

SMC Business Councils

Government Relations

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PA House of Representatives Republican Policy Committee,

Job Creation Policy Team

“Cost of Doing Business in PA”

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Chairman Reed and members of the PA House Republican Policy Committee, Job Creation Policy Team, thank you for the opportunity to provide testimony today on “Cost of Doing Business in PA.” My name is Eileen Anderson and I am representing SMC Business Councils.

For the past 65 years, SMC Business Councils has helped Pennsylvania small businesses join together to foster mutual interests. With offices in Pittsburgh and Harrisburg, SMC has several thousand members in the service, manufacturing and commercial sectors. Companies include a diverse range from small family businesses to sophisticated marketing companies, information technology firms, manufacturers of solar panels, components for medical and transportation industries and more.

Pennsylvania is home to more than 236,000 small businesses, accounting for 98.4% of the state’s employers and 49.9% of its private-sector employment.

At a time when there are 14 million unemployed Americans it is more important than ever for those small businesses to expand and create jobs. Unfortunately just the opposite is happening. A recent survey by the U.S. Chamber of Commerce found two thirds of small business executives weren’t expected to add to their payrolls next year. What can be done to stimulate job creation?

Small businesses need profits to reinvest in their businesses, to compete, expand, and create jobs. To make profits possible, one of the conditions that must be met is that the overwhelming costs of regulatory burdens must be reduced. Pennsylvania needs regulatory reform.

The following are federal statistics but they give an indication of the burden borne by small businesses. According to the Small Business Administration's Office of Advocacy, businesses with fewer than 20 employees face an annual regulatory cost of \$10,585 per employee, 36% higher than the regulatory cost facing large firms. With small businesses representing 99.7% of all employer firms, we must work to lighten the regulatory burden.

A recent Wall Street Journal letter to the editor on June 30 titled “Boeing Expansion in South Carolina is a Smart Move.” The author said “Growing business is in our state’s DNA. The recipe? Remove barriers to entry, simplify and expedite permitting, lower taxes and educate and prepare the workforce, and maintain and expand the infrastructure.”

SMC recommends regulatory reform and especially simplification and expediting of the permitting processes, as it will bring PA one-step closer to becoming a more small-business friendly state. I would like to speak to you about some member's experiences that illustrate the constricting effect they have on growth and job creation.

Results of Interviews

A common sentiment expressed in various ways by several people is that if we fix the manufacturing climate, we will grow jobs. We must keep the manufacturers that we have and encourage other manufacturing businesses to start or to relocate here. Of course some regulation is always necessary but ill-conceived, outdated or inflexible regulations are the best way to kill the entrepreneurial spirit.

Comments from a Small Pennsylvania Manufacturer on the Permitting Process in PA

"How can you possibly plan and create jobs if it takes 3-5 years to get an environmental permit? Even considering this length of time there is no guarantee of getting the permit in the end. The permitting process is broken. It is very expensive and very complicated and it must be simplified and expedited."

The law is so complicated that small businesses must hire attorneys or put themselves at risk of being in non-compliance and unable to operate. It is not unusual to have over \$25,000 in legal fees. The distraction to the management also takes a toll on the company.

They operate a successful company today that provides 40 high paying jobs that will support a family. They have constraints however on their site that limits their expansion and are attempting to acquire a new location to grow.

They would like to expand by building this new facility within 60 miles of their present location so they can leverage their workforce. There are many brown field sites in Pennsylvania that could easily be used for such a purpose. A major hurdle however is the permitting process.

They have the potential and desire to bring more jobs to the state but what prevents growth is the need to wait 3-5 years for an answer on the permitting issue. Waiting 3-5 years is just unacceptable from a financial planning standpoint. The requirements of the marketplace change at a much faster pace and plans can quickly become obsolete.

This company intends to find a solution to enable their growth. They don't have the resources to go to move manufacturing to China. A realistic option is to locate in another state where permits can be issued in a reasonable period of time.

Additionally, some environmental regulations that require onerous permitting are antiquated and do not accommodate the realities of business in the field. The well-intentioned people that administer these regulations cannot be blamed. They simply don't have the option to exercise common sense under regulations as written today.

