

Manufacturing Development Commission
May 17, 2011
Hampton, Virginia

The Manufacturing Development Commission held its first meeting during the 2011 interim at the campus of the National Institute of Aerospace (NIA) in Hampton. Dr. Robert E. Lindberg, President and Executive Director of the NIA, welcomed the Commission.

National Institute of Aerospace

The NIA is a nongovernmental, nonprofit research and graduate education institute conceived to work with the NASA Langley Research Center and the others in the aerospace community. With approximately 200 employees, students, and consultants and a \$33 million budget, the NIA is primarily engaged in research, graduate education, and public educational and outreach activities. The graduate education program provides graduate students at the nine research universities in the NIA's consortium (Georgia Tech, Hampton University, North Carolina A&T State University, North Carolina State University, the University of Maryland, the University of Virginia, Virginia Tech, Old Dominion University, and the College of William & Mary) the opportunity to earn graduate degrees while participating in leading-edge research programs not available at any single university.

Growth at the NIA has led to the construction of a new 60,000 square foot building with space for laboratories. The new facility, scheduled to open in February 2012, will host the Hampton Technology Incubator, which will provide commercialization abilities and the potential for entrepreneurial ventures.

Bayshore Concrete Products Corporation

Bayshore Concrete Products Corporation, based in Cape Charles on Virginia's Eastern Shore, manufactures and supplies various precast concrete structural materials. John D. Chandler described Bayshore's plans to focus on manufacturing offshore wind gravity foundations and precast tunnel sections. Mr. Chandler noted that the firm's ability to develop some new products depends on increasing the depth of the harbor to 18 feet. While dredging the harbor to this depth is estimated to cost \$40 million, the economic impact to Virginia of making the precast tunnel sections at the company's facility has been estimated at \$2.5 billion. Efforts to obtain federal funding for dredging by the U.S. Army Corps of Engineers have not yet been approved.

NASA's Technology Initiative

Brett Vassey, president of the Virginia Manufacturers Association (VMA), updated the Commission on the benefits to Virginia's economy provided by the aerospace industry. The sector employs over 9,000 Virginians directly, and when indirect and imputed employment is factored in, the impact tops 28,000 jobs. In addition, spending by the aerospace industry (including direct, indirect and imputed spending) is nearly \$7.6 billion annually.

The VMA is collaborating with NASA Langley Research Center and the Virginia Commercial Space Flight Authority to examine how advanced technologies from the aerospace industry can improve the manufacturing sector's productivity and efficiency. Areas that promise benefits include automation technology and robotics, heat exchange technology, and science, technology and engineering (STEM) education. The collaboration reflects NASA's goal to push technology developed for aerospace applications to the private sector.

The Bring Jobs Back to America Act

Thomas M. Culligan, a member of Representative Frank Wolf's staff, spoke about H.R. 516 (112th Congress), captioned the Bring Jobs Back to America Act. Since its introduction on January 26, 2011, the bill has garnered 10 co-patrons, including Representatives Forbes and Wittman. The bill has been referred to the Subcommittee on International Monetary Policy and Trade of the House Financial Services Committee. Mr. Culligan announced that Representative Wolf intends to advance parts of his bill by including them in the budget. He also stated that Senator Warner intends to introduce companion legislation in the U.S. Senate.

The Bring Jobs Back to America Act seeks to bring jobs back to the United States and rebuild the American manufacturing base by developing a national job repatriation strategy focused on returning manufacturing and call center jobs to America that have been outsourced to China and other countries. The Act has six major parts:

- Creating a comprehensive national manufacturing strategy.
- Establishing repatriation task forces to promote repatriation of jobs or facilities to a U.S. location.
- Establishing the American Economic Security Commission.
- Making projects that facilitate the relocation of a foreign source of employment or the growth of the U.S. manufacturing or customer service sector eligible for funding under the Public Works and Economic Development Act of 1965.
- Directing a study of tax provisions to encourage the repatriation of jobs.
- Amending federal patent law.

