

MAIN STREET MONTANA PROJECT

A BUSINESS PLAN *For Montana by Montanans*

Manufacturing **KEY INDUSTRY NETWORK** **Final Recommendations**

The Manufacturing KIN has met several times for more than a year to identify the issues, opportunities and actions needed to help manufacturing grow and thrive in Montana. We, the co-chairs, are pleased to provide these final recommendations from the Manufacturing KIN to you, Governor Bullock. Thank you for initiating the Main Street Montana Project, and for giving us the opportunity to serve the great state of Montana.

After four Manufacturing KIN Meetings and numerous smaller group discussions, the Manufacturing KIN identified the following key recommendations for our state to become more competitive for manufacturers:

- 1) Encourage capital expansion: Eliminate personal property taxes on business equipment*
- 2) Increase engineering assistance: Expand Funding for MMEC*
- 3) Grow our workforce: Enhance manufacturing workforce development*
- 4) Create more competitive logistics: Lower costs associated with transportation*

The Manufacturing KIN represented a wide diversity of manufacturers from across our state, and from the start, the unity of concerns around these four priorities was consistent. As promised at the outset of this project, our KIN was bi-partisan, and we shared a common goal of recommending what will be most important to generate jobs and create a more vibrant manufacturing sector in Montana's economy.

In addition to the top four priorities identified, it is important to note that there were a few other areas of concern discussed by our KIN. Notably, the Manufacturing KIN identified access to capital and the "Made in Montana" branding of products manufactured in our state as important topics for continued dialog. Access to capital continues to be a challenge for smaller companies in our state. We are losing some entrepreneurial businesses to states with

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more aggressive state-funded venture investment programs. This is an issue that will need to be addressed by the soon-to-be activated Finance KIN. Secondly, manufacturers of consumer products felt that our Made-in-Montana Program needs to be reconsidered and updated.

Again, thank you for this opportunity to serve with you to make manufacturing more prosperous in Montana.

Bert Robbins, Mike Robbins & K.C. Walsh / Manufacturing KIN Co-Chairs

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Final Recommendations to Governor Bullock

PROBLEM STATEMENT 1 – ENCOURAGE CAPITAL INVESTMENT

Manufacturing in Montana is hampered by the Business Equipment Tax, which is a financial disincentive for manufacturers to invest in capital expansion.

All manufacturing KIN members identified Montana's personal property tax on business equipment as a significant concern. Some described it as a "hangover" vestige of a tax policy from Montana's historic resource extraction economy, and it is now a drag on the expansion of job-creating capital investments. If Montana wants to thrive in today's economy, which more and more is reliant on creating, attracting and retaining value-added industries such as manufacturing, then our state should encourage investments in new capital equipment. The Manufacturing KIN members were particularly concerned that the business equipment tax is an up-front tax-- due 60 days after equipment is purchased—typically placing a drain on businesses before the new equipment generates any real return on investment.

KIN RECOMMENDATION 1

- **Support legislation that would eliminate the Business Equipment Tax on all manufacturing equipment.**
- **In preparation for the 2017 Legislative Session, the state should work with the Manufacturing KIN and the Montana Manufacturers Association to study and develop a compelling case for the elimination of the personal property tax for manufacturing equipment. We are confident that this will result in greater investment, business expansion and job creation.**
- **Work with community and business leaders to create a plan for offsetting revenue sources to balance the short-term needs of local communities.**

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- In preparation for the 2017 Session, as an alternative or in addition to eliminating the Business Equipment Tax for manufacturing equipment, the state should work with the Manufacturing KIN and the Montana Manufacturers Association to study and develop a compelling case to modify existing state Investment Tax Credits, such as those provided for Expanding “Value-added” Machinery and Equipment (15-24-2401 MCA thru 15-24-2405 MCA) and/or for New or Expanding Industries (15-24-1402 MCA). Both of these local option tax credits could be better aligned with the needs/desires of Montana manufacturers to provide more incentive to increase manufacturing investments and create new jobs.
- Consider other state’s tax incentives for manufacturers such as those available in our adjacent states when crafting the draft 2017 business equipment tax legislation.

