

Post-Conference Report: 1993 Southeastern Pennsylvania State Legislators' Conference

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The Eighth Annual Southeastern Pennsylvania State Legislators' Conference took place on October 7, 1993 at the Sunbrook Conference Center. Each year the Conference brings together state legislators and corporate leaders from Southeastern Pennsylvania to jointly consider issues of regional importance. The focus of the 1993 event was twofold: the morning session examined the business climate in the state and region while the afternoon session addressed prospects for welfare reform in Pennsylvania. Mayor Edward G. Rendell delivered the keynote remarks offering a candid description of the state of regional cooperation in Southeastern Pennsylvania, and caucus leaders from the regional delegation responded to the Mayor's assessment.

THE BUSINESS CLIMATE IN THE STATE AND REGION

According to a 1993 survey by Coopers & Lybrand, 90 percent of Pennsylvania business leaders rate the state's economic climate as fair to poor. This rating was consistent across industry, size of firm and region. More troubling still, however, was the fact that 58 percent of executives surveyed said that they would move their business out of Pennsylvania if they could. Workers' compensation, taxes, and environmental issues were the most frequently cited problems.

The morning session of the Conference was dedicated to exploring the business climate, beginning with briefings by two of the state's leading authorities on business and tax issues. John Dankosky, Executive Director of the Pennsylvania Business Roundtable, outlined his view of the competitive standing of the Commonwealth, focusing on the need for tax restructuring, environmental rationality, investment in education and infrastructure, workers' compensation reform and health care cost containment. Diane Reed, Executive Director of the Pennsylvania Economy League, followed, presenting recent analyses of Philadelphia and suburban tax burdens vis-à-vis competitor locations around the nation.

Perhaps the most unique aspect of the morning program was the round table discussion moderated by Eric Van Loon, Senior Vice President of the conflict resolution firm Endispute. The round table brought together state legislators, labor leaders, and corporate officials from the leading sectors of the economy for serious dialogue about how to restore business competitiveness. This report summarizes several areas of consensus that emerged from the discussion.

Following the briefings and round table discussion, Conference participants divided into seven small groups each charged with the task of identifying the most important measures that should be taken by the General Assembly to improve the state's and the

region's competitiveness. After 90 minutes of discussion, each small group reported its findings to the general plenary. Although many issues were considered, three recommendations stood out. The Commonwealth should:

- Create a state tax commission to develop a long-range, strategic tax plan for Pennsylvania;
- Reduce the corporate net income tax, currently the highest in the nation at 12.25 percent; and
- Restore the net loss carry forward provision of the state tax code.

Pennsylvania Business Taxes and the Case for a State Tax Commission

The biotech industry demonstrates the strengths and weaknesses of the Southeastern Pennsylvania business climate. The region has one of the best trained labor forces in the industry, features terrific medical schools and research facilities, a strong pharmaceutical industry and good access to venture capital. "So why are we fourth or fifth instead of first in the nation?" lamented one biotech CEO who attended the Conference. The answer, according to this same individual, lies in Pennsylvania's tax policy toward business in general and start-up firms in particular.

Two elements of the state's tax policy were mentioned more than any other. First, at 12.25 percent, Pennsylvania has the highest corporate net income (CNI) tax in the nation. Many corporate and some legislative leaders argued for a tax rollback to enhance the Commonwealth's competitive position. But more important for young firms is the lack of a net loss carry forward provision allowing this year's losses to offset next year's earnings, effectively reducing future tax liabilities. Pennsylvania is one of only two states without this provision, which deters start-ups and firms that generate upfront losses to set up shop in Pennsylvania. Biotech firms, for example, may invest ten years and \$1 billion or more to bring a single new product to market before they become profitable.

But many sectors other than just the biotech industry are affected by state tax policy. The Pennsylvania Economy League's recent study of city and suburban tax burdens for ten economic sectors suggests that state, and in some cases, local, tax policies are jeopardizing the region's competitiveness. More specifically:

- Philadelphia's tax burden is above the median in nine of ten economic sectors because of the high state CNI and the high local profits tax. The city's non-profit sector is the only area of employment growth in the city. This trend is ominous, reflecting the "double whammy" of high local taxes on top of high state taxes.
- Low local taxes in the Southeastern Pennsylvania suburbs mitigate the effect of high state taxes, but five of ten sectors still score above the median tax burden.
- The state corporate tax burden is uncompetitive, fully 23 percent above the median for seven of ten industries. Pennsylvania has the highest CNI in the country, a high corporate stock tax, no net operating loss carry forward and a sales tax on services.

