

Manufacturing Development Commission

September 7, 2006

Arlington, VA

The Manufacturing Development Commission was established pursuant to Senate Bill 261 which was signed into law by Governor Kaine at the close of the 2006 Regular Session of the General Assembly. The initial meeting of the Commission was held at Virginia Tech's Advanced Research Institute in Arlington, Virginia. After calling the meeting to order, Senator Wagner briefly described the genesis of the Commission. Following this description, staff briefly reviewed the 2006 legislation that came out of the Commission's predecessor, the Joint Subcommittee Studying Manufacturing Needs and the Future of Manufacturing in Virginia.

Machinery and Tools Tax

In previous years, the former Joint Subcommittee Studying Manufacturing Needs and the Future of Manufacturing in Virginia recommended legislation to reform the machinery and tools tax. Issues surrounding the machinery and tools tax include the multiple ways in which the tax is calculated and the dependence of localities on the income generated by the tax.

Suzette Denslow with the Virginia Municipal League (VML) explained the history of the machinery and tools tax, which was originally considered an incentive to manufacturers in 1963. Since then, a complicated system has arisen in which each locality applies a different formula to calculate the cost. Most localities apply a sliding scale ration based on the original cost and the age of the equipment. Ms. Denslow also explained that the machinery and tools tax is the 8th most important local tax revenue source.

Mike Edwards with the Virginia Association of Counties (VACO) then went on to discuss the few localities that derive the majority of their income from the machinery and tools tax. He explained that in most cases, these are one mill localities, such as West Point (which derives over 52% of their revenue from the tax). He agreed that there are several problems with the tax, including the lack of uniform assessments and the use in some areas of the flat assessment ration, which may overstate the value of the equipment. Mr. Edwards firmly stated that both VACO and VML are eager to work with the Commission to improve the machinery and tools tax and to ensure the continuance of manufacturing in Virginia.

Secretary of Trade and Commerce, Patrick Gottschalk, reiterated that the manufacturing is an important part of Virginia's economy. He discussed the effort put forth to create a working group to study the taxing of idle equipment, as the Governor committed to do in his message vetoing Senate Bill 260 at the close of the 2006 Regular Session.

The Cost of Regulatory Compliance

Justin Brown with the Joint Legislative Audit and Review Commission (JLARC) discussed the methodology that was used in studying the cost of regulatory compliance in Virginia. JLARC, in accordance with SJR 350 from the 2005 Regular Session, studied the cost of compliance with environmental, economic, workplace and tax regulations imposed by the Commonwealth. Mr. Brown explained how the study was conducted, through case studies and surveys, as well as comparisons with other states. The final JLARC report will be released on October 10, 2006.

Virginia's Energy Plan

The Chairman gave a brief review of Virginia's goal of becoming energy independent. He explained that this goal can be accomplished through monitoring the energy that we use, increasing efficiency and working to create an independent energy supply.

Offshore Wind

George Hagerman, with the Center for Energy and the Global Environment at Virginia Tech, discussed the potential benefits of offshore wind farms. Mr. Hagerman explained that Virginia would be an ideal place to test wind produced energy because of the coastline. Blades longer than fifty feet cannot be used in the interior of the country because of the difficulties of shipping the blades over land. However, because Virginia has a coastline, offshore wind could be harnessed using blades up to seventy feet. The blades would have to be manufactured in a factory on the coast and shipped over water to the offshore windmill.

Mr. Hagerman also discussed potential benefits of renewable wind energy. Both the energy and the economic benefits created by wind would be renewable. Many sectors of industry would benefit from the economic development potential of the wind energy industry.

Concerns associated with offshore windmills include the possible visual nuisance. However, Mr. Hagerman explained that if the windmills were placed four miles offshore they would barely be visible from the shoreline. An additional concern is the effect that the windmills may have on migratory birds, and Mr. Hagerman conceded that this necessitated further study.

Offshore Petroleum

Jeff Krauss with the National Ocean Industries Association presented to the Commission a summary of offshore drilling. He explained that because of the current federally mandated moratorium on offshore drilling on the eastern shore, there is no way to be certain of the reserves that may be in the continental shelf. However, due to the hard work of state legislators, Virginia is the only coastal Atlantic state currently on the federal Minerals Management Services' five year plan. It is currently estimated that the continental shelf along the Atlantic coast of the United States contains 2.31 billion barrels of oil and 28.05 trillion cubic feet of natural gas. Of this amount, .81 billion barrels of oil

and 9.72 cubic feet of national gas are estimated to be located in the Mid-Atlantic region. This constitutes a very generous reserve that could help lead Virginia, and the United States, to becoming oil independent.

Mr. Krauss then explained the benefits of drilling, using the Gulf Coast as an example. In the Gulf of Mexico, oil and gas activities directly employs 85,000 people, and indirectly employs another 85,000. Additionally, more than three billion dollars has gone to Mississippi, Alabama, Texas and Louisiana since 1986 as a result of their offshore production of oil and gas. Mr. Krauss also explained that spills are highly unlikely and that the production of oil and gas in the Gulf of Mexico generates nine hundred million dollars for the Land and Water Conservation Fund annually. It is important to note that according to the National Academy of Science, less than one percent of petroleum in American waters is a result of drilling and extraction. In fact, safety procedures have become so efficient that even during the damage caused by Hurricane Katrina, there was no significant spillage from offshore rigs.

Conclusion

At the conclusion of the inaugural meeting of the Manufacturing Development Commission, Senator Wagner reiterated that this year the Commission would focus primarily on the machinery and tools tax, the Virginia Energy Plan, and workforce issues.