania First.

But even beyond that, because that program basically is cash up front, the PEP Program is a little bit more, has more fiscal appetite, especially when you go through your legislative analysts who are going to write a fiscal note, because the payroll rebate program is intended to be a pay-for-performance. So a company creates new payroll, generates taxes, new tax revenue to the Commonwealth, and then in turn, the Commonwealth writes a check. So from a "subsidy out and revenue in" perspective, it's positive.

The challenge that you sometimes have at the fiscal and analytical perspective on cash-grant programs like Pennsylvania First is you have to frontload your incentive and then have clawbacks should a company not fulfill on its promises. That's a certain choice that you can make. There are some States that like to do cash up front and not cash over time, like Virginia is an example, Texas is an example.

So there is some gray area here in terms of how you tweak existing programs or create new ones to be competitive and to get in the game and then balancing that with, how do you get it past legislative counsel just in terms of how they score the bill from a fiscal perspective?

MAJORITY CHAIRMAN BENNINGHOFF: I appreciate your candor on that question, and the comment you made that strikes most in my mind is when you said it could put Pennsylvania on the short list for site selection. The reality is that these companies that are looking, they're not going to sit around and wait for us to find new funding to put into PA First if other States are offering different incentives, and that's why I like the PEP Program. I think it requires the companies to have a little more skin in the game and a lot less risk for the taxpayers of the Commonwealth.

MR. LENIO: I agree.

MAJORITY CHAIRMAN BENNINGHOFF: Other questions by the Members?

Representative Mirabito.

REPRESENTATIVE MIRABITO: Can you just quantify for us say the top five factors that companies look at when relocating? And if you could give us on a matrix of like 100 percent, what percent is an educated workforce? What percent is the ability to get their goods to market? What percent is infrastructure and so forth? And then what percent, you know, is tax incentives?

MR. LENIO: Sure.

So there will be two answers to that question, because there are two types of industries you tend to attract. There are labor-intensive industries and capital-intensive industries.

So labor-intensive industries are those that have a lot of belly buttons or a lot of people and not a lot of new investment in, say, furniture and equipment. These could be headquarters, outsourcing operations, so like customer-contact centers, shared-services centers where some companies are setting up, they're consolidating their like finance, accounting, IT, and legal all into an office type of development. So they're typically office developments at the end of the day.

For these companies, labor rates account for 70 to 80 percent of their operating expenses. So first and foremost, for these types of companies that can be anywhere, they're really looking at the depth and breadth of the local labor market and actual market costs of salaries for the skillsets that they're hiring. So even if you were, you know, to flash a $1 million check for these companies, if a particular operation is incurring $5 million in higher labor costs every year, let's say compared to New Mexico, that million-dollar incentive is going to get wiped away very quick because of the labor-cost disadvantage.

So once you get past the labor-cost component for these industries, your real estate costs will tend to be probably about 10 to 15 percent. Taxes at the end of the day are really, you know, single digits, below 5 percent, and so what incentives can do is twofold. It can help reduce any cost disadvantage that the Commonwealth has. So for these office types of developments, if you have a labor-cost disadvantage, well, then the PEP Program or any other program can help offset that disadvantage and make the Commonwealth and the region that the company is looking at, you know, more palatable at the end of the day.

For capital-intensive industries -- these are like manufacturers, data centers, distribution centers to an extent -- these companies have a lot more investment in real estate, more investment in machinery and equipment, computers, servers, sometimes power consumption. These companies are primarily focused on transportation, logistics, and how much it costs to get goods into their facilities and out to their customers in the region. So transportation and inventory costs tend to be about 65 to 75 percent of ongoing operating costs. You know, that line item is viewed first before tax incentives are looked upon. Real estate comes in after that at about the same level as the labor-intensive operations.

And ultimately, incentives can come in at the end of the day. It kind of goes back to, do you have a cost gap? Are your real estate taxes higher than your surrounding States? And sometimes to an extent there might be a labor-cost disadvantage, so incentives help offset those disadvantages that you don't have control over.

