Manufacturing Development Commission
January 24, 2011
Richmond, Virginia

The Manufacturing Development Commission met during the 2011 General Assembly Session to receive recent reports and to consider several pending items of legislation of interest to Virginia's manufacturers.

PENDING LEGISLATION

Brad Gilks of Smurfit Stone, which operates a paper mill in West Point, provided the Commission with his company's perspective of the local machinery and tools tax. The company, which is being acquired by another firm, operates 12 paper mills in this country. The machinery and tools tax assessed on its Virginia facility is seven times the average tax assessed on such property at all of its mills. Steve Haner of Northrop Grumman Shipbuilding added that his company paid $8.3 million in machinery and tools taxes in 2010. While local governments are concerned that eliminating the tax will lower their revenue, Virginia Beach, which is home to a Stihl manufacturing facility, has done away with the tax.

Delegate Purkey provided members with an overview of his House Bill 1636. As introduced, this bill would have classified as intangible personal property (i) machinery and tools purchased on or after July 1, 2011, for the first three years following the date of purchase; (ii) machinery and tools used for business purposes, for the first three years after being brought into the Commonwealth for the first time; and (iii) machinery and tools that have been in use for at least 10 years and are located in any county, city, or town in which the assessed value of the machinery and tools is greater than one percent of the original cost. Such property would therefore be exempt from local taxation.

In an attempt to address some concerns about the introduced version, an amendment in the nature of a substitute was being prepared for House Bill 1636 at the time of the Commission's meeting. The substitute would limit the bill's exemption from local taxation to apply to machinery and equipment used by farm wineries and machinery and tools that have not been in service for more than three years, while retaining the existing exemption for idle machinery and tools. Delegate Purkey observed the importance of Virginia's facilities remaining competitive, and cited recent articles that caution that other East Coast ports are attempting to take business away from ports in the Commonwealth.

Senator Wagner briefly discussed his Senate Bill 1136, which would grant an income tax credit of $3,000 for every employee hired by Virginia shippers when employment is based on increasing cargo moving through a Virginia port by at least 10 percent. The bill was being re-written during the Session to provide an alternative tax credit of two percent of any capital investment made by a Virginia shipper to facilitate increased cargo moving through a Virginia cargo facility operated by the Virginia Port Authority. The Tax Commissioner would be allowed to issue up to $250,000 in tax credits in a fiscal year under the tax credit program.

VIRGINIA'S CORPORATE INCOME TAX SYSTEM

Nathalie Molliet-Ribet, Division Chief at the Joint Legislative Audit and Review Commission, presented a report on Virginia's corporate income tax (CIT) system. The full report, prepared by JLARC pursuant to House Joint Resolution 681 from the 2009 Session, was published as House Document 3 of 2010. JLARC staff found that:

- Virginia's CIT is largely consistent with the corporate income tax systems in other states;
- The CIT has a limited impact on economic development efforts, but can differentiate comparable states;
- Several targeted changes could be made to improve the CIT system and address stakeholder concerns; and
- Major restructuring options exist but may not be warranted because their risks may outweigh potential benefits and they would likely disrupt the stability of the CIT system.

Ms. Molliet-Ribet noted that Virginia manufacturers provide 26 percent of the Commonwealth's corporation income tax receipts while constituting 9 percent of the gross state product. Starting in 2011, Virginia manufacturers will have the option of using the single sales factor method of apportioning income among states for taxation purposes. While providing this method as an option avoids mandating an increase in any firm's corporate tax liability, it complicates the system and adds costs.

JLARC's study also analyzed corporate income tax credits. The report observes that Virginia's credits are often less generous than those provided in competitor states. Options to address this result include a research and development (R&D) or capital investment tax credit. Michael Kaestner of the Virginia Economic Development Partnership added that the Governor's proposed budget amendments include $5 million in funding for an R&D tax credit, and that legislation for the credit was being carried by Senator Herrring (SB 1326) and Delegate Cline (HB 1447).

WORKFORCE DEVELOPMENT

Dr. Robert Leber, Senior Advisor to the Governor for Workforce Training, discussed the recently announced Workforce Development Strategic Plan. The Plan establishes five goals (relating to leadership, collaboration, innovation, expectations and success measures, and financial support) and 16 action items. Senator Wagner identified his interest in the funding support strategy that calls for securing funding of noncredit courses at community colleges. He noted that he has been trying to obtain funding for noncredit courses at community colleges. Currently, most of the cost of 13-week credit courses can be paid by the Commonwealth, but courses for which academic credit is not given, such as brief skills upgrading courses, are ineligible for state funding. Dr. Leber noted that the issue of federal funding for credentialing is getting a lot of attention nationally.

TOTAL MAXIMUM DAILY LOAD REGULATIONS

Mark Haley of the Hopewell Regional Wastewater Treatment Facility gave the Commission an overview of the economic impact of complying with proposed total maximum daily load (TMDL) regulations pertaining to discharges into the Chesapeake Bay. On December 29, 2010, the U.S. Environmental Protection Agency (EPA) established the TMDL, which identifies the maximum amount of a pollutant the waterway can receive and still meet water quality standards. Mr. Haley expressed concerns that the regulatory burden of complying with the TMDL will impose fiscal stress on the facility's industrial customers. Industrial customers are being required to conduct pre-treatment of waste at plants in order to remove nitrogen.