

2021-2022 House Appropriations Committee Budget Hearing

Pennsylvania Department of Community and Economic Development (DCED)

Testimony by Secretary Dennis M. Davin

Introduction

Good morning Chairman Saylor, Chairman Bradford, and all members of the House Appropriations Committee.

My name is Dennis Davin, and I have served as the Secretary of the Pennsylvania Department of Community and Economic Development since 2015. I'm honored to be before you virtually today to have this productive discussion about Governor Wolf's 2021-2022 budget proposal.

DCED's mission is to encourage the shared prosperity of all Pennsylvanians by supporting good stewardship and sustainable development initiatives across our commonwealth. With a keen eye toward diversity and inclusiveness, we act as advisors and advocates, providing strategic technical assistance, training, and financial resources to help our communities and industries flourish.

This past year has presented the most challenging circumstances for Pennsylvania's businesses and our communities. I'm proud to report that DCED has been able to fulfill our mission during the past year despite all of us working remotely, but many of businesses and communities continue to need our support, now more than ever. Economic recovery will not happen overnight, but working together with the legislature, I'm confident in our ability to help make Pennsylvania a better place to live, work, and play. I believe Governor Wolf's budget puts us on a path to delivering on those needs and ensuring Pennsylvania can emerge even stronger than before the COVID-19 pandemic.

Economic Snapshot of Pennsylvania

I would like to begin by setting the stage regarding Pennsylvania's economy given the events of the past year. While I normally come before you every year to present the good news about our economic growth, that is unfortunately not the case today. The COVID-19 pandemic has wreaked havoc on the national and global economy, and Pennsylvania is no different. Our unemployment rate currently stands at 6.7 percent – on par with the national rate but 2.2 points higher than at this time last year. After eclipsing the 6 million jobs mark and setting jobs records prior to the pandemic, our total number of nonfarm jobs now is just over 5.6 million, which is 37,600 fewer since the previous month and approximately 470,000 fewer than in December 2019. The latest jobs report from the U.S. Department of Labor shows a stalling job market with, as U.S. Treasury Secretary Janet Yellen said, "a long way to dig out."

The economic fallout from the pandemic has also hurt our communities, which in many cases have seen plummeting tax revenues. In September of 2020, the Pennsylvania Economy League (PEL) surveyed 430 municipalities (17 percent of Pennsylvania's 2,560 municipalities) and asked about the effects of COVID-19. Twenty-three municipalities that were surveyed indicated that they are likely to request entry into

the Act 47 program for financially distressed municipalities. If all municipalities were surveyed, that number would likely be much higher.

Thankfully, Pennsylvania is well-equipped to weather this storm and to bring forth a strong economic recovery. The advantages that make Pennsylvania attractive for business investment – including our strategic location, world-class higher education institutions, low cost of living, and competitive workforce – are still present. Pennsylvania is home to 22 Fortune 500 companies – sixth most in the United States. We have 188 companies listed in the Inc 5000 fastest-growing companies list. And our effective business tax rate – a holistic look at a state’s business tax environment – is 4.4 percent, which is lower than the national average. The strong diversity of Pennsylvania’s economy, which was ranked the most diverse in the U.S. by Bloomberg, also positions us well for recovery.

Despite these strengths, it’s clear that we need to do everything we can at the commonwealth level to boost our economy and support our communities during this road to recovery. We need bold action. I believe that Governor Wolf’s budget proposal is the framework for that bold action.

Back to Work PA

So much of the foundation of our economy relies on the strength of our workforce. A strong workforce that equips workers with in-demand skills not only helps workers and their families by ensuring they can acquire family-sustaining careers, but it also gives Pennsylvania an advantage when businesses are looking for a location in which to relocate or expand. In fact, in my experience, it’s the number one thing that businesses are looking for when making a relocation decision. More than incentives, more than tax structure, business executives are looking for a location where they can find skilled workers to fuel their long-term growth.

As a businessman himself, Governor Wolf recognizes this. That’s why he proposed the \$3 billion Back to Work PA program. Based on the recommendations of the Keystone Economic Development and Workforce Command Center, Back to Work PA addresses the barriers that workers face when trying to find a good job. It’s about more than just increasing training; it’s about supporting education, childcare, re-entry support, infrastructure, and more. As I mentioned earlier in this testimony, the COVID-19 pandemic has caused historic job loss. Back to Work PA offers a promising solution – a way to help those workers get back into the job market and help promote a more equitable and more diverse workforce.

It will also help our economy by reshoring our manufacturing supply chains to build resiliency in the event of a future unpredictable and unforeseen event like COVID-19. It will assist municipalities with sound financial planning practices. It will increase broadband access across the commonwealth to reduce the digital divide. And it will provide additional support for innovation and entrepreneurship, which lays the foundation for the future of our economy.

Back to Work PA is funded by a commonsense extraction tax on the natural gas industry. I’ve spoken at length about how an extraction tax in Pennsylvania is long overdue and would not hinder natural gas development. With the vast natural gas resources under our feet – we are the second-largest natural gas producing state in the country – and with significant industry investment in natural gas infrastructure in the commonwealth already underway, I firmly believe that natural gas development is

going to happen in Pennsylvania whether we have an extraction tax or not. We remain the only gas-producing state in the country without an extraction tax.

