INTRODUCTION

Good morning. My name is Eric Joseph Esoda and I am the President & CEO of the Northeastern Pennsylvania Industrial Resource Center, perhaps better known by our acronym and short name – “NEPIRC”. I also serve as the President of the Industrial Resource Center Network, which consists of the Directors and CEOs of each of the seven (7) Industrial Resource Centers strategically located throughout the Commonwealth.

I’m also the product of manufacturing family, as my father worked for a Monroe County Department of Defense contractor for nearly 38 years while my mother worked for a northeastern Pennsylvania lampshade factory and apparel company.

I would like to thank Chairman Scavello, Chairman Farnese, and all the esteemed Senators here today for this opportunity to provide testimony regarding the criticality of the recently-proposed Manufacturing PA initiative within the Department of Community & Economic Development budget.

THE IRCs

As many of you know, the Industrial Resource Centers, or IRCs, represent the Commonwealth’s only economic development partners focused solely on strengthening and accelerating the growth of Pennsylvania’s 3rd-largest industry in terms of employment and 2nd-largest industry in terms of total annual wages – manufacturing. The IRCs were originated in 1988 under Governor Casey, legislatively established and enacted under Governor Ridge and Republican leadership as the Industrial Resource Center Partnership Act in 2001, and have historically received strong bipartisan support.

The IRCs held their own line item within the DCED budget until 2011, as did the Local Development Districts, Small Business Development Centers and Industrial Development Corporations. At that time, those four (4) initiatives were consolidated into the Partnerships for Regional Economic Performance, or PREP, line item – although it should be noted that each organization absorbed a 23% reduction in funding during that transition.

Since their founding, the IRCs’ business models, services, and market approach have continuously improved. As a result, the IRCs currently operate as public-private partnerships that utilize their DCED funding, along with the equal amount of federal funds that our state support leverages, to perform outreach to the often-overlooked, but critically-important, small and mid-sized manufacturers – defined as those with fewer than 500 employees. That’s no easy task, however, as there’s over 13,000 such manufacturers throughout the Commonwealth, which together employ more than 438,000 workers.

Within those smaller companies, the IRCs raise ownership awareness of new technologies and best practices that can benefit the business and accelerate growth. We explore the company’s readiness for traditional approaches such as Lean Manufacturing, Six Sigma or the appropriate industry certifications, while also helping them evaluate if 3D printing, cloud-based computing, robotics technology, proven new product development methods or other cutting-edge innovations are right for them.

Once we’ve helped identify the tools, techniques and technologies that will most dramatically benefit that manufacturer, the company may elect to utilize our on-staff technical experts or one of our strategic partners to implement those strategies. If they do, we charge a reasonable fee for our services. This “value given for value received” model not only maximizes our use of Commonwealth and federal funds, but also creates that “skin in the game” that all businesses need in order to not only sincerely implement our recommendations, but sustain them over the long term so that the intended impacts are truly realized year over year.

The IRC model works. Over the past year, the IRCs have worked with 870 small and mid-sized manufacturers, and they’ve reported dramatic impact from our engagements. In fact, a recent independent analysis performed by the Regional Economic Studies Institute at Towson University concluded that last year’s IRC engagements direct facilitated the creation and retention of 5,629 manufacturing jobs in Pennsylvania. Those jobs added $417 million in annual compensation to Pennsylvania’s economy. During the same 12-month period, IRC clients increased their output by over $2 billion in response to IRC engagements.

And the IRC model provides a positive return to the Commonwealth – WELL in excess of your current investment in us. That same Towson University study concluded that the impact of IRC engagements within our clients, as well as the job creation those engagements made possible, added $75.7 MILLION to the PA treasury last year alone – primarily in incremental personal income tax and increased manufacturer sales tax. That’s a $14-to-$1 ANNUAL return.

MANUFACTURING PA

So what does Manufacturing PA accomplish? Why is it needed now?

Manufacturers have all-new challenges and opportunities facing them – CyberSecurity, 3D Printing, robotics, nanotechnology, smart factories, the Internet of Things, sensor technology, the list is long and rapidly-evolving. By coupling the Commonwealth’s leading research and innovation universities, as well as universities and campus locations all across Pennsylvania, with the industry reputation and connectivity of the IRCs, the Commonwealth can better prepare our manufacturers, and their workforce, for success in the 21st century. By accessing university-based research, technology, commercialization, testing and academic resources, the IRCs can better accelerate manufacturer adoption of advanced manufacturing technologies, stimulate their innovation, expedite the launch of new products and create the workforce of the future through internships, fellowships and collaborative research opportunities.

The $12 million of proposed Manufacturing PA funding will support the IRCs’ core operations and provide research universities and other institutes of higher education with the cost-offsets they need to dedicate resources to working with us toward a shared goal – to create new, well-paying manufacturing jobs through manufacturer adoption of new technologies and improved workforce readiness. As a result, we’ll impact over 6,000 manufacturing jobs within 850 different manufacturers and generate at least $950 million of proven economic impact.

SO WHAT HAPPENS IF ITS NOT APPROVED

Over the past few months, I’ve fielded a lot of questions about the IRCs and Manufacturing PA.

I’ve been asked “Why can’t industry just pay for these services?”, to which I’ve responded that manufacturers DO pay for the services we provide, once we create a value-based proposal for our services following the performance of outreach, education, the performance of an in-depth assessment and the preparation of a customized proposal, for which there is no charge. If we had to recoup those up-front costs, our services would become impractical for smaller companies – so we use DCED and federal funds to abate those expenses.

I've been asked "Won't the private sector serve these companies if the IRCs don't?", to which I've responded that an independent survey recently confirmed that for 63% of our clients – nearly two-thirds – their IRC is the only source of technical assistance they have access to. Nobody else is knocking on their door. Nearly 70% of our clients have fewer than 100 employees, and 86% have fewer than 250 workers. These companies are small, often in rural locations, have modest consulting budgets, need a LOT of assurance to adopt new technologies and require a customized solution – not a cookie cutter. As a result, they are "drive-bys" for any for-profit firm.

I've been asked "Where are we going to get the money for this?", to which I've respectfully responded that we already have it. Last year, IRC engagements generated $75.7 million in additional treasury revenue according to an independent analysis. On top of that, manufacturers paid $411 million in sales tax last year according to Department of Revenue estimates and their workers paid $909 million in personal income tax on their manufacturing wages. That's $1.32 billion in treasury revenue from the manufacturing sector - annually. The proposed Manufacturing PA line item is less than 1% of that amount.

Lastly, I've been asked "What if the Manufacturing PA line item doesn't pass?". In that case, Pennsylvania misses out on a great opportunity. Our position as the 8th largest state in terms of manufacturing output and 4th largest in terms of the provision of manufactured products to the Department of Defense will be jeopardized as too few of our manufacturers capitalize on key opportunities relative to reshoring, new technologies, new supply chains, alternative energies, innovative materials and so forth. We'll not maximize the growth potential within our existing manufacturing base and, quite possibly, watch other regions pass us by in manufacturing job growth, business attraction wins and new industrial start-ups.

We often tell our clients "You can't cost-cut your way out of a difficult situation". That's a business strategy that just doesn't work. You have to be innovative, buy while others are selling, strategically invest in the future, and, yes, perhaps take some risks. I think the same holds true for our Commonwealth. At a proven return of $14-to-$1 and a proven track record of great success, investing less than 1% of the manufacturing industry's annual treasury contribution back into Manufacturing PA is an innovative investment that makes sense.

I thank you for your time.