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House of Representatives
COMMONWEALTH OF PENNSYLVANIA
HARRISBURG

HOUSE DEMOCRATIC POLICY COMMITTEE ROUNDTABLE
Topic: Emerging Business Industries
Pittsburgh Technology Center – Pittsburgh, PA
March 29, 2018

AGENDA

11:00 a.m. Welcome and Opening Remarks

11:10 a.m. Discussion with Panelists:

- Audrey Russo
  President & CEO
  Pittsburgh Technology Council
- Jennifer Beer
  Senior Director – Government Affairs
  Greater Pittsburgh Chamber of Commerce
- Jennifer Wilhelm
  Assistant Director of Center for Innovation and Entrepreneurship
  Urban Redevelopment Authority of Pittsburgh

12:20 p.m. Closing Remarks

Pittsburgh Technology Council

TESTIMONY
AUDREY RUSSO, PRESIDENT & CEO
PITTSBURGH TECHNOLOGY COUNCIL

Good morning Representative Wheatley, Members of the Committee.

Welcome to the Pittsburgh Technology Council offices. We are proud to be your host this morning and to be talking about issues that are of importance to our member companies. Before I begin, I would like to tell you a few things about the Council and the challenges that we tackle on behalf of our members.

The Pittsburgh Technology Council was formed in 1983 in response to the rapid decline of our region's steel industry and to the growing recognition that Pittsburgh's future would need to rely on a more diverse array of industries.

Today, we represent more than 1,100 companies from the 13-county region of southwestern Pennsylvania. Those companies are in a diverse array of industries and include the proverbial start-up team working out of a garage (or more likely one of Pittsburgh's many co-working spaces) to nearly all of the region's fortune 100 employers.

The Council is focused on helping our companies tackle a some pretty big challenges:

1: First: Connecting our members with customers, wherever they may be. This could include flying a group of Pittsburgh manufacturers to visit Iowa or Illinois to visit the supply chain teams at John Deere or Caterpillar or working locally to help connect our health IT or cyber security related start-ups to the Chief Information Officers or Chief Information Security Officers at UPMC or Highmark.

2: We are also highly focused on helping entrepreneurs capitalize their start-ups: Our region is rich in great ideas and new technologies, especially those emanating from the University of Pittsburgh and Carnegie Mellon. To transform those ideas into great companies requires skilled entrepreneurs and a steady flow of investment capital. Currently, the majority of the capital that is fueling the growth of Pittsburgh businesses is coming from venture organizations that are outside of our state borders. For our part, we are frequently inviting out of state investors to Pittsburgh to showcase our region's technology ecosystem and accelerate the flow of capital. Each year, we take between 20 and 30 start-ups to San Francisco, New York or Boston to help make personal connections to investors.

3: Next: We focus on the broad array of Talent related issues: If you leave today, please know that Talent has become the new currency in economic development. When Pittsburgh succeeds in attracting the likes of Google, Uber and Amazon, it happens because the world's smartest people in the areas of artificial intelligence, robotics and computer engineering, happen to be right here, usually in one of our top academic research institutions. With that said, the single largest threat to our region's economy is also Talent. The strong demand for software developers, project managers and security professionals, among other occupations, is the single biggest constraint to job creation in the Pittsburgh region. When companies cannot fill positions in these occupations, it often halts job creation in many other areas that depend on those position. Research has shown that each information technology position in a company, helps to create 7 other family sustaining jobs.

4: To help enhance the ability for our members to attract investors, customers and talent, we are highly focused on enhancing the visibility of specific start-ups, and the region as a whole: To showcase our companies, we host more than 150 programs each year that attract nearly 10,000 participants. We host a weekly radio show on KDKA that features some of our most exciting companies and we produce two world class magazines. Beyond those efforts, we are also take Pittsburgh's story on the road, and, when we can, we bring the world to Pittsburgh to experience our community first hand. Last week for example, we were pleased to host Twitter CEO Jack Dorsey in Pittsburgh, but we have also hosted meetings in the Silicon Valley with some of the top tech media in the world.

So how can you help us help our members?

And by the way…thank you for coming to Pittsburgh this week to ask that question. We appreciate it.

1: First: ***Do no harm:*** Last year, at the state level, we were completely blindsided by the administration's proposal to reinstate the $350 million computer services tax, otherwise known as the tech tax. If it had been adopted by the General Assembly, we would have heard an enormous sucking sound of jobs and companies leaving Pennsylvania for any of the 47 other states that don't levy such a job-killing tax. This tax was in effect for 6 years in the 1990's before freshman Senator Jay Costa sponsored legislation to fully repeal it. Thank you for working last year to keep this tax in the past.

