

A Plan for Maintaining and Building Manufacturing Competitiveness and Job Growth in Connecticut

MANU-FACTS... According to the latest numbers available:

- Average manufacturing wages in Connecticut increased from **\$54,488** to **\$69,360** between 2000 and 2007.
- In 2007 there were **191,400** employees in Connecticut's manufacturing sector.
- In 2007 **13.3** percent of all private non-farm employees in Connecticut were in the manufacturing sector.
- On average employment in a manufacturing company in Connecticut increased from **36.6** to **39.7** between 2000 and 2007.
- On average there are **23** more employees in a manufacturing company than an average employment site in Connecticut.
- The gross domestic product of manufacturing companies in Connecticut was **\$ 27.4** billion in 2007.

Connecticut Manufacturing Issues List

January, 2009

Crafted and endorsed by:

MAC, Manufacturing Alliance of Connecticut
NHMA, New Haven Manufacturing Association
SMA, Smaller Manufacturers Association
CAMF, Connecticut Association of Metal Finishers
MASC, Manufacturers Association of Southern Connecticut
CTMA, Connecticut Tooling & Machining Association
METAL, Metal Manufacturers' Education and Training Alliance
NESMA, New England Spring & Metalstamping Association

TAXATION

Manufacturers in Connecticut have survived many difficult economic cycles. Despite the market upheaval of 2008 and the ongoing credit crisis, CT manufacturers continue to be the engine of the Connecticut economy.

The 2009 session of the Connecticut General Assembly will be critical to the survival of the resilient but severely challenged manufacturing sector. We must preserve our manufacturing sector.

The manufacturing associations of Connecticut and their members and employees urge great caution that no action be taken to further impair the ability of CT manufacturers to survive in these difficult economic times.

MANU-FACTS... According to the latest numbers available:

- There are **5,233** manufacturing companies in Connecticut.
- Between **2000** and **2007** there was a decline of **684** manufacturing companies in Connecticut.
- That's a decline of **11.5%**.

TAXATION—PROPERTY TAXES

Manufacturers recognize the challenges faced by Connecticut municipalities. They further believe that manufacturers are already paying their fair share and urge that municipalities be directed toward efforts to help manufacturers remain in their communities as active employers. Efforts should include:

- The critical phase-out of the Personal Property Tax on Manufacturing Machinery and Equipment must remain **in place** and **on schedule**.
- Contingency-based personal property tax audits should be prohibited outright.
- Manufacturing machinery and equipment installed by manufacturers in order to facilitate Load Response (LR) or Distributed Generation (DG) projects should be exempted from property tax and treated as manufacturing equipment.
- Environmental control equipment installed in a manufacturing facility for emissions compliance should be treated as manufacturing equipment.

TAXATION—SUCCESSION

Many small and medium sized – and even some larger – manufacturing companies are family owned and are passed from one generation to the next. The imposition of any new estate tax that will affect the transfer of a family business between generations is extremely problematic for manufacturers.

TAXATION—SALES & USE TAX

- CT must carefully analyze the impact on manufacturing when considering joining the Multi-state Sales Tax Compact. Although the overall sales and use tax rate may decline as a result, manufacturers could be negatively impacted if certain categories of goods are included.

Connecticut manufacturers believe the following categories of services and equipment should be exempt from sales and use tax:

- Manufacturing machinery and equipment installed by manufacturers in order to facilitate Load Response (LR) or Distributed Generation (DG) projects.
- Environmental control equipment installed in a manufacturing facility for emissions compliance.
- Connecticut manufacturers believe that the labor associated with installing equipment that is exempt from the sales tax should be similarly exempt.

TAXATION—CORPORATE

- Connecticut should avoid moving to Unitary or any other taxation methodology that would extract more revenue from Connecticut manufacturers. Manufacturers are paying their fair share.
- Eliminate the \$250 Entity Tax on all businesses with 10 or fewer employees.
- Connecticut should examine the feasibility of expanding certain existing tax credits that are available to manufacturers organized as ‘C’ corporations to the manufacturing companies that are structured as ‘S’ corporations, limited liability companies (LLC’s) and sole proprietorships.
- The CGA should amend the Manufacturing Job Creation Tax Credits passed three years ago to include the creation of **any new** manufacturing job in Connecticut (from the current requirement that 50 jobs be created) to spur employment growth in manufacturing.
- Expand the investment tax credits provided to the insurance industry to manufacturing.
- Maintain tax credits and other incentives that encourage manufacturers to invest in research and development and technology development.

MANU-FACT... According to the latest numbers available:

- Manufacturers in Connecticut pay **\$171** million in sales and use tax annually.

MANU-FACT... According to the latest numbers available:

- According to the non-profit Tax Foundation, CT has the **third highest** tax burden of the fifty states.

MANU-FACT... According to the latest numbers available:

- Manufacturers make up **6%** of the corporate population, but they contribute **25%** of the corporate tax revenue.