Solution: A common sense solution is to write language into regulations (state and federal) that would allow a small company to "petition the regulators for a variance" exempting their operations from requiring a permit in cases where there is de minimis impact to the environment. Obviously, the regulators would need to be required to answer this petition in a reasonable time frame but the EPA, for example, can't accept petitions.

Solution: Businesses should have the right to have a third party to oversee the permitting process to get the work done more quickly. A permit request can be submitted tomorrow but the authorities are not required to take action on it. The application just sits there and must be driven along with phone calls from the frustrated business (spelled J-O-B C-R-E-A-T-O-R).

If it takes 3-5 years it is impossible for a business to plan to expand and create jobs. The whole process is prohibitive –it is expensive, time consuming and complicated. A company can also require multiple permits – federal, state county- depending on location and who is administering the permit.

Gerry Groff, Owner, Henwil Corporation and NeoSolutions

Mr. Groff operates two related companies in the water treatment business from the chemical side. Neo Solutions, Inc. employs 21 persons and Henwil Corporation employs 10 persons for a combined total of 31. Their products are sold both domestically and internationally. Sales grew last year by 25% and are on track to grow another 70% this year to \$22 million or more. Gerry has undertaken the task of building a business that can possibly employ between 50 and 100 people. He hopes to bring life back into a community in the Mon Valley that was dying from lack of jobs and a bleak future.

They have invested over \$1.8 million dollars in one facility. They have recently drilled a very productive natural gas well on the plant property. There are many different products that can be manufactured from gas in addition to just using it as fuel. Such additional processing and business diversification requires a large capital investment.

Expansion Problems - Both companies have the potential to grow faster but have found two major roadblocks; difficulty in obtaining working capital, and government rules and regulations, especially the permitting processes

Time spent complying with regulations and obtaining permits - They spend at least 25% to 30% of their time on environmental issues, proper work procedures, DOT rules and regulations, and other governmental issues. It took them more than a year to get the permits and approvals to drill a gas well on his property.

Length of time, cost, uncertainty, and frustrating experiences prohibit future expansion - Every step to grow requires time, money, and the willingness to fight to get permits and comply with regulations. When Henwil built a prefab steel building, 45' by 66', which cost \$40,000, they hired an engineering firm and by the time all the state regulations were met the project was in excess of \$200,000, enough money to hire 2 full time employees. What should have been simple and easy was 8 months of hassle; what started as a simple project turned into such a nightmare that Groff would do ABSOLUTELY EVERYTHING possible to not apply for a permit to build another building. Many of the regulations to which they were forced to comply had no relation at all to the conditions within the business.

Other Comments - Mr. Groff recently joined a CEO group. Many business owners from different industries have similar stories concerning permitting, access to capital and labor force quality problems. Without the deep pockets necessary to overcome these barriers many jobs are needlessly lost or lost to other states.

Several other members illustrated the need for improved permitting processes.

Length of time, cost, uncertainty, and frustrating experiences prohibit future expansion - Another small manufacturer cited a similar experience when he added onto his building. He spent \$35,880 in county, township, state and federal fees. Money is one factor but the eighteen months to get the permits was very lengthy and costly. The process is so frustrating they want to avoid it.

Penn United Technologies

Penn United Technologies employs around 500 and make tools and dies that manufacturers use to stamp components for computers, electric razors, military equipment, garage door openers and hundreds of other products. A spokesman for their company said building code regulations are one of the biggest factors that constrain the company's expansion when key opportunities arise. PA is one of the few states to adopt the International Building Code Standards. They suggest repealing that and improving our own building code standards

The next example is of local permits but we must understand businesses have many permits to obtain from varying sources. And it underscores the fact time, money, and delays cost jobs.

Terry A. Hopkins H&K Equipment, Inc

Terry says, "With the myriad of local, county, state and federal zoning and permitting entities and agencies, it really is a wonder why any company would want to even attempt to start or expand a business in Pennsylvania." Zoning variances, zoning appeals, applications and permitting fees are being levied (in many cases unevenly) against anyone who attempts to start or expand a business and in doing so, squashes job growth.