This year, we are deeply worried about a Department of Revenue policy that will prevent companies from deducting capital purchases until the property is sold or disposed of. For its part, the Federal government has taken the exact opposite approach. To encourage investments in capital equipment and technology, the IRS will allow certain business purchases to be fully deducted for tax purchases in the year of the purchase. This will create a powerful incentive for small and large businesses alike to make significant investments during the bonus depreciation period, which is fully in effect through 2011. According to Grant Thornton, the Department of Revenues guidance will make makes **Pennsylvania** the only state to currently **<u>disallow</u>** all **depreciation** on assets under the federal tax reform legislation without providing a mechanism to recapture the disallowed amounts on property that may be held indefinitely. Said differently, the state policy not only counteracts the benefits of the federal policy, but it goes a step further and disallows companies from writing off assets until they no longer own them, a significant departure from past policy. This need corrected. Hopefully, with your help, we can get that done this year.

2: **Next:** As stated earlier, **talent** is the new currency in economic development. Highly skilled talent is the ticket long-term sustainable growth. Fortunately, the presence of multiple world class research universities positions Pittsburgh well in this new war for talent, but we need more of it.....and a lot more.

This can be achieved in a few ways that you can influence:

A: Developing home-grown talent. Build world class K-12 institutions that prepare our young people to consider careers in math, science, engineering, biology chemistry, computer science, and art and design. This is critical to creating a future supply of talent, but great schools also play a huge role in building great communities.....and great communities attract people from around the globe to our region.

Beyond the K-12 environment, our college and university systems must be supported. Access to a high quality and affordable education, for many people, has become the ticket to the American dream. As state support for those institutions declines, costs continue to rise for our students, increasingly pricing many students out of the American dream. As previously stated, skilled talent is the ticket to economic success. Our universities must be positioned to build this talent here.

B: Attract Talent from Across the U.S. and across the globe: As companies look to establish and expand operations in Pennsylvania, they often ask themselves two questions: First, does the community possess the engineering and software development talent that they need to grow. Second: If they need more talent than exists locally, is this a city that will be easy to recruit professionals from other areas.

In answering these questions, many companies find that Carnegie Mellon and the University of Pittsburgh, combined with the presence of world leading healthcare and financial technology related businesses, will create a significant enough talent pool to support their success. Others conclude that many specialty occupations will be difficult to source locally, and based upon past, and we would argue, outdated perceptions of the city, determine that those professionals may not wish to live here in Pittsburgh. This is a huge silent job killer. Too many world-leading technology firms are led by executives who have never visited Pittsburgh and don't give us fair shake.

There are two things our state leaders can do to help this: First, don't wait for RFP's. Get our top elected officials on the road, right along-side the leadership from Pitt and Carnegie Mellon and tell our story. This isn't necessarily a free strategy, but it beats offering billions of dollars in economic development incentives to companies in bid market like process. We don't have to enter bid markets; our talent is the world's best. We are not a commodity. While on that topic, its worth pointing out that Google, Uber, Apple, Oculus (which is owned by Facebook) and I believe Amazon (as least as it relates to their Southside operations) all received nothing in state financial assistance. They are all here for the same reason: talent and technology. Imagine if we set out to attract these companies on purpose! It's been too long since we've done that at a state level.

Last: Our state must partner with local regions to help tell our story to the world. As with any major enterprise, we must market our product to succeed. Our organization stands ready to help in this effort. Too many outdated perceptions of our city are preventing thousands of new jobs from being created.

We have a great story to tell. We have some of the nation's best schools, some of the nation's best quality of life amenities, and we are building a community for everyone to access. Toward that goal, we must keep investing in those quality of life amenities. Clean air, clean rivers and livable parks play a huge rule in attracting talent to the region. A 21st century transportation system that connects the neighborhoods where these professionals live and play with the areas where they work is essential.

Entrepreneurship and Capital:

In addition to our talent related challenges, our region faces a shortfall of local capital to support the growing entrepreneurial community. Venture and angel capital investment, along with great entrepreneurs who are supported by talent teams are essential to our success. Today, the vast majority of venture funding fueling our growth comes from areas outside of Pittsburgh. So how can you help accelerate that flow of capital to PA.

Support existing programs that work:

The Ben Franklin Technology Development Authority was the nation's first technology based economic development program of its kind. Today, despite having its budget reduced by nearly 70 percent under the past several administrations, the program continues to be one of the nation's best. In particular, the two Alpha Lab programs are supporting real economic development by taking extremely early stage firms and providing intensive coaching over multiple months. The small investment capital that they provide is important as well, but their team is comprised of experience entrepreneurs and business leaders.