ENERGY

The cost of energy in Connecticut remains problematic for CT manufacturers. The CGA has passed a considerable amount of legislation that has been very helpful but more can be done to help bring down the cost of energy consumed by CT manufacturers.

- In the 1998 legislation, Connecticut's regulated utilities were required to dispose of generation assets. If CL&P and UI are willing to undertake generation projects, and can demonstrate that such initiatives will provide rate relief through reduced FMCC charges or reduced peaking costs, then they should, at their own risk, be allowed to participate in the generation market.
- Energy costs in Connecticut are spiraling upward. Connecticut must do serious planning for our future energy needs. In addition, our elected officials should support reasonable power generation and transmission proposals. Connecticut must be an active partner in finding acceptable methods of providing for our energy needs.
- The CGA should avoid tapping into funds collected for Energy Conservation. These are not taxpayer funds, they are ratepayer funds that should be left in place to accomplish their intended goals.
- Connecticut should provide energy generation facilities and equipment located in Connecticut with an exemption from sales and use tax. Machinery, equipment, parts and supplies used in the production of energy should be considered manufacturing equipment and exempt from sales taxes as well as the gross earnings tax (GET) on fossil fuels purchased by energy generators.
- In order to combat the oppressive electric supply contracts that are costing many manufacturers thousands of dollars, MAC asks the Energy & Technology committee to put together a task force to develop a code of conduct for electric supply brokers.
- Brokers are not currently regulated by the DPUC and have no restrictions on how they conduct business. Conversely, aggregators must be licensed by the DPUC after a thorough hearing process. This task force would be made up of licensed aggregators, licensed suppliers, brokers, and, perhaps, representatives from the DPUC. A code of conduct for brokers would create a level playing field among brokers and suppliers as well as ensuring Connecticut businesses that the contract they sign follows the set rules.

MANU-FACT...
According to the latest numbers available:

- U.S. manufacturers account for **a third** of the nation's energy use and nearly **30 percent** of its electricity usage.

ENVIRONMENTAL

MANU-FACT... According to the latest numbers available:

- **90 percent** of all "high tech" industries identified by the federal government are in the manufacturing sector.

- The CGA should continue to monitor the work of the Brownfields Task Force and the Planning and Development Committee Smart Growth Working Group and implement all recommendations that move properties toward compliance.
- Connecticut should amend or repeal the "Upjohn Statute", (C.G.S. § 12-63e) under which property owners of polluted sites are assessed property taxes based upon the full value of the property as if the site were clean. Manufacturers working to clean up contaminated sites need relief from municipal taxes to offset the ongoing cost of monitoring and remediation.
- Amend the Transfer Act and various state statutes with respect to Brownfield sites to accomplish the following:
 - Establish a time limit for the audit of LEP determinations to provide for finality of clean-up, or have a broader use of no-further-action letters and/or covenants not to sue;
 - Provide that sites that are remediated pursuant to the state's Brownfields programs also satisfy all requirements for RCRA, CERCLA and TSCA, such as what is currently being done in Pennsylvania;
 - Provide funding for Brownfield remediation projects, including making funding available to private companies seeking to remediate their own sites.
- Allow the use of environmental audits by businesses seeking to voluntarily determine their environmental compliance status by amending Connecticut statutes in this area to emulate the U.S. EPA's audit response program. This program allows for companies that conduct voluntary environmental audits to avoid penalties for violations where: 1) the violations were found as the result of a voluntary audit program; 2) the violations were reported in a timely fashion to the EPA; and 3) the company takes good faith steps to correct a discrepancy identified in the audit within a reasonable period of time after the discrepancy was discovered by the audit.
- Stimulate private capital investments by earmarking any grant money the state receives from federal sources to existing Connecticut businesses to be used for Brownfield remediation and development, including businesses already located on existing Brownfield sites where those companies may have caused the contamination, but were only following the best disposal practices of the day.
- The state should request that the Connecticut Academy of Science and Engineering perform an evaluation of all the pollution sources in Connecticut. This report should quantify the sources of impact upon the water, air and land of the state. As an example, an air study should include such sources as transport over state boundaries, forest and land use, transportation (auto, trucks boats, passenger and freight rail), and home heating, commercial heating, animal sources etc.

WORKFORCE DEVELOPMENT

- Many small and mid-sized manufacturing companies benefit from CONNSTEP programs and services. CONNSTEP funding must be increased to prior levels or higher in order to restore and maintain service levels.
- Connecticut has both a graying workforce and a dwindling pool of available workers. We must address these issues. There exists within Connecticut a ready need for skilled and semi-skilled manufacturing employees. Connecticut must be a partner in helping to fill these openings. This includes a greater emphasis on customized job training and manufacturing apprenticeships.