But to directly answer your question, it's difficult to give an idea on what percent of total cost incentives would be, because it kind of offsets kind of the differentials that you see in a business case. What I can also apply to you all is, what's good in capital-intensive industries is, you know, the Commonwealth, you don't charge [inaudible] taxes on machinery and equipment. That's a value add that only nine States in the U.S. actually have. It just turns out that New York, Ohio, and New Jersey around you do the same thing.

Does that kind of make sense in terms of how costs and incentives interplay together?

REPRESENTATIVE MIRABITO: Yeah; absolutely. Thank you very much.

Thank you.

MAJORITY CHAIRMAN BENNINGHOFF: Any other Members?

Seeing none, John, we can't thank you enough for your insight and your words of advice. If you think of anything else we need to know, let us know, but we'll continue to massage your comments as part of our overall portfolio.

MR. LENIO: Great. Can I offer one other comment, if I may?

MAJORITY CHAIRMAN BENNINGHOFF: Absolutely.

MR. LENIO: So depending on what direction you all take, you know, whether it's with the PEP Program or if it's tweaking what you have existing, the bigger component that I would recommend that you consider is how to improve the processing within the Community and Economic Development Department, because ultimately you can have the greatest hammer in the toolbox, but if you don't have carpenters out there selling your goods that are doing a good job, ultimately your incentive tool, you know, would be useless.

So I think continuing to have good business development from the Governor's Action Team and even into the Community and Economic Development Department is important, because if these folks don't have either the funding or the direction from a policy perspective to be aggressive, to get in front of clients, to actually do business development, then your tool might not have as sharp teeth as you want to build into it.

And I'll just kind of give you some of what we're hearing on the ground -- and I don't know; I'll express this in third hand, so please correct me or just disregard my comments if they're not true -- but we sense that some folks in Community and Economic Development and the Governor's Action Team, I sense some ambivalence to actually trying to be aggressive because of some fear that they're going to be losing their jobs. So there's a degree of fear that they're working on that we, as consultants, have to work through just to try to get some responses. So I just wanted to tell you that in terms of what we're sensing internally when we're engaging your business development teams.

And then lastly, we would recommend, you know, additional exploration in how to improve processing within DCED, so that once a company signs an offer letter -- I'll give you an example. On a project we're working on, we signed an offer letter in May, followed all the application requirements, and even as of today, we haven't seen a draft agreement through Pennsylvania First. This literally is taking over 4 months to go through whatever internal processes are set up and to actually send the client a commitment agreement. And I bring this up because other States are improving their internal approval processes so that, you know, once there's an approval of business terms on an incentive program, then within 30 days, draft agreements are being sent out.

So I bring that up because, you know, I certainly care about how the Commonwealth is portrayed. You can be very aggressive on the incentives front, but then I'd like you to avoid that black eye in the background that once you start the process, if it takes 6 to 7 months to see an agreement or get an approval letter, that kind of invalidates all the good work that you're doing right now.

So I'll leave you with that. But it's an important component when we're working with clients, because we want to make sure that they're happy with their decision to land in the Commonwealth and any township or county that they're choosing. So making sure that even through, you know, the courting stage, once you're married, making sure that that process continues to be smooth and void of red tape is also highly valuable.

MAJORITY CHAIRMAN BENNINGHOFF: Those are some very, very valuable comments. We appreciate your candor on them. There is a representative from the Department of Revenue here, but I will make sure that the Governor's Office, the Governor's Action Team and others, are apprised that, you know, the perception could be that Pennsylvania needs to light a little more fire and discontinue the inertia once we get an interested client.

MR. LENIO: Our pleasure. So I appreciate the time this morning, and certainly we're available for questions, certainly through Vern or other contacts. So feel free to kind of rely on us as you need it.

MAJORITY CHAIRMAN BENNINGHOFF: Well, thank you again. And as we might have said earlier, this is a global market we're dealing in with technology. We're working from multiple places across the globe, and we want Pennsylvania to be on that short list, as you mentioned.

Thank you again for joining us.

MR. LENIO: My pleasure. Have a good day.

MAJORITY CHAIRMAN BENNINGHOFF: Thank you.

Back to Vern.

MR. SQUIER: Thank you. Just a comment or two, quickly.

