



**Testimony by Brett A. Vassey, President & CEO, Virginia Manufacturers Association**

**Virginia Manufacturing Development Commission**

**Meeting Date:** Thursday, August 04, 2011

**Meeting Time:** 01:00 PM

**Location:** Senate Room A, General Assembly Building

**Subject: HJ 735 Manufacturing jobs; Manufacturing Development Commission directed to develop plan for repatriating.**

Mr. Chairman and members of the Commission, thank you for the opportunity to discuss HJ 735. My comments will focus specifically on ideas to “align, reorganize, and create incentives and manufacturing-related programs to repatriate manufacturing jobs and consider possible tax incentives” as well as ideas presented in “H. R. 5980, 111<sup>th</sup> Congress, 2d Session, ‘Bring Jobs Back to America: Strategic Manufacturing and Job Repatriation Act’.” Finally, I have drawn most of my comments from “priorities established in the Virginia Industrial Innovation Strategy, the proposals and initiatives for implementing the recommendations proposed by the Joint Legislative Audit and Review Commission’s 2007 report, ‘Impact of Regulations on Virginia’s Manufacturing Sector,’ and the Virginia Economic Development Partnership’s Manufacturing Impact and Economic Diversification Plan (FY [2007-2011](#)) that resulted from the enactment of Chapter 375 of the Acts of Assembly of 2006.”

First, Mr. Chairman, to successfully and strategically design a plan to repatriate jobs and foreign income to the Commonwealth, some of the ideas posed in the VEDP’s Manufacturing Impact and Economic Diversification Plan from 2007 would be necessary. Virginia should conduct a comprehensive risk assessment of its existing industry base and dependent communities. Once that mapping is completed, the Commonwealth could map its Strengths, Weaknesses, Opportunities and Threats for this industry. The reliance on the Forbes ranking alone as an international indices of Virginia’s superior business environment alone is inadequate to effectively determine the unique requirements of the manufacturing sector which is the most globally volatile sector in the Virginia economy.

For example, the Commonwealth has 355 computer and electronics manufacturing businesses employing approximately 12,780 jobs. The average weekly wage is about

\$1,572 and this represents a 144% increase since 1990. Unfortunately, during this same period, total employment in this industry dropped by 58% (once employing 30,412 Virginians).

The chemical industry has a similar experience in Virginia. There are currently 235 establishments employing 15,595 employees with an average weekly wage of \$1,314 which is an increase of 104.4% since 1990. Yet, during this period, total employment in this industry dropped by 51.2% (once employing 31,976 Virginians).

Another industry, paper manufacturing, has 126 establishments with 8,406 employees making an average weekly wage of \$1,368 which has increased by 119% since 1990. Again, during this same period, the industry shed 48.1% of its jobs (once employing 16,188 Virginians).

What has not changed substantially during this period is the industry's economic output and the Commonwealth's state and local tax dependency on this sector. JLARC's reports on corporate income taxes and regulatory burdens still cite that 26% of the Commonwealth's total corporate income taxes are paid by manufacturers and similarly about 26% of total local business taxes are borne by the manufacturing sector.

What has not changed is that the cost of regulatory compliance continues to increase year after year.

What has not changed is that the quality and volume of technically skilled workers continues to slow statewide.

What has not changed is that the cost of manufacturing technology, which is essential to competitiveness, and, in most cases, generates leaps forward in environmental performance, has continued to exponentially increase.

What has not changed is that US does not have a strategic plan to level the global costs for technology-intensive manufacturers.

What has changed is that countries like Germany, China, Singapore and India have engineered their economies to grow technology-intensive manufacturing.

So, this is the context under which Virginia must develop its risk assessment and SWOT analysis in order to compliment any Federal legislation that would strategically repatriate jobs and foreign income. Global competitors have a 26% price advantage...technology and automation drives productivity...technology requires technically skilled workers...public policy must continually adapt to level costs of production.

Now, what specific ideas could be adopted as part of this type of repatriation plan?

On costs...we would recommend the following:

1. Virginia must assess the economic impact of any environmental regulation or energy regulation on the sector BEFORE passage of legislation or regulation in order to give policy makers an opportunity to develop a true dynamic cost-benefit analysis.
2. Reduce the cost of environmental permitting, particularly in cases where pollution is reduced.
3. Reform the corporate income tax apportionment elective for manufacturers. The current statute is unusable due to a 3 year minimum employment threshold and a penalty provision. This elective for manufacturers to be taxed on sales alone would be a real incentive for domestic manufacturing, particularly if Congress enacts some form of Federal corporate tax reform and/or a foreign income tax repatriation holiday. TN, FL and TX are competitors and still have no corporate income tax.

On technology...we recommend the following:

- Reform the machinery and tools tax so that manufacturers are not penalized by local government for investing in their facilities. We suggest, as has been noted in the Governor's Economic Development & Jobs Commission report, a deferral on new investments and some sort of relief on older equipment. The cost of serving manufacturers with local services no longer bears any relation to the taxes being paid and the global issues here require state reform. Virginia Beach is the first local government to take a leadership role in this area for these exact reasons and have eliminated the tax entirely.

On workforce... we recommend the following:

- Reform the Federal and State workforce training programs to prioritize "work readiness" as a state commitment to employers. Utilize the Career Readiness Certificate of the VCCS and ACT! Work Keys as a credential in K-12 along with the Work Readiness Curriculum developed by UVa to insure that 100% of Virginians being served by government education and workforce training are certified Work Ready.

On economic development...we recommend the following:

- Manufacturers would benefit from services in their communities, not always relying on centralized services in Richmond. A connection to Federal and local resources would also be beneficial, thereby, improving a company's productivity with "one stop shopping" for economic development assistance. Virginia has started this process with Workforce One Stops across the state. It would seem that better community-based and coordinated services through Small Business Development Centers in Virginia or some other type of hybrid model would be beneficial to new and existing businesses.

On infrastructure...we recommend the following:

- Manufacturers rely upon a well functioning transportation system. Continued focus on freight-based infrastructure, including technology to improve travel times in congested areas and weigh-in-motion technology are essential. Continued

support of the Port of Virginia is critical. We would also suggest that a renewed emphasis on aerospace (Wallops Island and NASA Langley) as well as International Freight capable airports in Virginia is essential.

In closing, there are literally hundreds of solid proposals that the legislature and Congress could pursue in order to reduce the cost of domestic manufacturing, improve the productivity of domestic manufacturing and create incentives that make Virginia the premiere location for US technology-intensive manufacturing. Just like Germany, China, Singapore and India have formulated a national strategy, so must the US. Just as Virginia Beach has implemented “game changing” policies to be part of the next global manufacturing renaissance, so must Virginia. A comprehensive and coordinated repatriation program is well worth the effort.

There is no doubt that we can “make it” in Virginia.