But the discussion on taxes went beyond the concerns of any single industry or specific provision of the tax code. Conference participants expressed frustration with the prevailing ad hoc approach to taxes and revenue in the Commonwealth. They have watched this budget-driven process shift course from fiscal-year-to-fiscal-year and want to replace it with a system based on a long-range, strategic tax plan. The consensus view at the Conference held that the legislature should create a bipartisan tax commission composed of legislators, corporate leaders and tax experts. The commission must be representative of key economic and geographic interests and must not be dominated by a single party. Given widespread voter distrust of government, the 1989 tax referendum demonstrated that tax initiatives must have genuine bipartisan support.

Legislators are generally supportive of the tax commission approach. However, they are also seeking a way to incorporate business input -- ideally a consensus view -- into tax policy. Several legislators recalled their frustration over the business community's reluctance to rank tax alternatives during the 1991 budget debate. Legislators were facing a \$3 billion hole in the budget, yet leading business groups declined to make recommendations because they did not want to be on record in favor of any new taxes. While the tax commission is one possible vehicle to incorporate business input into tax policy, legislators seem to be seeking an ongoing mechanism that is both adaptable and representative.

Regulatory Policy

After taxes, regulatory policy was the most discussed aspect of the business climate. Although much of the discussion centered on environmental regulations, business leaders emphasized that even seemingly minor regulations can have major consequences. For example, a requirement that scales must be calibrated twice a year instead of once a year can make a big difference to small firms operating near the margin of profitability.

The overriding concern regarding environmental regulation was that state standards should be predictable and consistent with their federal counterparts. Business leaders argued that while they are not opposed to environmental regulation per se, they cannot tolerate excessive or inconsistent application of the law. They asked that the Department of Environmental Resources issue permits in a timely manner and that regulations be based on sound science and designed to encourage sustainable growth.

State-level regulations are only part of the problem, however. Noting that the Commonwealth has 503 school districts and 3,200 units of local government and municipal authorities, participants complained about the difficulty of operating in a land of "fiefdoms," and some made the case for moving toward a Maryland-type system of stronger county government.

Hazardous Waste and Low-Level Radioactive Waste Disposal

Pennsylvania needs a hazardous waste and a low-level radioactive waste disposal site. This issue is particularly vital to the biotech industry and seriously hampers the state's ability to grow this sector. One CEO at the Conference reported that starting in 1996, his biotech firm will be forced to lease warehouse space to meet its storage needs. Another

CEO reminded participants that Pennsylvania and Southeastern Pennsylvania are 40 and 70 percent nuclear, respectively. Failure to provide for in-state low-level radioactive waste disposal makes no sense under these circumstances. Although the legislature and the Governor have dealt with these issues in the past, the fact remains that the Commonwealth still lacks operating hazardous and low-level radioactive waste disposal sites today. This hampers Pennsylvania's economic competitiveness and reduces its attractiveness to many types of firms.

Workers' Compensation Reform

Although a workers' compensation reform package was enacted during the summer of 1993, the prevailing view at the Conference was that the legislation did not go far enough. The hearing loss provision was singled out for criticism during the round table discussion, with critics charging that Pennsylvania pays out on average \$120,000 per hearing loss claim versus \$45,000 to \$50,000 in competitor states.

Labor leaders brought a different perspective to the table. They argued that the 1993 package simply tried to slash workers' benefits rather than bring fundamental reform to the system. The latest round of attacks on benefits are misdirected while other problems such as excessive lawyers' fees remain politically untouchable. The workers' compensation system, labor concluded, is a vital part of the social contract between employer and employee that must be protected and upheld.

Reforming State Government

Everyone agreed that state government plays a pivotal role in shaping the Pennsylvania business climate, and some Conferees took this notion one step further by focusing on reforming state government. For example, several business leaders called for the creation of a commission charged with finding ways to make state government more efficient and making recommendations on how to implement these changes. This commission could be modeled after the Reagan administration's Grace Commission. Another suggestion was to reform the policy making process such that all legislation and regulations must be analyzed with respect to their impact on jobs and competitiveness prior to implementation.

