

SJR 64: Joint Subcommittee Studying Manufacturing Needs and the Future of Manufacturing in  
Virginia -- SJR 64  
November 17, 2004, Richmond

The second meeting of Joint Subcommittee Studying Manufacturing Needs and the Future of Manufacturing in Virginia was held at the Georgia Pacific mill in Big Island. Members received briefings on a broad range of issues of concern to Virginia's manufacturers.

Working Summit on Advancing Manufacturing

Deputy Secretary of Commerce and Trade Matt Erskine reported the results of Governor Warner's Working Summit on Advancing Manufacturing in Virginia, held in Roanoke on October 13 and 14. Participants from manufacturers, higher education, state agencies, and other sectors identified concerns relating to the anchor issues of workforce development, structural costs and infrastructure, and technology development and deployment. Summit participants proposed specific recommendations and actions for each of the anchor issues. One recommendation identified for each of the anchor issues was making university resources and expertise available through a central information source. Other recommendations included:

- Increase awareness of manufacturing as a viable and desirable career option.
- Develop partnerships between manufacturers and community colleges.
- Establish a Manufacturing Day, Week or Month to promote manufacturing and provide information.
- Develop an approach to alleviate the impact of the machinery and tools tax without harming revenue streams for local governments.
- Propose a state-wide summit on health care costs.
- Develop a long-term strategic plan for manufacturing in Virginia.
- Align state incentives to reward technology investment.

Mr. Erskine stressed that Virginia's manufacturers must be competitive on high value-added products and services for the sector to have sustainable growth and profitability. Rather than being a one-time event, it is intended that summit participants will continue to stay engaged in order to ensure that its momentum is sustained.

Comparative Tax Burden on Manufacturing Sector

Robert Cline and Andrew Phillips of Ernst & Young presented preliminary findings of a study commissioned by the Virginia Manufacturers Association (VMA) to compare the burden of Virginia's state and local taxation of the manufacturing sector with other economic sectors in Virginia, as well as with the burdens on such sectors in several other states. They reported that in 2003 all businesses in Virginia paid \$8 billion in state and local taxes, which is 37 percent of the total. Property taxes account for 44 percent of state and local business taxes, while corporate income taxes account for 5 percent. While businesses pay 37 percent of taxes, they account for 48 percent of the tax increases between fiscal years 2000 and 2003.

Virginia's manufacturers reportedly paid \$877 million in state and local taxes in 2003. Of this total, 51 percent, or \$446 million, was in property taxes. Mr. Cline observed that compared to other states, Virginia demonstrates a relatively higher reliance on property taxes. The report states that fees are a significant manufacturing business cost in Virginia, totaling \$12.9 million. Of five other Southeastern states (Alabama, Georgia, Kentucky, North Carolina, and South Carolina) surveyed, manufacturers in two (Georgia and North Carolina) paid more in permit fees. The completed comparison of Virginia's tax burden with that of the five other states will be presented upon completion at a later meeting.

### Energy Outlook for the Manufacturing Sector

Christopher McGill of the American Gas Association cautioned the joint subcommittee that the supply and demand balance in North America's natural gas market is and will remain tight. Natural gas spot prices have risen from under \$2/tcf in early 1999 to nearly \$6/tcf today. Gas consumption will grow, gas prices will remain relatively high, and high levels of price volatility will continue. Much of the increase in gas consumption is expected to be for electric power generation. Rising gas prices have produced an increase in drilling activity, but the increase in the number of rigs has produced only a modest increase in gas production.

Mr. McGill stated that major portions of the nation's gas resource base, including areas off the Atlantic and Pacific coasts and in the Rockies, are not accessible for development. While new supply may come from arctic areas in Canada, from imported liquefied natural gas (LNG), the Rockies, and the Deep Gulf, it will only come at a price that supports development. LNG is economically viable at \$3.50/tcf, which is less than the current spot market price. LNG could provide 15 to 20 percent of consumption, but other nations, including China, could compete with this country for available supply. Some are concerned that increasing LNG imports will result in reliance on another foreign fuel.

Short-term options identified by Mr. McGill include encouraging natural gas storage, promoting energy efficiency and conservation, and encouraging diversified gas supply portfolios, hedged and fixed-price purchases. In the longer term, options include encouraging a balance between economic and environmental values, and encouraging Alaskan and LNG supply. He also discussed the pending federal State Enhanced Authority for Coastal Offshore Resources (SEACOR) bill, which would allow offshore drilling and distribute royalties among states.