John was one of three consultants that we actually paid, because of their time and demands. His office is in Phoenix, Arizona. It took him about 2 ½ to 3 days out of work, but we had him come to State College to talk to our local officials, and there were several things that really came of that.

One, John's comment -- and Representative Benninghoff was there at the presentation -- but his comment to the crowd was, during his 6 years with CBRE in this position, he had never worked a project in Pennsylvania. However, he had been called by companies that they contract with to take companies out of Pennsylvania. That was their work product up until this project with PetSmart that he mentioned, and he's having difficulty with that one, as he's telling you. But the notion is, that consultant's view of us is how it can take away from the Commonwealth, not bring into the Commonwealth.

So all the frustration is that this is uncanny, because this is the very conversation we went through in our State. When you crack open the economic development toolbox and how does all this work, it becomes frustrating. Some of it's counterintuitive; some of it's counter-emotional. We don't want to treat people unfairly or whatever. If we think in our personal lives, though, we buy cars with incentives; we go to the grocery store and we buy the gallon of milk on sale. We engage in this every day. It's all around us. In fact, in our own State, we give discounts and exemptions from tax. You know, the process is what it is. But if we're going to be competitive and try to restore our economies -- again, one more example of State College in Centre County.

Raytheon is slowly diminishing. Jostens, both the professional service and manufacturing component there; Corning, primarily manufacturing; Raytheon, exclusively professional jobs -- those are being diminished, and we have no means to replace them at our own disposal. Here's the deal: Communities cannot do this alone, folks. They have to have the State's assistance to be competitive in today's economic development game when it's going to be a State-to-State competition.

So with that, let's wrap up. Let's look at HB 2626. We've talked about so many of these things. I'll just breeze very quickly through them.

Again, at this point in time, this is based on new jobs only. It doesn't require disbursement by the State. It allows the company to retain a percentage, by agreement, of payroll withholding. It does not reward low-paying jobs. This is a county-by-county threshold. So again, everybody is being treated as fairly as they can be, and there's not a one-size-fits-all mentality.

The next page.

It requires a minimum number of new jobs. There are three tiers or three strata associated with this program. It can be used with other program offerings but not necessarily all, but it can be paired with others, just as our current programs can be twinned up, if you will, or used in a multiplex form. The benefit period, 5 to 10 years, depending, again, on the performance and size of the company. It's a discretionary program at this point in time and subject to audit and verification by DCED and the

Department of Revenue.

This is a game changer, folks, and you've heard some of the consultants and site selectors. Those are interchangeable terms. Those are the people -- John and Dennis -- that advise companies on where to spend their money and where to make their decisions.

So that's it. I'll take any remaining questions that anyone has.

MAJORITY CHAIRMAN BENNINGHOFF: Thank you, Vern. That's been very informative, very helpful.

Madam Chairwoman, I believe, has a couple of questions that she wanted to raise.

MINORITY CHAIRMAN MUNDY: Well, actually, my questions are really about the technical aspects of the bill.

MAJORITY CHAIRMAN BENNINGHOFF: Well, we could do that in a sidebar after the meeting, if you wish, unless they're specific to Vern.

MINORITY CHAIRMAN MUNDY: Well, if he's completely familiar with the provisions of this 2626 and can answer them, fine.

MAJORITY CHAIRMAN BENNINGHOFF: No, that's fine.

MINORITY CHAIRMAN MUNDY: But otherwise--

MAJORITY CHAIRMAN BENNINGHOFF: Vern, are you open?

MR. SQUIER: I'll try. Yeah; we'll give it a go.

MINORITY CHAIRMAN MUNDY: Okay.

I kind of want to get back to Representative Boyd's question, and I'm curious, if for the purposes of this program a new job is considered eligible for this program, if I'm merely recruiting the employee from one of my competitors who is already in Pennsylvania, is that considered a new job for purposes of this bill?

MR. SQUIER: Well, I think there are two premises in there. One is, let's say ABC Company is coming into Pennsylvania. If that company were to locate in the community where Representative Boyd's company is, they can do one of two things. They'll be having to create or bring to life a number of jobs that they have certified to DCED. So let's say it's 100 jobs. That 100-job representation that they're going to have to make to DCED before they even get here is going to have to specify what types and kinds of jobs and what payrolls are going to be associated with each of those, okay? And I'll give you a real-life case.

