

February 20, 2014

House Majority Policy Committee
Hon. David Reed, Chairman
128 Main Capitol Building
PO Box 202062
Harrisburg, PA 17120-2062

Chairman Reed,

I am sorry that I was unable to join you today, but I have asked Ron Blisard to carry this message for me instead. Ron has been a trusted and valued member of the Kovatch Organization and is more than qualified to share my thoughts with you first-hand.

Pennsylvania's business owners, and specifically manufacturers, face many challenges as we try to compete in today's global economy: including an aging, shrinking workforce; excessive mandates and other burdensome regulations; rapidly rising health-care costs; and a costly legal environment are just some of the hurdles. When these factors combine with fewer residents, less workers and an underperforming education system the future of growth in Pennsylvania manufacturers is severely challenged.

As a business, we need to focus on always getting better to stay on top of changing market trends, customer desires and the economic realities. Recently we completed our certification process under ISO 9001 to demonstrate to our customers and our competitors that we want to be here for the future and recognize the importance of continuously improving. In spite of the economic downturn, we have continued to invest in our business because it's critical to our long-term success.

Similarly it is critical that The Commonwealth create a competitive business climate which encourages companies to do more business in Pennsylvania and not only create, but retain (good paying, manufacturing) jobs. The following are just a few of the areas I believe are critical:

Affordable and Accessible Health Care

Health-care costs continue to rise at unsustainable levels. We believe in our core values, we must provide the necessary, appropriate and effective health-care benefits to our employees to help sustain their families and keep them productive when they are at work. We are concerned with the lack of reforms to the medical liability climate; and the expansion of costly health-care coverage mandates, specifically the costly and harmful provisions of the 2010 federal Patient Protection and Affordable Care Act. We believe, unchecked, these will provide a crippling blow to future economic growth.

Legal Reform

The ease of filing frivolous/unnecessary litigation restricts not only our business, but the entire Commonwealth's economic growth and job creation. We need common sense and personal responsibility in our courts through continued reform of our legal system. Some of the key areas that present significant challenges have been clearly outlined by the PA Chamber:

Repeal of Joint and Several Liability – Pennsylvania's allowance of recovery under the theory of joint and several liability holds every defendant found even one percent liable in a lawsuit responsible for the entire verdict. This is not only unfair but it actually encourages more litigation as plaintiffs go in search of "deep pockets" when filing their lawsuits. Often, these deep pockets end up paying the entire award even if they were only marginally responsible. The legislation would ensure that Pennsylvania adheres to the basic premise that liability equals fault and a defendant should only pay their fair share.

Statute of Repose in Product Liability Actions – Far too many product liability suits are brought many years after a product was manufactured and worked without incident. This leads to unfairness, difficulties in defense and higher insurance costs for all of us. The legislation should establish a 15-year time limit for most products.

Caps on Non-Economic Damages – Damages for non-economic losses (i.e., pain and suffering, emotional distress, loss of consortium or companionship, and other intangible injuries) have no precise value. It is very difficult for juries to assign a dollar value to these losses, given the minimal guidance they usually receive from the court. As a result, these awards tend to be erratic and, because of the highly charged environment of personal injury trials, excessive. The legislation would establish the first step in the process to amend the Constitution to allow the General Assembly to debate limits for non-economic damages in all civil litigation cases.

Limit Recovery of Punitive Damages – Unreasonable threats of punitive damages needlessly prolong litigation, stifle job creation and business expansion, and have become an all too routine technique used to secure unwarranted settlements. Legislation could help to limit the unreasonable threats by setting strict standards for the imposition of punitive damages and limiting the total amount of punitive damages that may be awarded without taking away the ability to assess punitive damages on those who deserve to be punished.

Workforce Development Policy

We believe preserving, expanding and enhancing our workforce is critical to rebuilding the manufacturing base of our economy. As the skilled workforce retires, our educational systems need to focus on developing workers who can adapt and learn the work practices, attitudes and skills required by modern, flexible businesses. Unfortunately, many of our schools and existing workforce programs are based on out-of-date industrial models with very high costs and are not

currently meeting our needs. We believe an equal focus should be placed on vocation and technical schools as is placed upon college preparation institutions.

Generally, we agree with The Pennsylvania Chamber in their broad goals for supporting workforce development:

- The establishment of clear performance criteria and system-wide accountability standards for all government workforce training programs.
- Continual improvement of all existing government workforce training programs.
- **Removal of the perceived educational bias against vocational education programs.**
- **Determining community workforce needs and tailoring local programs accordingly.**
- **Promotion of private sector educational and training programs as well as encouraging institutions of higher education to offer courses aligning with workforce needs.**
- Focusing workforce training programs on the upgrading, retraining and cross-training of existing workers while holding the pre K-12 educational system accountable for producing students who have the desired reasoning and work practice skills.
- Identification and utilization of best practices in workforce development.

Keep Local Dollars Close to Home...

Lastly, we believe one of the single most important actions the Legislature can take to retain and grow our manufacturing base in the Commonwealth is to create a preference for local manufacturing and service entities that employ Pennsylvanians. This is a process which is embraced by many other states around the country, where they employ this strategy because it not only ensures a competitive bidding process, but also ensures local municipal and state funds are utilized to maximize the number of local jobs – specifically manufacturing jobs.

I ask that you truly take to heart the suggestions I have shared with you. I do not know what the future will hold, but I am certain that business will only continue to grow more complicated and challenging in the future. Therein lies the biggest opportunity and obstacle for the Commonwealth—we can either view the future of what manufacturing can be seeing all the potential and promise it holds; or we can look longingly on what it once was. Whichever way we choose to see it, I believe, will ultimately determine which vision is realized. Looking toward the potential will provide the quickest results and, based upon my experience, yield the greatest growth for the Commonwealth's manufacturers.

Thank you again for your time and consideration of my thoughts.

Respectfully submitted,

John J. Kovatch, III
President & Chief Executive Officer