

Testimony of R. Michael Cortez,  
Vice-President and General Counsel

For Sheetz, Inc.

Before the

Senate Policy Committee

May 31, 2007

Good morning, Senator Corman, and members of the Senate Policy Committee. My name is Mike Cortez. I am Vice President and General Counsel for Sheetz, Inc.

As you may know, Sheetz, Inc., is a convenience store chain based in Altoona, Pennsylvania. Sheetz was founded in 1952 and has built itself into a 337-store chain, operating in six states: Pennsylvania (which has 194 stores), West Virginia, Ohio, Maryland, Virginia and North Carolina. Sheetz employs approximately 6,713 employees in Pennsylvania and approximately 10,706 employees total.

Importantly, since 2001, Sheetz has operated a state-of-the-art Distribution Center (our "DC") in Sproul, Pennsylvania. This 365,000 square foot facility employs 310 people and cost \$21 million dollars to build. It houses approximately \$8 million dollars in warehouse and technology equipment and \$10 million in transportation equipment.

Let me explain to you part of the thought process that went behind the siting decision for this project. Sheetz engaged a consulting firm to help us determine the most intelligent location for our new DC. We evaluated

locations in various states, including West Virginia and Pennsylvania. We determined which sites made sense from a logistical standpoint. We then evaluated Pennsylvania's and West Virginia's package of incentives designed to assist and encourage Sheetz to locate this facility in each state. We looked at such things as income tax incentives, job training credits, community grants, property tax abatements, etc. When we conducted our initial analysis, we concluded that the West Virginia tax incentive package had a value of approximately \$40 million (\$20 million net present value). By comparison, the Pennsylvania package had a value of only about \$3 million (\$2.7 million net present value)!

Understand that the Pennsylvania analysis did not include a review of the advantages of locating in a KOZ (or Keystone Opportunity Zone). KOZs offer a tax incentive for certain kinds of income earned by companies for a finite period of time. However, they are site-specific. In our case, there were simply no KOZs that made any sense.

Had we stopped there, Sheetz, acting as a logical entity, would certainly have located its facility, and the \$39 million dollar investment, and the 310 jobs that went with it, in West Virginia. Sheetz, however, was determined to

build in Pennsylvania. As a result of the personal work and intervention of our state Senator, Robert Jubelier, then Governor Tom Ridge, and the Altoona Blair County Development Corporation, and after much hard work, Sheetz was able to receive the assistance it needed to stay in the Commonwealth.

I ask you, however, what would have happened if Sheetz were an out-of-state company with no links to this Commonwealth, with no political ties, with no particular desire to be here? The answer is obvious. We would have gone to West Virginia.

How many companies are making that decision? How many are looking at Pennsylvania's Corporate Net Income Tax Rate (at 9.9%, the third highest of any state), our Capital Stock and Franchise Tax, our Cap on Net Operating Losses (one of the only states to have such a limitation), etc., and deciding to go elsewhere? I submit to you, a great deal. Pennsylvania businesses operate at a competitive disadvantage compared to those companies located in other states!

After our decision to site our Distribution Center in Pennsylvania, I had the honor of being appointed by Governor Rendell to serve on the Pennsylvania Business Tax Reform Commission. There were those who presented testimony to the Commission who had the audacity to suggest that businesses do not really look at business taxes in making siting decisions. That kind of thought process is foolish and dangerous. Of course businesses look at these costs. They are a significant component in the decision-making process.

Of course, there are other issues which impact business decision making in the area. I would like to take this opportunity to explain to you some of those other issues:

1. Our area recently lost a project when a company decided to locate in New York instead of Pennsylvania. After evaluating approximately 50 communities, Pennsylvania was fortunate enough to be short-listed down to the last of two communities. There were several issues that resulted in the location of the project in New York and one of the primary factors was the

flexibility of their Empire Zone Program in relationship to our Keystone Opportunity Zone initiative. As you are aware, the KOZ Program is for a fixed period of time. New York State's program, on the other hand, does not begin until the company occupies the facility. Moreover, even if the company cannot utilize the full amount of what is available from a tax credit standpoint, New York makes available a cash incentive that Pennsylvania simply does not. Flexibility is a key in the incentive area, and Pennsylvania's program simply does not have it.

2. Transportation investments must be linked to land use planning and the identification of development opportunity areas. There must be efficient methods of both receiving and shipping goods to and from Pennsylvania locations. This has not always been the case.

3. Infrastructure must be developed, especially in the central and western part of the Commonwealth. Business needs modern and efficient infrastructure to grow and be competitive.

4. Pennsylvania needs to continue to alter its incentive and other packages if it is to encourage and meet the needs of expanding, emerging and developing technology companies. For example, Pennsylvania needs to uncap Net Operating Loss deductions available to Pennsylvania businesses. These deductions can be critical to a start-up business, many of which expect to lose money in their first years of operation.

In summary, let me emphasize that taxes are a critical factor considered by businesses when deciding where to invest and where to employ their workforces. Taxes, in turn, are needed to finance government spending. Unless this Commonwealth is willing to consider cuts on spending and on the growth of its taxes, Pennsylvania will run the risk of having a tax structure that is business unfriendly. It may be unable to compete for business, investments, and jobs on an ongoing basis. Something must be done.

I would be happy to answer any questions.

