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Testimony before the:
Pennsylvania House Majority Policy Committee
Public Hearing on Gov. Wolf Budget Plan: What Does It Really Mean for Small Business?

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Good afternoon Chairman Causer and honorable members of the Pennsylvania House Majority Policy Committee. My name is Joseph A. Aldcowski and I presently serve as the Chief Financial Officer for Diaz Manufacturing Company LLC and the Diaz Group of Companies. Headquartered in Montrose, Pennsylvania we employ over 300 people in the millwork manufacturing, natural stone, natural gas, municipal waste hauling & disposal, transportation, and commercial real estate development industries. I recently retired from a 45-year career in public accounting, the last 35 of which were with Baker Tilly LLP a national accounting firm. I am a 1978 graduate of the University of Scranton and a licensed CPA in the states of Pennsylvania and New York. My experience as a CPA includes providing auditing and advisory services as well as tax services to a wide range of commercial businesses and high net worth individuals.

The Diaz Companies have annual revenues in excess of \$50,000,000 and primarily provide their services to businesses in the Northern Tier counties of Pennsylvania. Manufactured products are shipped nationwide on our own trucks and commercial carriers. Our businesses are dependent upon a stable reasonably taxed business climate in Pennsylvania in order for us to remain competitive with similar businesses operating in other states.

Individual Tax Rate – Proposed Increase

The proposed increase in the PA. Individual Income Tax (PIT) rate from 3.07% to 4.49% would have a harmful effect on our businesses by taking away capital needed for reinvestment purposes. The current Pennsylvania tax laws are already detrimental to capital intensive businesses like ours as a result of the state having decoupled itself from the highly favorable depreciation expense provisions of the federal government and the states further limitations on the offsetting of business and investment losses against other classes of income. The increase in the PIT rate would only serve to make Pennsylvania-based businesses less competitive, resulting in a negative effect on employment. The increased tax burden would make our products more costly to our customers. Many of these customers have the option to source comparable products from other suppliers in states with more business-friendly tax structures. We are presently operating at a disadvantage with competing foreign products, primarily from China, and Governor's Wolf's proposal would only serve to worsen our position. The federal tax law changes, especially the Tax Cuts and Jobs Act, enabled our businesses to grow and reinvest at a rate never before possible. The failure of Pennsylvania to adopt these policies, and as a result undermine these positive federal changes, with regressive tax policies actually weakened our competitive position with businesses in other states.

Minimum Wage – Proposed Increase

Although our employees are paid at levels above the minimum wage, an increase in the state minimum wage would have an inflationary effect on our employees - especially an increase of this magnitude. An immediate increase from the present rate of \$7.25 per hour, to \$12.00 per hour, with an ultimate increase of \$15 per hour in the very near future, would create immediate pressure for us to raise our wage levels across the board. These increases would not be as large as the 66% increase in the minimum wage; but nevertheless, at levels that we would not be able to fully pass on to our customers. The net result would be

an immediate loss of business to our companies and a corresponding reduction in our workforce as we rebalanced our employment to meet reduced business volume. Once again, the increase in labor costs to us as a Pennsylvania based employer would put us at a competitive disadvantage with our competitors in other states, and even more so with foreign based competitors. Raising the minimum wage would make it more difficult for us to hire untrained workers and to absorb the higher labor rates that would be associated with the untrained workers.

Energy – Additional Taxes

Our companies provide a wide range of logistical and support services to the natural gas industry. This industry has revitalized our economy in Pennsylvania and brought it to a level not seen since the height of the anthracite coal industry. Pennsylvania has become a net energy exporter for the first time in almost 100 years. This boom has benefited both landowners and business owners alike. Farmers have had their solvency restored as a result of the gas industry. Every business has benefited from the wealth generated from this industry and from its insatiable demand for goods and services. The gas industry is presently subject to an impact fee that is levied on producers and which benefits the host communities most impacted by their operations. The imposition of a severance tax in addition to the current impact fee would place an unfair burden on the state's energy producers and will surely cause natural gas prices to increase.

This is concerning because in addition to supplying the energy industry, we at Diaz Companies are also energy users. There is already a threat that our energy prices will increase due to the Governor's unilateral entry into the Regional Greenhouse Gas Initiative, and an additional tax on the energy industry will surely get passed on to end users. Manufacturers are large end users of energy and this again puts us at a disadvantage against our competitor states and nations.

Furthermore, the proceeds of the new tax would be earmarked for areas not impacted by the industry's operations. Raising taxes on the gas industry, as well as introducing overly strict emission standards could cause producers to withdraw their operations from Pennsylvania and cause them to relocate in neighboring states with policies that are more friendly to the gas industry. These other states are then where manufacturing will relocate to, as well.

In conclusion, we have seen that more competitive tax, regulatory, and business public policies can spur growth in the manufacturing sector. The Tax Cuts and Jobs Act at the federal level did just that. But Governor Wolf's budget proposal is far from that – if anything, it's the opposite of that – and my fear is that Pennsylvania businesses will not be able to compete against other states and other nations if his plan is considered.