



Senate Transportation Committee  
February 8, 2017

Good morning Chairman Rafferty, Chairman Sabatina, and members of the Committee. My name is Neal Leshner and I am the Legislative Director for the National Federation of Independent Business (NFIB) in Pennsylvania. NFIB is the premier small business advocacy organization with almost 15,000 members in Pennsylvania and over 325,000 members nationwide.

Small employers make up an enormous segment of Pennsylvania's business community. These businesses account for nearly half of Pennsylvania's private-sector workforce. Despite their importance to the economy, small businesses are heavily burdened by the costs of government regulation and excessive paperwork. Regulatory cost per employee to small firms is approximately 40 percent more than the cost to large firms.

With this in mind, the General Assembly passed the Act 76 of 2012, which added several provisions to the Regulatory Review Act aimed at protecting small businesses. The law requires agencies to seek small business input on proposed regulations and requires agencies to examine less costly alternatives that still meet public protection goals.

The changes in Act 76 only applied to new regulations, however, and did not require a review of the scores of regulations already on the books. NFIB has long supported legislation to require periodic review of existing regulations.

One such regulation, which is the topic of today's hearing, is Title 67, Chapter 457 of the Pa Code. The regulation deals with the prequalification of bidders for PennDOT contracts. We began looking into this issue when a small-business owner from Sen. Bartolotta's district pointed out that the current requirements for providing financial statements to PennDOT are burdensome for small businesses.

Current regulations do not differentiate between the size of contractors, or the projects, and generally requires the same financial reporting requirements across the board. Current

regulations require an audited financial statement be submitted if the businesses net working capital is above \$50,000. A reviewed financial statement is only accepted if working capital is below \$50,000. This regulation was last amended in 1997. Changes in accounting principles have made this a costly requirement for small businesses who may wish to bid on selective small projects.

In accounting, there are three levels of financial statements. In order of complexity and cost they are compiled financial statements, reviewed financial statements, and audited financial statements.

Last session, Sen. Bartolotta introduced SB 1181. This legislation allows small businesses bidding on projects up to \$1 million to submit a compiled financial statement, which will be much less costly for small businesses to have prepared, and should still contain the information that PennDOT needs. We think this is a commonsense approach.

For comparison, we conducted some preliminary research to see how other states approach this same issue. We did not survey all states, but did find several examples of similar policies. Michigan<sup>1</sup> and Vermont<sup>2</sup>, for example, allow compiled statements to be submitted for projects up to \$2 million. New Hampshire<sup>3</sup> allows compiled financial statements for projects up to \$500,000. Arizona<sup>4</sup> allows compiled financial statements up to \$300,000 and reviewed statements up to \$1.5 million. Indiana<sup>5</sup> allows compiled financial statements up to \$200,000 and reviewed financial statements up to \$1 million.

We fully understand that PennDOT has a duty to ensure that contractors are capable of taking on projects. We are taxpayers too. However, we believe that by working together, we can develop alternatives that reduce paperwork costs while maintaining integrity in the process.

Thank you for the opportunity to testify today.

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<sup>1</sup> <http://mdotcf.state.mi.us/public/webforms/public/1313.pdf>

<sup>2</sup> <http://vtrans.vermont.gov/sites/aot/files/contractadmin/documents/Prequest.pdf>

<sup>3</sup> <https://www.nh.gov/dot/org/administration/finance/documents/PreQualificationPackage.pdf>

<sup>4</sup> <http://azdot.gov/docs/business/application-for-contractor-prequalification.pdf?sfvrsn=0>

<sup>5</sup> <https://forms.in.gov/Download.aspx?id=5420>