

2022-2023 House Appropriations Committee Budget Hearing

Pennsylvania Department of Community and Economic Development (DCED)

Testimony by Acting Secretary Neil Weaver

February 17, 2022

Introduction

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

My name is Neil Weaver, and I began serving as the Acting Secretary of the Pennsylvania Department of Community and Economic Development (DCED) on February 11, 2022. I'm honored to join you today to discuss how Governor Tom Wolf's 2022-2023 budget proposal will benefit Pennsylvania's residents, businesses, and communities.

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.

Economic Snapshot of Pennsylvania

Before discussing the budget proposal itself, it's important to understand the economic context in Pennsylvania right now. The past two years have been a roller coaster for our economy just as they have been in other states and across the globe. Thankfully, the diversity of our economy – ranked the most diverse in the country by Bloomberg in 2019 – has allowed us to weather these economic storms with less volatility than many other states.

As of December 2021, our current total number of nonfarm jobs in Pennsylvania stands at just over 5.8 million. While lower than our pre-pandemic peak of more than 6 million jobs, this number has been trending steadily upward since April 2020. Pennsylvania's unemployment rate of 5.4 percent has followed a similar trajectory of progressively approaching pre-pandemic

levels. Our unemployment rate is significantly lower than competing neighbors like New York (6.2%) and New Jersey (6.3%) and is comparable to others like Maryland (5.0%) and Delaware (5.0%).

One of our most challenging economic indicators is our labor force, which is defined as the number of Pennsylvanians who are working or actively seeking work. Our labor force consists of just over 6.2 million individuals, which is nearly 300,000 fewer than in March 2020. However, this mirrors national trends and is certainly not exclusive to Pennsylvania. Thankfully, several items in the Governor's budget proposal such as investments in worker training and education will help reverse this trend and get people back into the labor force.

On a positive note, Pennsylvania's GDP is surging at an all-time high of just under \$850 billion. By continuing to support our business community and making Pennsylvania a vibrant and dynamic place to live, work, and play, we expect our economy to continue to thrive in the years ahead.

Business Climate

While our macroeconomic indicators are strong, there's no question that thousands of businesses across the commonwealth are facing challenges due to the pandemic. Supply chain issues, a large number of unfilled job positions, rising inflation, and fluctuating consumer demand in industries like tourism and hospitality are hitting Pennsylvania businesses just as they are hitting the rest of the country. The impact is disproportionately felt by our small businesses – the backbone of Pennsylvania's economy. The Wolf Administration has been committed to assisting businesses throughout the pandemic, investing more than \$2 billion in federal and state pandemic relief dollars into Pennsylvania's small businesses and communities.

However, if we want to fully energize our economic recovery and support our businesses across all sectors, we know that more needs to be done. Governor Wolf's budget proposal includes several provisions to fulfill our obligations to our businesses, get people back to work, and grow our economy.

CNIT Reduction

Improving our business tax climate, while creating tax fairness, has long been a priority for Governor Wolf, as demonstrated by his repeal of the Capital Stock and Franchise Tax early in his first term. If Pennsylvania is to truly compete with other states for business attraction and investment, it is clear that we need to continue making our tax climate more business-friendly. Currently, our 9.99% corporate net income tax (CNIT) has caused significant “sticker shock” for site selectors exploring the possibility of locating or expanding a business in Pennsylvania.

In order to combat this perception and make Pennsylvania more attractive for businesses, Governor Wolf is again calling for reforms to the way Pennsylvania taxes corporations. This plan will improve the competitiveness of the commonwealth’s economy by lowering the tax rate and expanding the tax base through a strengthened addback, codifying economic nexus rules and updating apportionment of intangible receipts. If passed, this proposal would put Pennsylvania on a path toward cutting our CNIT in half to 4.99% - a rate lower than all but eight states with corporate income taxes.

By having a fairer and more business-friendly tax climate, Pennsylvania will be in a much more strategic position to attract and retain all sizes of job creation projects.