Even if the system is restructured, strong leadership will need to come from the top, which in state government means from the Governor's office. Throughout the morning session, corporate leaders stressed the value of having a Governor with economic vision and the ability to bring that vision to life. With the gubernatorial elections slated for 1994, business interests have an excellent opportunity in the near term to challenge candidates to adopt platforms that will enhance the competitiveness of the Commonwealth.

Health Care Cost Containment

According to the Coopers & Lybrand survey, health care costs ranked third behind workers' compensation and taxes on the list of the most serious problems facing Pennsylvania firms. Corporate leaders at the Legislators' Conference echoed this

concern, emphasizing the need for effective health care cost containment strategies at the state and regional level. Health care reform is at the top of the domestic policy agenda and developments in Washington, D.C. and Harrisburg over the next few months will be critical. The 1994 Southeastern Pennsylvania State Legislators' Conference will address health care reform, focusing expressly on cost containment strategies and the regional implications of proposed health care system reforms.

Cross Cutting Themes

In addition to recommendations on specific policy issues, several cross-cutting themes emerged from the discussion. John Dankosky of the Pennsylvania Business Roundtable, for example, demonstrated how population trends impact the business climate. Between 1980 and 1990, Pennsylvania grew at the lowest rate in this century -- less than 0.2 percent -- versus 9.8 percent for the nation, in part due to the high rate of young people leaving the state. Pennsylvania, second only to Florida in terms of its share of population over age 65, will be home to an estimated 956,000 people over the age of 75 in the year 2000. These trends -- slow growth, the inability to keep young people in the state, and the age structure of the population -- influence everything from work force availability to tax policy to demand for social spending, and will increasingly shape the business climate in the Commonwealth.

A second theme concerns education as a means to enhance international economic competitiveness. The global economy requires U.S. workers to be educated on a par with labor from abroad. Everyone agreed that high skill/high wage jobs are critical to our standard of living, yet many observers worried that we are moving in the opposite direction. Some argued that employers are "piecemealing" complex jobs into part-time work to reduce benefits costs while others pointed to a poorly-educated work force as the problem. Both sides agreed, however, that business and government must provide leadership to the public on the effort to forge links between U.S. education and the global economy.

Finally, state legislators and corporate leaders alike identified the intensely partisan atmosphere in Harrisburg as a major obstacle to reforming the business climate. According to one first-term legislator, "the legislature has not taken any collective action -- partisanship reigns supreme." Other elected officials spoke pragmatically about the fact that nothing gets done in Harrisburg without the support of 23 Senators, 103 Representatives and the Governor's signature. These margins are only possible if partisan and regional (i.e., eastern and western ends of the state) interests find a way to work together. Neither the Congressional delegation nor County Commissioners from Southeastern Pennsylvania come close to the level of partisanship that characterizes -- and, in the view of many observers, undermines -- the General Assembly.

As one round table participant concluded, "We all came here in different ships, but we are in the same boat now. If we don't find solutions together we are all going to sink together." In the context of the business climate, this means that the Governor, the state

legislature and the business community must all work together to improve the state's competitiveness.

A REGIONAL STRATEGY FOR INDUSTRIAL COMPETITIVENESS

Phillip Singerman, President and CEO of the Ben Franklin Technology Center of Southeastern Pennsylvania, closed out the morning plenary by describing the efforts of 21 organizations from the region's utility, economic development and port communities to improve the business climate. The goal of this Strategy 21 partnership is to create an internationally competitive regional economy that is growing faster than the nation in the 21st century. Current projects include:

- Twelve organizations participating in Strategy 21 helped form the Southeastern Pennsylvania Export Consortium to coordinate local programs to help small and medium sized firms increase exports.
- Several Strategy 21 organizations developed and submitted defense adjustment proposals seeking federal funds to help the region deal with further anticipated reductions in defense spending. This effort marks an unprecedented level of cooperation among regional organizations collaboratively seeking federal funding.
- All 21 organizations have been linked electronically via an on-line regional data base and a business-oriented computer network that includes e-mail and a bulletin board system.