ECONOMIC DEVELOPMENT BENEFIT OF RECOMMENDATION 1:

- Expansion of manufacturing in Montana.
- Attracting capital investment that will create new jobs.
- Adding value to Montana products.

PROBLEM STATEMENT 2 – INCREASE ENGINEERING ASSISTANCE

Enhance the competitiveness and expansion of Montana manufacturers

A majority of the Manufacturing KIN members have worked with the Montana Manufacturing Extension Center (MMEC), and attest to the high value that the organization’s services have brought to their businesses. Annual studies done by UM-BBER show that Montana taxpayers earn an approximate *800%, or 8X ROI*, from the state’s investments in MMEC. Montana manufacturers also earn an approximate 8X ROI from their investments in MMEC consulting services.

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During the 2015 Legislative Session Manufacturing KIN members supported increased funding for MMEC, writing letters and contacting legislators. MMEC sought an additional \$200k/year to bring the state’s funding level to \$450k/year; however, MMEC received only an additional \$75k/year bringing its annual funding from the state to \$325k/year. While the increase was welcomed by the program, it fell short of the request, and funding for MMEC remains well below that provided by legislatures of similar programs in neighboring states.

	Federal \$/yr.	State \$/yr.	Private \$/yr.	Total Effort/yr.
Washington	\$1.7M (33%)	\$1.8M (36%)	\$1.5M (30%)	\$5.0M (100%)
Wyoming	\$500k (33%)	\$1.0M (66%)	\$0 (0%)	\$1.5M (100%)
North Dakota	\$500k (33%)	\$500k (33%)	\$500k (33%)	\$1.5M (100%)
South Dakota	\$500k (33%)	\$500k (33%)	\$500k (33%)	\$1.5M (100%)
Montana:	\$500k (33%)	\$325k (22%)	\$675k (45%)	\$1.5M (100%)

“Private \$” in the chart above refers to the amount that must be generated from other sources including the fees that are charged by MMEC to Montana manufacturers.

Since 1996, MMEC has assisted approximately 33% of the 3,200 manufacturers in Montana. Additional funding will help MMEC significantly increase this number. To be able to provide the high quality of services and to help Montana manufacturers be as competitive as similar businesses in neighboring states, MMEC will need the state of Montana to expand funding of the program to approximately one-third of the federally-required budget of \$1.5 million. This currently amounts to \$500k/year. The accepted model for Manufacturing Extension Centers is that the federal government, the state government and the manufacturers who benefit from the program each cover one-third of the total program cost.

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KIN RECOMMENDATION 2

- **Recognize MMEC as one of the keys to manufacturing growth, innovation and profit enhancement for Montana manufacturers.**
- **Expand MMEC's funding to meet or exceed that of similar programs in neighboring states - \$500k/year.**

ECONOMIC DEVELOPMENT BENEFIT

- Expanding MMEC's reach means more manufacturers served, helping them grow, attracting increased investment, creating good jobs and improving the bottom lines of Montana manufacturers.
- The data show that manufacturing is an important industry for the State:
 - Manufacturing comprises nearly 23% of Montana's economic base.
 - Montana's national ranking in manufacturing economic base rose from 41st place in 1997 to 36th place in 2013.
 - Average wages in the industry continue to be well above the State average.
 - Montana's manufacturing sector has been growing faster than the nation's manufacturing sector.
- The services MMEC provides could help recover or replace some of the lost jobs in the wood products industry and other displaced sectors.