Though not included in the budget, the Back to Work PA proposal is critical for Pennsylvania's economic recovery, and I look forward to working with the legislature in the weeks ahead to move this important initiative forward.

Business Climate

In order to out-compete our neighboring states and ensure that businesses are growing and creating jobs here in Pennsylvania rather than elsewhere, we need to ensure we have a healthy business climate to attract these businesses. As previously noted, workforce is the most important component of a healthy business climate, but there are other vital factors as well, which the Governor's FY 2021-22 budget would support.

A fairer business tax environment is one of those factors. Though our effective business tax is lower than the national average, our high corporate net income tax (CNI) of 9.99 percent often causes "sticker shock" for site selectors and business owners examining Pennsylvania. Governor Wolf's plan will lower the CNI incrementally down to 5.99 percent by 2026. He also is proposing eliminating the Delaware Loophole and shifting to a combined reporting tax structure for corporations. The result of these actions would be lowering the tax burden on many businesses while ensuring a fairer structure. In fact, under the governor's plan, more than 400,000 business owners will pay less tax than they do right now, receiving a total tax cut of more than \$240 million.

The governor's budget proposal also includes continued examination of the professional licensing structure in Pennsylvania, which for so long has proved to be a strong barrier for Pennsylvanians to enter in-demand professions. The governor and the legislature have worked together these past few years to address this issue and have made great progress, but we still have work to do.

Another issue that is holding us back and making us less competitive is our minimum wage. So many of our neighboring states have significantly higher minimum wages than our paltry \$7.25 per hour. The minimum wage is \$8.70 in Ohio; \$12 in New Jersey; \$12.50 in New York; \$11.75 in Maryland; \$9.25 in Delaware; and \$8.75 in West Virginia. Many of these states have scheduled increases to \$15 per hour over the next few years.

Our minimum wage has been stuck at \$7.25 per hour since 2009. To put that in perspective, the price of a new home is \$73,000 more expensive than it was then. Accounting for inflation alone, \$7.25 then would be worth \$8.77 today. Over the past decade, the price of everything else has changed, while the minimum wage remains the same.

As we look toward long-term economic recovery from the COVID-19 crisis, raising the minimum wage would put more money in workers' pockets, reduce poverty, benefit more than 1 million Pennsylvanians and support businesses through expanded purchasing power. It would make Pennsylvania more competitive with other states for talent attraction and make rural jobs more competitive with urban and suburban jobs – in fact, the highest percentage of workers that will get a raise with the \$15 minimum wage live in rural Pennsylvania counties. It would also help our budget situation by increasing PIT

collections and lowering public assistance expenditures. Now more than ever, it's critical that we see this through and increase our minimum wage.

Manufacturing and Entrepreneurship

We have long maintained that manufacturing is the backbone of Pennsylvania's economy. This is especially true with small and medium-sized manufacturers, which comprise 92 percent of Pennsylvania's manufacturing base. Manufacturing employs more than half a million Pennsylvanians with an annual impact of \$93 billion and higher average wages than the state average. In addition to the manufacturing support laid out in Back to Work PA, Governor Wolf's budget proposal includes an increase of \$1.5 million to the Industrial Resource Centers (IRCs), our network of seven economic development organizations that provide technical assistance to manufacturers.

The budget also calls for a \$1.5 million increase to our Partners for Regional Economic Performance (PREP) which help individuals start successful new business ventures through counseling, workshops, online training, and financial incentives. This would help fuel entrepreneurship across the commonwealth, which would create jobs, foster innovation, and propel our economy forward.

Conclusion

This has been an unprecedented year for the Commonwealth of Pennsylvania. The effects of the COVID-19 pandemic hit us hard and will be felt for years to come. But I firmly believe Governor Wolf's 2021-2022 budget proposal makes the critical investments we need for the commonwealth to recover.

Throughout the COVID-19 pandemic, the Wolf Administration and the legislature have always agreed on the need to provide swift assistance to our workers, businesses, and communities. The most recent example is the passage of legislation that created the \$145 million COVID-19 Hospitality Industry Recovery Program to get critical relief funding to the hotel and restaurant industry that have been hit so hard by the pandemic. I applaud the legislature for passage of that bill and getting it to the governor's desk. The administration and legislature worked hand-in-hand to make that program a reality, and it will help thousands of businesses weather this storm.

It's in that same spirit of cooperation and good faith that I know we will be able to work together on this budget for the upcoming fiscal year. As of today, it appears as though additional relief will be coming from the federal government that will provide significant resources for helping businesses and communities. We look forward to deploying those resources, but we also recognize that we need to invest heavily in our long-term growth in order to remain viable. That's what the governor's 2021-2022 budget proposal puts forth. I look forward to working with you all in the coming weeks to ensure we pass a budget that places us on a path to recovery and a brighter future for Pennsylvanians.

Thank you for your service to Pennsylvania and I welcome any questions you may have.