KEYNOTE ADDRESS: REGIONAL COOPERATION REPORT CARD

Philadelphia Mayor Ed Rendell was the keynote speaker at this year's Conference, and he offered his assessment of how far the region has come -- and how far it has to go -- in terms of practicing regional cooperation. He began by describing the tax base sharing arrangement in the Minneapolis-St. Paul region where 27 municipalities have agreed to pool a portion of their tax base for regional recreation, economic development, and arts and culture projects. (In the Minneapolis-St. Paul area, participating municipalities pool 40 percent of new tax ratables from new developments for regional projects. The tax base that existed at the start of the project is not subject to the pool.)

Philadelphia is a long way from Minneapolis-St. Paul, however, and Rendell candidly acknowledged that Southeastern Pennsylvania is not ready for full-fledged tax base sharing. (Suburban elected officials were quick to second this assessment.) Nonetheless, Rendell pointed to numerous recent success stories, including the vote for dedicated capital funding for SEPTA which had strong support among members of the regional delegation. The Pennsylvania Convention Center, made possible because of regional support, opened on schedule this summer with both parties rallying behind the selection of Bob Butera as Executive Director. Finally, a regional tourism initiative is gaining momentum as county visitor's bureaus collaborate on ways to promote the region.

While Rendell endorsed the concept of a regional airport authority, negotiations over fair compensation to the city for past investments in airport facilities have proven difficult. Additionally, Rendell cited arts and culture and parks as areas that are ripe for cooperative strategies.

Despite the progress, Rendell remains frustrated by party politics in Harrisburg. Although Rendell has forged good working relationships with the counties, Philadelphia constantly gets tripped up by partisanship in Harrisburg. "I truly believe that if Bucks County needs a vote and it doesn't hurt us, Philadelphia should vote 23-0 in the House and 6-0 in the Senate to help Bucks," said Rendell. But, the Mayor explained, "Even though John Street, City Council and I have worked hard not to ask for a state bailout, at times we still need some help."

Senators Vincent Fumo and Joseph Loeper and Representatives Mark Cohen, John Perzel and Matthew Ryan responded to Mayor Rendell. Without exception, each of these leaders agreed with Rendell's assessment that real progress has been made, and Rendell himself was given much of the credit. At the same time, it was evident that there is still a great distance to travel to muffle the strident partisan tones that characterize the debate in Harrisburg. State legislators from both parties, for example, used the Conference as an opportunity to trade highly partisan barbs about the 1991 tax hike. City and suburban state legislators must reduce partisanship and, if the region is to prosper, be willing to adopt strategies of regional cooperation.

WELFARE REFORM

David Butler, Senior Operations Associate at the Manpower Demonstration Research Corporation, began the afternoon session by describing the three most important trends in welfare reform. These are:

- Make Welfare Less Attractive (e.g., cut benefits)
- Make Welfare a Reciprocal Agreement (e.g., link benefits to specific behavior such as school attendance or job training)
- Make Work Pay (e.g. expand earned income tax credit)

Each of these philosophies is at work to some extent in the various welfare reform proposals currently under consideration in Pennsylvania, and the welfare reform panel drew out these differences. The six-person panel was a diverse group of Republicans and Democrats, conservatives and liberals, and reform advocates and government officials. Their comments offer insight into the ongoing debate and suggest that Pennsylvania is a long way from achieving genuine consensus.

Representative Elinor Z. Taylor (R-Chester), Minority Chairman of the Health and Welfare Committee, reported that the House passed a welfare reform bill with bipartisan support last May. Republican amendments attached to the Democrat-introduced bill would establish a residency requirement and eliminate General Assistance for persons

between the ages of 18 to 55. Some Conference participants viewed the amended bill as a genuine compromise: it promotes self-sufficiency via expanded services for some, paid for by benefits cuts for others. Opponents believe it will swell the ranks of the poor and homeless. Most observers, however, give the bill little chance of advancing in the Senate.

Senator Allyson Y. Schwartz (D-Philadelphia) summarized the fundamental obstacle to welfare reform: the things that work cost money and Harrisburg does not want to spend any more money on people who are already getting welfare. This perspective may be short-sighted, she explained, if long-term impacts are taken into account. Thornfare, for example, cut the welfare rolls in the early 1980s, but led to the Philadelphia homeless consent decree (guaranteeing shelter indefinitely) that both bred dependency and increased social spending. Given opposition to welfare spending, one approach is to rename the solution -- subsidized job training is more saleable than welfare reform.

