

**THE
IMPACT OF PENNSYLVANIA'S
TAX AND REGULATORY POLICY
ON SMALL MANUFACTURING COMPANIES**

House Majority Policy Committee

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Testimony of Janis Herschkowitz

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I wanted to thank the House Majority Policy Committee and Chairman, Representative Dave Reed, for inviting me here to testify. I would also like to acknowledge and thank DCED Secretary Alan Walker, who is in attendance, for his ongoing commitment to improving the business environment in the State of Pennsylvania.

My name is Jan Herschkowitz, President of PRL, Inc. Our company consists of three manufacturing companies, located in Lebanon County, including a foundry. We are a producer of high specification castings for nuclear power plants and submarines, 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. Thus, PRL is the ideal Pennsylvania manufacturer, as we bring millions of dollars into the state, provide well-paying benefit laden jobs, and are good taxpaying corporate citizens. Unfortunately, this role has become increasingly difficult as we do not compete on a level playing field. Regrettably, over the past eight years, Pennsylvania's business and regulatory environment has not improved, particularly for small manufacturers.

Obstacles that PRL and other manufacturers face in Pennsylvania include the second highest net income tax rate in the country, combined with a capital stock and franchise tax, a death tax, unemployment and worker's compensation costs, which well exceed the national average, and escalating operating fees. These factors alone make it exceedingly difficult to compete with manufacturers in other states.

Another area of concern is the long-term, potentially higher energy rates in Pennsylvania due to the Alternative Energy Portfolio Standards Act (Act 213 of 2004). 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. Our largest competitor is located in Washington State, which has ample access to hydro-electric power. Legislation such as the AEPS Act, which requires PA energy generation to be at an 18% alternative energy level by 2020 is potentially damaging, and should not be expanded. When State environmental and energy mandates exceed federal mandates, small manufacturers lose their ability to compete, and well-paying jobs are lost.

As a small foundry one of our biggest challenges is the flood of new and confusing regulations coming from EPA and being enforced by DEP. Although we always try to be in compliance with regulations, the complexity and volume of the regs makes it exceedingly difficult. However, as an enforcer, the state does have latitude in implementing guidelines and I would like to propose the following recommendations:

- Educate and provide guidelines to business owners before regulations are imposed.

- Provide easy access to a contact person within DEP that is in charge of a specific regulation to provide information as well as the proper forms required. (The information could be available on the web site)
- Provide an opportunity for self-audits that would avoid penalties similarly to what the EPA has already established on the Federal level.
- Enable manufacturers, who have shown a willingness to be in compliance with regulations, to rectify the situation before a penalty is imposed.

Another area of concern for our foundry is we are forced to dispose of our “non-hazardous sand” in our local landfill at a cost which is higher than the original price of the sand. In our case, the landfill uses the sand as “daily cover” even though we have to pay the high fees to dispose of it. Unfortunately, in Pennsylvania, millions of pounds of non-contaminated materials, such as foundry sand, are being unnecessarily dumped in our landfills. If DEP would assist industries through education, incentives, and more streamlined beneficial use permits, costs could be reduced, but more importantly, precious landfill space would be available. Also, users of recycled materials should be informed as to what materials within the state are available for re-use.

Another major issue in this state is the length of time required for an air permit. Although DEP’s permit administrators are very professional and knowledgeable, the process is very arduous. It requires a pre-review and post-review comment period, a highly detailed project scope, and a company cannot even begin construction on a project until the permit is received. Having to wait approximately six months for a permit can lead to a competitive disadvantage. Also, I have been told that large manufacturers have elected to expand facilities out of state, just to avoid the permitting process. In order to be more competitive, PA should look at reducing the public comment period and developing more “general permits”, which would allow a firm wanting to make a smaller modification to submit an accelerated permit requiring less processing time and no comment period.

Unfortunately, the relationship between government and industry over the past eight years seems to have become increasingly adverse. I speak from experience. Several years ago a lively discussion I had with a former Secretary regarding the negative impact of pending legislation on our business, was followed up by five unannounced State audits and two Federal ones. I don’t think this was coincidental, but more importantly the collective time, dollars, and energy expended by all parties involved was unnecessary. The bottom line is businesses that intentionally violate the law and are unethical should be dealt with harshly. However, most businesses are

good corporate citizens, and should be able to work as partners in a non-adversarial relationship with government agencies for the common good.

In closing, PRL, Inc. plays a valuable role in providing well-paying benefit laden jobs in the Lebanon Valley. We are the only foundry of our kind located in the state. Lebanon Steel Foundry, Quaker Alloy, Penn Steel, Penncast and Empire Steel were all similar foundries located within 50 miles of us who were forced to close their doors. Currently PRL, Inc. can continue to be an asset to the Commonwealth, if our legislators and the new administration take the difficult, yet necessary steps, to bring back a business friendly environment comparable to the majority of other states.

The reality is less government spending, a common sense approach to reducing unnecessary, burdensome regulations, and lower business taxes and fees are the key to generating economic output and ultimately increased State revenues.

Your consideration of this matter is greatly appreciated, and thank you once again for the opportunity to be heard. I will gladly answer any questions you may have.