PROBLEM STATEMENT 3 – GROW MANUFACTURING LABOR

Enhance Manufacturing Workforce Development

Workforce development is a high priority for Montana's manufacturers, and was a consistent thread of KIN discussions, including vocational-tech training programs that need to better address industry needs. Current high school vocational-tech programs are only introductory, leaving a gap between what the schools teach and what manufacturers need. Some

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manufacturers are addressing their specific needs by talking directly to vo-tech instructors in their area schools. There is a need for a coordinated statewide effort. In addition to better aligned training programs, the Manufacturing KIN identified a need for more “career day” events at high schools, where students can talk with prospective employers and gain exposure early in their development to the career choice that manufacturing offers. In short, the Manufacturing KIN supports better coordination across all educational levels to close gaps and better align the workforce with needs of the manufacturing industry. The recent Workforce Symposium in Bozeman was an excellent start that needs to be sustained.

KIN RECOMMENDATION 3

In order to insure that Montana manufacturers can meet their workforce needs, for both incumbent workers as well as new hires, the state should create a 5-year workforce development plan that:

- **Utilizes and creates an ongoing dialog with all existing workforce development assets.**
- **Results in an integrated and concerted workforce development system.**
- **Addresses a variety of workforce issues including, but not limited to, immigration strategies, factory automation, national employee lean manufacturing certifications and apprenticeships.**
- **Better aligns high school technical training with the needs of manufacturing employers; and expands promotion and outreach to high school as well as younger students on manufacturing as a career choice.**
- **Review the guidelines for existing state grant sources to assure that they address and respond to the needs of manufacturers.**

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- **Continue RevUp efforts while adding training efforts for growing Montana industries such as outdoor/sewn products, plastic injection molding, food manufacturing, alcohol production and photonics.**
- **Reduce the financial burden to Montana manufacturers that participate in apprenticeship programs.**
- **Increase funding to incumbent worker training program that are administered by MT DLI.**

ECONOMIC DEVELOPMENT BENEFIT

The benefits of leveraging a coordinated Montana Brand across all channels include:

- Workers benefit due to the increased access to appropriate job skills training
- Employers benefit due to increased availability of properly trained workers
- Expanded ability to attract, retain and grow Montana manufacturing businesses

PROBLEM STATEMENT 4 – CREATE MORE COMPETITIVE LOGISTICS

Lower transportation costs for Montana manufacturers

A high priority identified by the Manufacturing KIN is to find opportunities to improve efficiency and reduce costs related to transportation in and out of Montana. Some Montana manufacturers are already working together to improve efficiency. For example, two Great Falls companies - Anderson Steel and Pacific Steel - have worked together to arrange for loaded back-haul's, helping to reduce costs for both companies. While these types of collaboration have proven effective, KIN members see an opportunity for more comprehensive coordination with common carriers to better address the transportation needs of manufacturers statewide. This business platform would address a host of issues including:

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- Coordinating inbound and outbound loads to minimize empty backhaul's.
- Increasing container availability - container notice can be a problem which KIN members attributed to dock strikes on the west coast. Some KIN members suggested that the state get involved when out-of-state /regional labor issues, such as dock strikes, hold up freight moving in and out of Montana.
- Improving rail service - while rail can be cost effective, timing/scheduling of rail cars is not reliable which has gotten worse with increased oil development in eastern Montana/western North Dakota.
- Convincing BNSF to transfer containers at Butte.
- Facilitating the development of more free trade zones so as to increase export opportunities.

KIN RECOMMENDATION 4

- **Once activated, the Transportation KIN should coordinate cross KIN discussions focused on improving transportation efficiency and reducing costs.**
- **Facilitate the creation of a transportation business / platform that helps address transportation issues and improves transportation efficiency and reduces costs.**
- **Develop a sector strategy group focused on logistics for manufacturing through RevUp grant.**
- **Use MMEC's Supply Chain Optimization offering to assist groups of manufacturers in optimizing their supply chains.**

ECONOMIC DEVELOPMENT BENEFIT

- Reduce transportation costs across multiple industry sectors making all affected sectors more competitive - including Montana manufacturers.
- Attract investment and create jobs in manufacturing - a sector which pays higher average wages.