Cost of Permits - H & K equipment applied for a permit to add onto an existing building. The additional space is really not going to generate any additional jobs, but the township assessed a "road impact fee" of \$23,000.00, because in their estimation they claim that the addition could possibly generate 23 additional vehicles to business and they charged \$1000.00 per vehicle based on an unsubstantiated and arbitrary estimate.

Length of time, cost, uncertainty, and frustrating experiences prohibit future expansion - The building permit application was rejected 8 separate times for items, which needed to be changed or modified. All of the eight items were in the original application but the township rejected the application each time on every one of the items one at a time. So every time they modified the application to satisfy the previous rejection, they had to pay a new application "fee". When they asked why all of the items that needed addressed were not noted in the original rejection, their reply was that when they come to any item that is incorrect, they do not proceed any further with the application. In other words, if they addressed all required items the first time, they would not have gotten seven additional taxes or fees.

Summary

The state must seize the opportunity to become proactive in the process of growing businesses and jobs within the state. Many of the complaints and difficulties expressed by business owners' center on the permitting process. The ultimate purpose of permits is to control and regulate development so that it does not adversely affect the community at large. As practiced, the process is at times heedless of the larger objective sometimes resulting in abuse by needlessly subjecting applicants to excessive fees and discouraging delays. If Pennsylvania is to achieve the stated goal of creating a vigorous and attractive business climate the current state of affairs must be changed.

Suggested Solutions

1. Institute regulatory flexibility for small business - HB 1349 would give small-business owners a seat at the table when state agencies develop proposed regulations. The measure adds "small business" to the existing list of stakeholders on economic impact statements; requires state agencies to seek small business input during the regulatory drafting phase, and require agencies consider alternatives for regulations that could have an adverse impact on small businesses. The most important concepts are:

- Require permits and licenses to be processed and issued in a timely manner.
- Require that all new regulations be evaluated periodically and that ineffective or outdated regulations be eliminated.
- Make sure rules are written in easy to understand language.
- Make it easy for small businesses to have a voice in and a way to comment on proposed regulations by way of a toll free telephone number and website for comments. The comments will be forwarded to the state agency that has jurisdiction over the rule.

2. The state needs to adopt a "customer friendly" stance and not become an impenetrable bureaucracy. Continue to develop the Small Business Resource Portal, a one-stop shop for small business information as proposed by Governor Corbett in his campaign. The portal should:

- Serve as a clearinghouse so businesses don't have to go to so many different entities within the state to get permits for buildings-state, county, township and borough.
- Consolidate the collection and reporting of all wages reporting (local, revenue and labor) into a single business portal.
- Serve as a clearinghouse for small business data, such as regulations and mandates, legislation, consumer issues, and all state and local forms for starting a business.

3. Reinvigorate the State Small Business Council.

SMC supports reinvigorating the State Small Business Council. DCED must provide dedicated staffing to this Council, set up a recurring/ongoing meeting schedule and allow the Council members to do the job for which they were appointed. The Council was formed to assist with the development of policies and regulations which affect PA small business, provide advice relating to the nature of small business practices and problems, provide a review of existing and proposed policies and regulations which are relevant to small business, and provide written comments on proposed regulations that may affect small businesses in the Commonwealth.

The council was established in 2004. After a hiatus, the Council was re-invigorated in late 2009 and meetings began anew in 2010. But it has not received the appropriate staffing or support in order to perform its statutory functions. Legislation has been introduced in the Senate to further delineate what the Council's role is, but it has not been taken up to date.

4. Develop a small business caucus.

The Ohio House of Representatives initiated a bi-partisan, 29 member Small Business Caucus on June 9, 2011. The goal of this Caucus is to help to develop policy and initiatives that will enhance the small business environment in Ohio.

It is Important to remember small business means small and they often lack the manpower and financial strength to hire those to assist them in understanding and complying with a bewildering thicket of agency regulations and applications for permits. When a new rule or regulation is proposed or issued, small business owners must spend time understanding new regulations, developing a process for compliance and researching and applying for permits. If the commonwealth makes it easier for small businesses to interact with government, then jobs, incomes and revenue will flow to the benefit of all.

For more information contact;

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