

Testimony of Janis Herschkowitz

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Senate Policy Committee

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I wanted to thank the Senate Policy Committee, Chairman, Senator Jake Corman, and Senator Mike Folmer for inviting me here to testify.

I am Jan Herschkowitz, President of PRL, Inc. Our company consists of four manufacturing companies, located in Lebanon County, including a foundry. We are a producer of high specification castings, and we are in the trenches working every day to stay competitive. PRL no longer has any major customers in Pennsylvania and our largest competitors are located out of state. PRL is the ideal Pennsylvania manufacturer, as we bring millions of dollars into the state, provide well paying benefit laden jobs, and are good tax paying corporate citizens. Unfortunately, this role is becoming increasingly difficult and we are not competing on a level playing field. Pennsylvania's business climate is only getting worse, particularly for small manufacturers.

Obstacles that PRL and other small businesses face in Pennsylvania include the following:

- A corporate net income tax rate, which is purported to be the 2nd highest in the country. As a side note, Pennsylvania is also one of a minority of states to impose a Capital Stock and Franchise Tax in addition to the Corporate Net Income Tax. This is tantamount to double taxation.**

- **Pennsylvania is also only one of nine states that still collects a death tax. This is particularly onerous to small manufacturers or family farms, who may be forced to sell their businesses due to the death of an owner.**

- **Pennsylvania's unemployment costs, and workers compensation costs are among the highest in the country.**

- **Pennsylvania has also continued to increase fees, impose tougher regulations, and pass more unfunded mandates, either directly or indirectly, on to employers. This makes it even more difficult for small entrepreneurs to run their businesses, as an increasing majority of time is now spent trying to meet government mandates and demands. It is counter-productive and costly for Pennsylvania to impose mandates or regulations on a state level, which are tougher than the Federal government. This includes environmental regulations, minimum wage increases, and health insurance mandates.**

- **PRL continues to be faced with escalating health care costs, and my fear is this situation is only apt to get worse if state universal health care is passed without first addressing this issue from a cost side. My biggest concern with the proposed plan is that the incentive for new employers to provide health care is eliminated. In other words, a ma-**

chine shop could open up down the street from PRL, have the state cover their employees health care costs at a rate of 3% of payroll costs, while PRL continues paying well over 20% of payroll costs. This could theoretically put our machine shop out of business.

- **However, even more alarming to PRL are the environmental regulations and mandates, coupled with the escalating energy rates in Pennsylvania. PRL operates a foundry, and we are very energy intensive. One major factor in our survivability is having energy rates that are competitive with other states. With the impending removal of energy caps, the costly mandates under the Renewable Energy Act, the implementation of the state specific mercury rule, and the recent proposed energy tax, it will be very difficult for us to compete. All of these factors are going to cause Pennsylvania energy costs to spiral out of control. As an example, although there is absolutely no proof of an added benefit the change in the mercury rule is going to cost energy users an additional \$1.7 billion. Also as another example, under the proposed energy tax, a \$10,000 cap would be placed on industrial users per location. This also hurts small manufacturers, as our tax would be the same as a manufacturer who uses 30 times more energy than PRL. In fact it would be worse since PRL has 3 different locations. Does this make sense? Of all the issues, the absolute most damning to small manufacturers in this state is future energy costs.**

The bottom line is that spending in this state is out of control and it is time to stop the madness. Since 2003 state spending has risen 31 percent, and now we are looking at seven new proposed tax increases to pay for a spending plan totaling \$28 billion. It is a burden that hits small businesses particularly hard.

Pennsylvania needs reasonable spending control measures like Senator Folmer's Senate Bill 707 and Senator Regola's Senate Bill 7. We need to get spending under control and reverse the trend of increasing taxes.

Senate Bill 7 and Senate Bill 707 ties state spending to population growth and the rate of inflation, whichever is less, over the preceding 3 year period. It also not only returns any surpluses to the taxpayer, but to the state's Rainy Day Fund as well. Although, I would like to see some of the surplus returned to the overtaxed business community, this plan is a first great step and is fiscally sound, and logical.

I applaud both Senator Folmer and Senator Regola for sponsoring these measures. The reality is less government spending and lower taxes are the key to generating economic output and ultimately increased tax revenue.

Thank you and I would gladly answer any questions you may have.