Minimum Wage Increase

Another component of our business climate that is long overdue for modernization is Pennsylvania’s minimum wage. Governor Wolf’s budget proposes increasing the minimum wage to \$12 per hour on July 1, 2022, with annual increases of \$0.50 until reaching \$15 in 2028.

Pennsylvania’s minimum wage stands at a paltry \$7.25 per hour – far below what any working family needs to put food on the table and a roof over their heads. As Governor Wolf mentioned during his February 8 budget address, minimum wage workers in Ohio, Delaware, Maryland, New Jersey, and New York all received raises at the beginning of this year. That has not happened here in 13 years. All of our neighboring states have higher minimum wages than Pennsylvania.

Quite frankly, that is an embarrassing statistic. How can we attract new workers and families here if we cannot even guarantee them a living wage? It is true that market forces have caused many companies to offer higher wages. However, approximately 1.5 million Pennsylvanians would still benefit from an increase in the minimum wage to \$15 – that includes nearly 21% of women working in Pennsylvania and 26% of persons of color working here.

But it's not just an issue of equity and morality. It's also an economic issue. Not only would raising the wage generate nearly \$75 million in additional tax revenue in the coming fiscal year, but it would also empower Pennsylvanians to work their way off public assistance programs. For instance, almost 60,000 adults would no longer need Medicaid assistance if we raised the minimum wage to \$15 per hour. If elected officials are serious about reducing poverty and enabling working families to get off public assistance, then raising the minimum wage is the best way to do it.

Let this be the year that we can finally say we heard the concerns of minimum wage workers and their families – and we did something about it.

Additional Investments in Worker Training and Small Business

Governor Wolf's budget proposal also includes other provisions to help make Pennsylvania a better place to do business. Proposed increases to existing line items in our budget will help train more Pennsylvania workers, strengthen our manufacturing sector, and improve our entrepreneurial and small business environment.

First, the budget calls for \$1.5 million increases to both the Industrial Resource Centers (IRCs), funded through the Manufacturing PA line, and the Partnerships for Regional Economic Performance (PREP). Pennsylvania's seven IRCs provide technical assistance to the commonwealth's manufacturing sector, especially to small and medium-sized manufacturers. Increasing the funding available to the IRCs will expand their ability to assist manufacturers with services like new product development, innovation engineering, market development, strategic planning, and lean manufacturing/cost savings. PREP, which supports regional coordination in the delivery of economic development services, provides performance-based grants to consortia of economic development service providers in a region such as Industrial Development

Organizations (IDOs), Local Development Districts (LDDs), and Small Business Development Centers (SBDCs). The proposed increase for PREP will strengthen small businesses across the commonwealth and bolster PREP's business retention and expansion program called Engage!

The budget proposal also calls for \$2.35 million for the Invent Penn State initiative. Invent Penn State spans the entirety of the commonwealth and is designed to provide crucial support to Pennsylvania entrepreneurs. The program provides accelerator programs, coworking space, technical assistance, funding and more to entrepreneurs across Penn State's 21 undergraduate campuses.

Finally, as another way to support Pennsylvania's entrepreneurial ecosystem, the budget proposes an \$18 million increase for the Ben Franklin Technology Development Authority, which funds the four regional Ben Franklin Technology Partners (BFTPs) across the commonwealth. The BFTPs have a strong reputation in Pennsylvania for fostering small technology-focused businesses and entrepreneurs through technical assistance and funding. In Fiscal Year 2020-21 alone, Ben Franklin portfolio companies created more than 1,300 jobs and retained more than 12,000 jobs – and more than 100 new technology companies were formed.

Conclusion

I believe the strength of our current fiscal position in Pennsylvania gives us an unprecedented opportunity to make the key investments and improvements that our business community, workers, and economic development partners have long desired. The economic development provisions in Governor Wolf's 2022-2023 budget proposal will address some of the most immediate challenges our businesses and workers face while also making Pennsylvania more competitive with other states for new business and investment opportunities.

All of us in this room share the same goal of making Pennsylvania a better place to live, work, and play. I look forward to working with you in the coming weeks and months to pass a budget that accomplishes that goal.

I appreciate the opportunity to have this productive discussion today, and I welcome any questions you might have.