Pennsylvania's Keystone Innovation Zone program, which was launched under the Rendell administration, provides a powerful tool to encourage start-up activity. We are currently sitting in the Greater Oakland KIZ, which is managed by the Pittsburgh Technology Council, but the city also has the PCKIZ, which includes the central part of the city of much of the Northside. The state's R&D tax credit is also a powerful job creator for start-ups. The Rendell administration's reforms to that credit allow small businesses to immediately monetize credits by permitting small businesses to sell them to other PA taxpayers.

Finally: Make it easier for entrepreneurs to raise capital. On this front, better west coast flights are essential. We are proud to be a strong partner the Pittsburgh Airport Authority and appreciate the full support that County Executive Fitzgerald has provided to our efforts to make the west coast more accessible.

Thank you so much for indulging me this morning. To summarize my testimony: Please focus on the basics: Great educational institutions build great communities. The talent produced by those institutions is the new currency of economic development. We have great talent and amazing communities. Tell this story to the world! Finally.....Support entrepreneurs: They're our future!

Greater Pittsburgh
Chamber of Commerce

An Affiliate of the Allegheny Conference on Community Development

Jenn Beer, Senior Director of Government Affairs
Greater Pittsburgh Chamber of Commerce
House Democratic Policy Committee
Thursday, March 29, 2018
Pittsburgh Technology Council

Thank you members of the House Democratic Policy Committee for the opportunity to talk to you today about the importance of how to build a better tax environment that supports the growth and future workforce of emerging business industries.

I am Jenn Beer, senior director of government affairs for the Greater Pittsburgh Chamber of Commerce. As you may know, the Greater Pittsburgh Chamber is an affiliate of the Allegheny Conference on Community Development.

For nearly 75 years, the Allegheny Conference has played an important role in convening public- and private-sector leaders in southwestern Pennsylvania to drive a regional discourse around improving our economy and quality of life.

Economic growth not only is essential to put Pennsylvania's state government on firm financial footing, but it is also essential for addressing – and tackling – the issues facing our region. From education to health care to economic equity, no matter what the problems or issues we as a region desire to address, it is easier to design and implement solutions within the context of a robust economy. Thus, the need to adopt policies and practices that improve and grow our economy.

Consider this: over the past 17 years, the state's annual tax revenue consistently returned about 5.3 percent of its total gross domestic product. Through an economic boom and the Great Recession, while tax rates have gone up and down, or even as new taxes have been created, Pennsylvania has continued to collect about $53 million in taxes for each $1 billion of state GDP.

Based on this understanding, the best and only avenue to solve the state government's fiscal challenges is to adopt policies and practices that grow GDP. Therefore, we believe a dialogue focused on growth will encourage public and private leaders to come together to discuss the best way to move our region and commonwealth forward.

My comments today will focus on the importance of having a competitive tax policy in order to encourage current businesses to expand here and to entice new industries to set up shop here.

Our organization manages the state-wide CompetePA business tax coalition. The coalition is made up of over 130 members – including nearly all of the statewide and regional business groups, small businesses and Fortune 500 companies. The coalition was formed in 2005 to help create a business climate that encourages job growth and business expansion in our Commonwealth.

CompetePA's 2018 agenda is in front of you. To begin, I would state that overall, we have one of the least competitive corporate tax environments in the country. For its 2018 rankings, the Commonwealth ranked 44th out of 50 states in the Tax Foundation's Corporate Tax Rank ; only six states were listed as having a worse corporate tax environment.

Currently, CompetePA's top priority is to ensure a fix to the bulletin that was issued by the Pennsylvania Department of Revenue (2017-02) on December 22, 2017, addressing "Disallowance and Recovery of 100% Depreciation", which will profoundly *discourage* job growth and business expansion in the Commonwealth.

In short, the Department's December ruling recognizes that Pennsylvania law currently decouples from IRC Sec. 168 including the recent federal tax change to 100% bonus depreciation. Pennsylvania law will not allow a business to take a deduction on their qualified property 100% expensed under new federal law until that property is disposed of or sold, which may never occur. While other states including Pennsylvania have decoupled from federal bonus depreciation provisions before, no state has ever denied a depreciation expense until such time as an asset is disposed of or sold. The very financial principle of depreciation is to allocate the cost of an asset over its useful life. Denying a deduction until an asset is disposed of or sold, is not only out of alignment with every other state, but out of alignment with the accounting principle of depreciation.

While the federal government made tax changes that essentially broadened the tax base but lowered the overall rate for businesses, the Bulletin highlights the cost to businesses of this change without any other reductions or adjustments to current Pennsylvania law. As you're aware, HB 2017 would address this issue. I want to take a moment to thank all of you who voted for this bill, and in particular Chairman Wheatley, which passed in a strong bi-partisan way earlier this month. We appreciate your support, and please know we continue to work hard to advance this with the Senate and the Administration. This is an issue that impacts every sector of our economy – from health care to manufacturing to tech and innovation.