Edward A. Schwartz, President of the Institute for the Study of Civic Values, estimated that 60,000 women with children are on welfare in Philadelphia. These women make rational decisions to provide for their kids, like choosing welfare over low wage jobs to maintain health benefits. Pennsylvania's welfare-to-work system is well integrated, Schwartz continued, but governed by bad rules limiting clients to nine months and \$4,500 worth of training. Two years and \$9,000 are better targets given today's highly competitive job market. Schwartz concluded his remarks by noting that with 100,000 tenants, Philadelphia Housing Authority runs the third largest city in Pennsylvania. PHA must deliver self-sufficiency services to its residents in order to reduce dependency in Philadelphia.

Yvette S. Jackson, Deputy Secretary of the Department of Public Welfare's Office of Income Maintenance, said that Pennsylvania's New Directions training program has been lauded for its advanced coordination of benefits and education and training services. While 70 percent of those who leave the welfare rolls are still off them two years later, limited funds mean only one-quarter of those who need training receive it. Jackson also identified medical care coverage for those accepting low wage/low benefits jobs as problematic and suggested we need health care reform before we can have successful welfare reform.

Phyllis Ryan, a member of the Governor's Task Force to Reduce Welfare Dependency, is also the Executive Director of the Philadelphia Committee for the Homeless. She estimates that eight or nine of every ten homeless men are parents absent from their children's lives, and her program requires men to accept responsibility for their children's emotional and economic well being. Ryan's clients typically arrive with at least four programs under their belts, but too many of these training resources go to bogus trade schools. Ryan argued that the current homelessness system institutionalizes dependency. Recalling that PHA was originally designed as transitional housing, Ryan questions the wisdom of the current strategy to combat homelessness in the city via more transitional housing.

Charles Greenawalt, Senior Policy Associate at the Commonwealth Foundation argued that the current welfare system creates the wrong incentives that reduce work effort, increase illegitimacy rates, and reduce marriage rates. Greenawalt views welfare as a reciprocal obligation and favors reforms such as tying AFDC to proof of rent payment, school attendance for children and desired health care behavior. He would also deny AFDC to minors under 18 and require single men to work. To increase work incentives, Greenawalt favors reducing income taxes on low-income families. Conference participants endorsed many of these measures in the small group discussions, and also explored the notion of restigmatizing teen pregnancy and moving toward a system of time-limited welfare like the Vermont model.

In the course of the working session, a variety of welfare reform goals were put forward. These include:

- Promoting self-sufficiency,
- Preventing dependency,
- Providing budget relief, and
- Reducing the rate of poverty and child poverty.

At the end of the afternoon, however, there was no consensus on goals. Participants were left wondering whether budget cutting can occur simultaneously with efforts that effectively challenge the cycle of dependency. Absent bipartisan agreement on goals, there is relatively little chance for meaningful reform over the near term.

CONCLUSION

What is the common link between the Pennsylvania business climate and welfare reform? Both are vitally related to the question of jobs.

It was evident from the afternoon session that education and training programs to promote self sufficiency can succeed only if there are jobs waiting on the other side. In the current job climate, even skilled workers with solid work and educational backgrounds are having a difficult time. Most people seeking to get off welfare and into the labor market face formidable obstacles. Some find work only to learn that low wage/no benefits jobs do not mean an end to poverty.

At the same time, the strength of the state's and the region's business climate also depends on the labor market. Firms need access to skilled and unskilled workers at competitive wages. The Commonwealth invests a substantial amount of resources into education and training programs that directly influence workforce preparedness. Successful welfare reform efforts will reduce dependency by moving individuals from welfare to work, bolstering the labor force in the process.

But the business climate does not depend solely on the labor market. Corporate leaders clearly articulated the need for business tax relief, singling out the need to reduce the corporate net income tax and restore the net loss carry forward provision of the

Pennsylvania tax code. State legislators joined members of the business community in calling for a state tax commission to consider these changes and, ultimately, create a long-term tax policy for Pennsylvania built on a strategic foundation and articulating clear goals for the 21st century global economy.

The ultimate payoff is more jobs, which will bolster the prosperity of Pennsylvanians in general as well as improve the odds for people struggling to get off welfare.

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