MANU-FACT... According to the latest numbers available:

- Productivity in Connecticut's manufacturing sector was **42 percent higher** than the rest of the state's economy in 2007.

MANU-FACT... According to the latest numbers available:

- Manufacturing commodities accounted for **82.4 percent** of all exports in 2007.

- The community colleges, vocational technical schools and the Agriculture and Technology Center must be on the same page and need to address the issue of manufacturing skill training in an immediate way.
- The legislature should create new or enhance existing tax credits in the area of training and education as incentives to small and mid-sized manufacturers with particular emphasis on programs that encourage internships and job shadowing.
- Employees enrolled in apprenticeship programs need to be exempted from collecting unemployment compensation until a reasonable time has passed for evaluating the new hire. Manufacturers willing to hire and train new employees believe that this exemption should exist for the first 30 days of employment.

MANU-FACT... According to the latest numbers available:

- Connecticut's manufacturing sector was the **4th** most productive of all 50 states in 2007.

MANU-FACT... According to the latest numbers available:

- Productivity in Connecticut's manufacturing sector was **24 percent higher** than the rest of the national manufacturing sector

HEALTH CARE COSTS

MANU-FACT... According to the latest numbers available:

- Between 2000 and 2004 the rise in benefit costs accounted for more than half of the increase in total manufacturing compensation.

- Health care costs in Connecticut continue to escalate, fueled in part by the constant addition of mandated benefits. Connecticut must resist adding additional costly mandates to employer funded health care plans.

MANU-FACT... According to the latest numbers available:

Rising Health care costs are one of the biggest challenges manufacturers and their employees face. According to a 2006 survey of small and medium sized manufacturers:

- **87%** of respondents listed rising health care costs as their greatest challenge.
- Further more than **10%** of the companies surveyed spent an average of **27%** of sales on health care expenses.
- As a result of rising costs, **69%** of those surveyed said they had to raise their employees' share of coverage costs, while **28%** said that they would begin to raise employee costs or increase Health Savings Accounts ('HSA's).

EMPLOYEE BENEFIT COSTS

Connecticut is a high cost state in which to manufacture. Not the least of these expenses is the fully absorbed cost of employee wages and benefits. Manufacturers recognize that this is a high labor cost state and that wages are determined between employers and employees but MAC also believes that controlling benefit costs is essential. To that end we must:

- Deem that illegal aliens are not eligible for benefits under the Second Injury Fund, which is funded by employers as an added cost to their workers' comp premiums.
- Encourage the hiring of probationary employees by changing the threshold, CGS Sec. 31-255a(c), from \$500 in wages, to thirty days of employment that an employee must complete in order to qualify for unemployment compensation. This lessens exposure for employers who hire probationary employees or hire for on-the-job training (OJT).
- Amend the statutes to eliminate permanency awards for pre-existing conditions. With the elimination of the Second Injury Fund, employers may find themselves financially responsible for 100% of a disability despite the fact that the entire disability or a substantial portion of it may have pre-existed employment and is not the result of an on-the-job injury.
- Amend provisions on repetitive trauma to reduce permanent disability awards for that portion of disability resulting from lifestyle and/or the aging process.
- Avoid moving toward paid FMLA benefits that would not only draw upon the healthy balance in the state's unemployment fund; but would create a new business tax on employers. MAC supports FMLA, but urges that it remain unpaid in order to encourage return to work and to avoid an additional tax burden on manufacturers.

ADDITIONAL MANU-FACTS

Connecticut lost 53,891 manufacturing jobs between 1997 and 2007.

**If we had kept those jobs
the effect on the Connecticut economy would be:**

- A total additional **\$20 billion** more in total manufacturing sales in 2007.
- An **additional \$30 billion** in total sales from all industries in 2007.
- An **additional 79,000** total non manufacturing jobs in 2007.
- An **additional 132,000** jobs in Connecticut in 2007.
- An **additional \$4.5 billion** in manufacturing employee compensation in 2007.
- An **additional \$3.6 billion** in employee compensation in the non-manufacturing sector in 2007.
- An **additional \$7.8 billion** in Connecticut's gross domestic product from the manufacturing sector in 2007.
- An **additional \$14.2 billion** in Connecticut's gross domestic product in 2007.
- An **additional \$6.4 billion** in gross domestic product from Connecticut's non-manufacturing sector in 2007.

**Each \$1 million in increased sales
in the manufacturing sector creates:**

- **2.5 jobs** associated directly with those sales.
- About **1 other manufacturing job indirectly** associated with those sales.
- **Nearly 5 other jobs** associated with the indirect and income effects from those sales.
- A total of **8.3 Connecticut jobs** associated with those sales.
- An additional **\$935,500** in sales, **\$615,475** in the non-manufacturing sectors.
- An additional **\$585,197** in income in the state.
- An additional **\$341,582** in income indirectly related to the increase of 1 million in sales.
- Purchases of **\$369,567** from Connecticut companies.