Coupled with the highest non-graduated corporate tax rate in the nation (at 9.99%), and as one of only a few states in the nation that caps Net Operating Loss (NOL) Carryforwards, this drastic move to deny depreciation until an asset is disposed of or sold strongly encourages businesses to NOT do business in Pennsylvania.

Speaking of the corporate net income tax, we must begin to consider ways in which we can reduce our 9.99 percent corporate net income tax rate and lift the cap on the net operating loss carryforward provision. Our high CNI rate is a red flag to any business before they even take a closer look at our state. And Pennsylvania is one of only a handful of states that caps the amount of net operating losses a company can offset against its current corporate net income. For cyclical companies – like manufacturers and emerging, high-growth tech start-ups – that means effective tax rates in Pennsylvania are several times higher than in competing states. Put together, these uncompetitive policies put the Commonwealth at a high disadvantage for business investment and future economic growth.

It is our hope that we can assist policy makers in moving away from these year-to-year "triage budgets" and work to support budget plans that strategically leverage our existing assets like natural gas, the tech and innovation economy and our strong university systems. We encourage policy makers to take a longer-term, forward-looking approach to tax policy that would instead put Pennsylvania on the map as a top place for economic development and corporate investment, because as I noted earlier, the more we can do to grow the overall GDP, the stronger our state revenue collections will be.

Thank you again for the opportunity to speak to you today. It is our belief that if we all move forward together and engage in a larger growth dialogue, it will lead to an even stronger economy and better quality of life for all of us.

Thank you, and I will be happy to answer any questions you may have.

We Need a Competitive Business Tax Environment to:

Grow PA Jobs • Increase Private Investment • Secure a Strong Workforce

In 2005 the business community came together through a statewide coalition called CompetePA to speak and advocate with one voice on the issue of competitive business taxes.

PROOF POINTS:

- Overall, we have one of the least competitive corporate tax environments in the country. For its 2018 rankings, the Commonwealth ranked 44th out of 50 states in the Tax Foundation's Corporate Tax Rank[1]; only six states were listed as having a worse corporate tax environment.

- Pennsylvania is one of only a few states in the nation that caps the usage of net operating losses (NOLs), and we have the highest non-graduated Corporate Net Income (CNI) tax rate in the country, at 9.99 percent.

COMPETEPA's 2018 POLICY AGENDA:

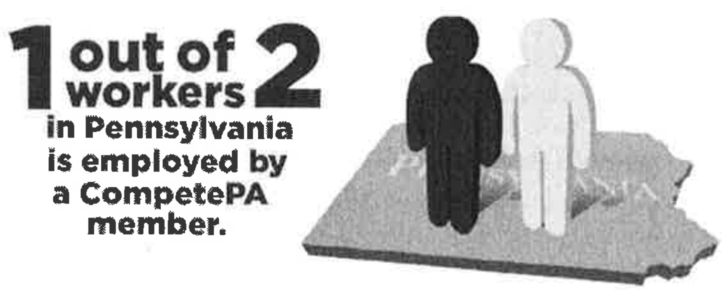
- **Our coalition's top priority is to fix the bonus depreciation changes made in PA Corporation Tax Bulletin 2017-02.** Pennsylvania is the only state that made such drastic changes to its bonus depreciation law in reaction to the 2017 federal tax reform legislation. The Bulletin, which eliminates the ability for the taxpayer to take any deduction until qualified property is sold or disposed of, ***strongly discourages*** business expansion and investment in Pennsylvania.

- **Instituting Mandatory Unitary Combined Reporting (MUCR) would have a broad range of negative consequences on Pennsylvania's economic climate.** MUCR creates complexity and uncertainty for businesses.

- **We support a reduction of the CNI tax rate.** We understand the current budgetary complexities with reducing the CNI rate, but we look forward to ongoing discussions with legislators and the administration around how we can work to reduce this uncompetitive rate in the near future.

- **Proposals to make the Commonwealth's business climate more competitive should not target businesses unequally.** The coalition encourages policy makers to consider any tax reform holistically (i.e., how one change could substantially alter the overall effective tax rate) and through a pro-economic growth lens.

- **The cap on the usage of Net Operating Losses (NOLs) should be fully lifted.** Pennsylvania is one of only a few states that caps the amount of net operating losses (NOLs) a company can offset against its current corporate net income.



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[1] https://taxfoundation.org/state-business-tax-climate-index-2018/