By the way, of Kansas's 10,000 job production, I had almost 30 percent of that in my community, or actually over 30 percent of that in the community that I came here from, and so I've used this program extensively. But I had an actual example of a company that had 100 jobs, and they had 88 that met the threshold -- at that time, the county median threshold in our program -- and there were 12 that did not meet that. The company made the decision -- from afar -- to raise those 12 jobs up and into the program. Now, those were custodial, administrative, support-type positions, and so forth, but they were willing to pay those positions a better wage, more of a living wage, if you will, to get the company into full compliance.

Other States run the program differently. Missouri is an example. They'll aggregate all---

MINORITY CHAIRMAN MUNDY: Please, we're running short on time.

MR. SQUIER: Okay.

MINORITY CHAIRMAN MUNDY: I really just need an answer to my question.

MR. SQUIER: Okay.

MINORITY CHAIRMAN MUNDY: And again, it was Representative Boyd's issue. I am ABC Company and I am located in Wilkes-Barre, Pennsylvania, and I am employing people to manufacture my product. Now CDE Company is recruited to Pennsylvania, doing exactly the same kind of manufacturing that I am doing. They locate in the Greater Wilkes-Barre area, and all they are doing is hiring my employees away from me. Arguably, the way I read the bill, it would be up to DCED to decide whether those are new jobs or not and whether they meet the criteria and whether I want to give them this -- enroll them in this program, I guess I should say. But where does that leave the companies that are losing employees, maybe highly skilled, well-trained employees who have been with me a long time? Do you understand what I'm saying?

MR. SQUIER: I do.

MINORITY CHAIRMAN MUNDY: So then it's really not a new job unless the ABC Company that has been there for a long time hires more workers.

MR. SQUIER: Two quick responses.

That phenomenon exists today, okay? If they move from ABC to CDE or DEF Company, that's what is happening today.

MINORITY CHAIRMAN MUNDY: But the State today is not subsidizing those jobs.

MR. SQUIER: Not necessarily true, because ABC Company could be getting, as we just talked about earlier, the litany of State programs that are out there right now -- the MELFs, the PIDAs, the Jobs First, the retraining funds.

MINORITY CHAIRMAN MUNDY: I understand your point. Okay.

Now, Chairman Benninghoff, if you could answer a couple of these technical questions.

MAJORITY CHAIRMAN BENNINGHOFF: I would prefer anything we're going to do, I mean, there's no need to be doing it in the form of the hearing. I think we can do that as Committee Members. I'd like to let Vern finish up.

MINORITY CHAIRMAN MUNDY: Oh, sure. Well, I thought Vern was finished.

MAJORITY CHAIRMAN BENNINGHOFF: Well, you said you wanted to ask him questions.

MINORITY CHAIRMAN MUNDY: No; I said I wanted to ask questions, technical questions, about the bill.

MAJORITY CHAIRMAN BENNINGHOFF: Okay. Well, on the technical things, I think we can discuss that with staff people subsequent to the hearing.

MINORITY CHAIRMAN MUNDY: But the problem is, we're voting on the bill tomorrow morning at 10 o'clock. So it is now a quarter to 12---

MAJORITY CHAIRMAN BENNINGHOFF: Well, we're going to adjourn the meeting, and I'll be glad to sit here with you.

MINORITY CHAIRMAN MUNDY: All right. All right. Will Tammy sit here as well, and Chuck?

MAJORITY CHAIRMAN BENNINGHOFF: Sure.

MINORITY CHAIRMAN MUNDY: Okay.

MAJORITY CHAIRMAN BENNINGHOFF: Or we can reconvene at a time that's convenient.

At this point, I think we're going to adjourn the hearing. We appreciate the testimony.

And again, Vern, thank you for coming down and helping to coordinate all this, and to the staff who put all these things together.

This meeting is adjourned. Thank you.

(The hearing concluded at 11:46 a.m.)

I hereby certify that the foregoing proceedings are a true and accurate transcription produced from audio on the said proceedings and that this is a correct transcript of the same.

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