HJR 735: Plan for Repatriating Manufacturing Jobs and Evaluating Tax Incentives

Delegate Joe May introduced House Joint Resolution 735 in the 2011 Session of the General Assembly. The resolution directs the Commission to develop a plan for repatriating manufacturing jobs and evaluating possible tax incentives. Delegate May recounted how a conversation with Representative Wolf encouraged him to carry legislation that would complement the federal efforts to recapture jobs that had been lost to offshore competition. Moreover, he has been involved in recent relocations of manufacturing operations from Eastern Europe and Mexico to locations in Virginia. He has witnessed that Virginia can compete successfully with other nations in attracting manufacturing facilities. Advantages of domestic manufacturing include lower transportation costs, security, and eliminating the expenses of sending managers overseas for extended periods to oversee operations. Virginia's improved workforce training efforts were identified as a major asset. In response to a question by Delegate Pollard, he acknowledged that Virginia may not be able to effectively compete for low-skill

manufacturing jobs. However, Delegate May stated that Virginia's best chances for success were in areas that require a level of workforce training that exceeds the high school level but does not reach the college level.

HJR 735 directs the Commission, in its development of a plan for repatriating manufacturing jobs and evaluating possible tax incentives, to solicit and evaluate proposals to align, reorganize, and create incentives and manufacturing-related programs to repatriate manufacturing jobs and consider possible tax incentives. The Commission is further directed to ensure that the proposed plan is mutually beneficial to the manufacturing sector and the Commonwealth's economic development programs and that the provisions are not redundant.

The Commission is to consider the proposed Bring Jobs Back to America Act in its development of the plan. The element of the Act that relates most closely to the Commission's task is § 6, which directs the Secretary of the Treasury to conduct a study on the feasibility and potential impact of new tax provisions to encourage U.S. companies to return jobs to the United States. The study shall include a review of the past effectiveness of § 956 of the Internal Revenue Code and the potential effectiveness of other tax provisions encouraging the repatriation of foreign earnings. The issue of manufacturing repatriation has been linked to the issue of repatriating corporate profits held by foreign subsidiaries of U.S. corporations. The U.S. corporate income tax rate of 35 percent is among the highest overall corporate rate for industrialized countries. For 2009, the combined federal and state/provincial tax rate in Organisation for Economic Cooperation and Development (OECD) nations ranged from a high of 39.54 percent in Japan to a low of 12.5 percent in Ireland. The average was 26.6 percent in 2009, down one percent from 2008. The U.S. combined rate was second highest at 39.25 percent. U.S. tax policy also discourages repatriation of foreign earnings through its imposition of tax on a worldwide basis. The U.S. is one of nine of the 30 OECD countries that tax the foreign business profits of their corporations.

To avoid the comparatively high federal tax rate on corporate profits, U.S. companies reportedly have attributed profits to subsidiaries in countries with lower corporate rates. Tax law allows American companies to defer paying taxes on foreign profits so long as the profits are invested outside the United States. Some business leaders contend that a lower tax rate on these earnings would bring back some of these foreign earnings to this country, and these earnings could be invested in jobs, capital assets, and research and development. While some economists advocate a repatriation of foreign earnings through a temporary reduction in the tax rate, others point out that the repatriation tax holiday in the 2004 Homeland Investment Act (HIA) did not increase domestic investment or employment and note that every extra dollar of repatriated cash was associated with an increase of \$0.60-\$0.92 in payouts to shareholders, largely in the form of share repurchases. Provisions in the HIA that intended to prevent the use of repatriated funds on share repurchases were undermined by the fungibility of money.

As part of developing its plan, the Commission is also required to determine the appropriateness of incorporating the priorities established in the Virginia Industrial Innovation Strategy and the recommendations proposed by the Joint Legislative Audit and Review Commission's 2007 report on the Impact of Regulations on Virginia's Manufacturing Sector and the Virginia Economic Development Partnership's Manufacturing Impact and Economic Diversification Plan (FY 2007-

2011). Staff provided the Commission with an overview of the major elements of the findings of each of these documents.

Work Plan

In order to complete the preparation of the plan required by HJR 735 by the end of November, the Commission discussed a work plan. Prior to the Commission's next meeting, to be held in July in Richmond, staff will solicit information from state agencies regarding current efforts and strategies to have firms relocate to the Commonwealth, including efforts to connect U.S. and foreign manufacturers. In addition, some Virginia manufacturers will be surveyed to determine what they believe could be done to make the Commonwealth a better place to do business.

Senator Frank W. Wagner, chairman
Legislative Services contact: Franklin D. Munyan