Diane Leopold of Dominion Resources provided a summary of her company's assistance to Virginia's manufacturers. As a fully integrated energy company, its activities encompass oil and gas development, gas storage and pipeline transmission, LNG terminal operations, energy trading, electricity generation from coal, gas, nuclear, oil and hydro, and retail gas and electric power distribution. Dominion assists manufacturers in Virginia by providing reliable and affordable energy and supporting economic development rates, as well as by assigning account representatives to large customers and maintaining an economic development team. The utility also offered that the Virginia Electric Utility Restructuring Act has benefited manufacturers by capping rates.

With demand for natural gas increasing and the North American supply base struggling to remain stable, Ms. Leopold stated that the need exists to maintain access to domestic supply and add LNG. Of the approximately 40 new LNG projects announced for North America, 8 have been cancelled. One major LNG facility in operation is Dominion's Cove Point terminal in Maryland, which when its planned expansion is completed will have a storage capacity of 14.6 Bcf and a peak sendout capacity of 1.8 Bcf/day.

#### Addressing Rising Health Care Costs

Delegate Danny Marshall initiated a discussion of the impact that rising health insurance costs is having on manufacturers by noting that he introduced legislation in the 2004 Session that would have authorized the offering of health insurance plans that provide coverage for some, but not all, of the coverages that current law mandates by included in a health insurance policy. House Bill 935 would have permitted insurers offering accident or sickness insurance policies or plans to offer Consumer Choice Benefits Plans that do not offer or provide all of the existing state-mandated health benefits. He also introduced House Bill 1362, which would have placed a five-year moratorium on new health insurance mandates. The measures are currently being reviewed by the Special Advisory Commission on Mandated Health Insurance Benefits. Delegate Marshall anticipates that data from Texas, which has implemented similar legislation, will provide information on the viability of this approach.

Brett Vassey, president and CEO of the VMA, gave a report on action items addressed at his organization's Healthcare Summit convened in January 2004. Issues of primary concern included mandated health insurance benefits and long term care. As the workforce ages, its usage of the health care system is expected to rise, which will drive up health care costs. He advocated an incentive for the growth of long term care insurance in Virginia, on grounds that it is cheaper for employers to allow retirees to protect their assets under long term care policies than to provide full health care coverage.

#### Quantifying the Impact of Regulations on Small Businesses

Staff presented information on federal and state legislation addressing the burden of regulations affecting small businesses. At the federal level, the Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA) amended and expanded the Regulatory Flexibility Act of 1980 (RFA) to give small businesses more influence over the development of regulations, additional compliance assistance in dealing with federal rules, and new mechanisms for addressing enforcement actions by agencies. SBREFA also amended the RFA to allow judicial review of agencies' compliance with RFA, which lacked any enforcement mechanism.

At the state level, a number of states have adopted legislation that provides specific protections for small businesses in the regulatory process. The Small Business Administration's Office of Advocacy prepared a model state regulatory flexibility law in 2002. Colorado, North Dakota, South Dakota, Kentucky, Wisconsin, and Rhode Island have enacted the model legislation. In the 2004 legislative session, small business regulatory flexibility legislation was introduced in 13 states. In addition, the Governors of Massachusetts, Missouri, and West Virginia have signed

Executive Orders that are intended to give small businesses a voice in their state's regulatory process.

The model legislation is intended to compel regulatory agencies to consider small businesses when regulations are developed and particularly consider the disproportionate impact those regulations might have. The SBA's Office of Advocacy acknowledges that many states have some form of regulatory flexibility laws, but many do not contain all of the five critical elements, which (i) include a small business definition that includes most small businesses (less than 500 employees or gross annual sales of less than \$6 million), (ii) require state agencies to perform an economic impact analysis before they regulate, (iii) require state agencies to consider less burdensome alternatives that still meet regulatory goals, (iv) authorize small businesses to obtain judicial review of compliance with the act, and (v) require state government to periodically review its regulations.

#### Intellectual Property Resulting from Privately-Funded Research at State Universities

Staff also provided a summary of research regarding the complex issue of ownership of patents and other intellectual property developed at state universities through privately-sponsored research. Draft legislation addressing concerns raised by manufacturers frustrated by the current system was also distributed. Additional information on this topic is available on the joint subcommittee's website at <http://dls.state.va.us/groups/SJR64/MEETINGS/111704/materials.htm>.

#### Future Meeting

The next meeting of the joint subcommittee will consist of an opportunity for members to consider endorsing legislative proposals for the 2005 Session.