

MAIN STREET MONTANA PROJECT

A BUSINESS PLAN *For Montana by Montanans*

Manufacturing Second Key Industry Network Meeting, March 6th 2015

Co-Chairs

Bert Robbins, SeaCast Inc.

Mike Robbins, SeaCast Inc.

KC Walsh, Simms Fishing Products

KIN Members present

Tracy Lofstrom,

Scott Ogeka, West Paw

Doug Hein, ATK Accessories-Plastics Center

Ken Johnson, CM Manufacturing

Neal Blossom, American Chemet Corporation

Bryan Wood, Wood's Powr-Grip

On the phone

Pat Miller, PFM Manufacturing

KIN Members Absent

Gary Byers, Creative Sales

John Elsberry, Crazy Creek Prod

Britt Fred, Northwest Paint

Ken Green, Timberline Tool

Mike Groff, PDM

Jim Haider, GTUIT

Larry Hall, S&K Electronics

Susan Humble, S&K Electronics

Casey Malmquist, SmartLam

Jim Markel, Red Oxx Manufacturing

Karl Moritz, Lattice Materials

Eric Smith, Boeing-Helena

Spencer Williams (Scott Ogeka covered for West Paw)

Jim Wright, Proof Research

Staff/Public

Jim Molloy, Governor's Office

Meg O'Leary, Dept. of Commerce

Pam Bucy, Dept. of Labor & Industry

John Rogers, Governor's Office

Michaela Wolfinger, Governor's Office

Tom Kaiserski, Dept. of Commerce

Sean Becker, Dept. of Commerce

Mary Craigle, Dept. of Commerce

Craig Wilkins, Vision Energy

Paddy Flemming, MT Manufacturing Extension Center

10:00 AM Governor Bullock kicked-off the meeting with a welcome address and remarks.

Governor Bullock opened his remarks by noting that JP Morgan lists MT as the most financially prudent state and the Tax Foundation currently ranks Montana 6th for business friendly tax climate.

The Governor said that the state budget is a balancing act between tax revenues and tax expenditures needed to fund essential services. He stated that, if were to sign all the various tax cut and spending bills currently in play in the legislature, the state would end up a \$1 billion dollars upside down, further highlighting the difficult job balancing the budget. He noted the administration's goal is a \$300 million ending fund balance, constituting a 6% reserve which is on the low side in terms of the level of reserves that any private business maintains. He also expressed that he does not believe that the Coal Tax Trust Fund is intended to be a rainy day fund; rather, the investments from the corpus of funds are the source for economic, community and business development program funding.

The Governor responded to a number of questions from KIN members – with the state's Business Equipment Tax being a prime concern of KIN. The Governor explained that business equipment tax revenue is used to fund local services and that any reduction in those taxes will need to be made up somewhere else. Co-chair K.C. Walsh noted that he has seen other states obtain good results by adopting investment tax credits that provide tax breaks to manufacturers that make investments that create jobs. The Governor responded that this type of tax proposal has the possibility of a return and in his view that is productive, and therefore he is willing to have that discussion.

KIN members told the Governor that the state needs to do a better job marketing incentives and credits to business owners who are too busy to look for them as they are spread over multiple state agencies. Craig Wilkins noted that a state like New York has used its tax code for attracting business– highlighting certain tax breaks despite the state's overall high tax burden on business.

10:30 AM Co-Chairs introduce members

Following the Governor's opening remarks KC Walsh delivered some opening comments and explained that the KIN's goal for today's meeting is identify three highest priority action items. This opened the way for presentations by Pam Bucy, Commissioner of the Department of Labor & Industry (DLI) and Meg O'Leary, Director of the Department of Commerce (DOC).

10:40 AM

Manufacturing Workforce and Commerce Programs Available – Commissioner of Labor & Industry Pam Bucy and Commerce Director Meg O’Leary

Pam noted that unemployment is low, currently 90,000 MT workers are changing jobs every quarter, and 27% percent of the workforce is 50 years or older. This is leading to an impending worker shortage of 113,000workers as the group of young workers coming up is not big enough to accommodate all those that will be retiring in the near future. DLI is now focusing on providing much more intensive services to those who are working and offering retraining as opposed to its former model that focused more on helping businesses find workers. Pam noted that some industries are recovering faster from the 2008 recession than others requiring DLI to adjust to those circumstances. Pam stressed that in order to be successful workforce the development system needs employer participation and input.

Pam described the \$25 million federal workforce training grant obtained by DLI – now called the Rev Up grant - formerly SWAMMEI (Strengthening Workforce Alignment in Montana’s Manufacturing and Energy Industries Grant Program). The focus of this grant is to provide meaningful sector partnerships including apprenticeships and on the job training. Currently Rev-Up has 90 industries partners.

Pam said currently it takes a worker 10 years to pay off the expense of obtaining a two year degree. The payback is slow because, in part, Montana is 39th in the country for wages. Apprenticeships are a way to satisfy what is missing in education and career development – but require employer investments and employee incentives.

Meg O’Leary discussed Commerce efforts and tools to aid manufacturing. DOC’s Community Development and Housing Divisions look at the bigger picture of economic development by working to provide key infrastructure, such as water and sewer as well as affordable housing need to support jobs creation and economic development. The Promotions Division works to drive visitation to Montana.

The Business Resources Division has several programs designed to specifically help with Manufacturing KIN member businesses – led by the Workforce Training Grant and Big Sky Economic Development Trust Fund Programs. These programs can provide assistance in the amount of \$5,000 per job (up to \$7,500 per job in high poverty areas). The funding is available as soon as job created. The Big Sky Trust program has two pots of funding, the larger being used for job creation projects and the smaller fund for business plans and feasibility studies. Co-chair Mike Robbins noted that Montana Precision has used the programs very effectively which involved a partnership with Highlands College in Butte.

The mission of the BRD's Office of International Trade and Relations is to help businesses think about exporting. Understanding that marketing internationally is difficult, DOC can help with issues like translation and more.

Pam and Meg mentioned that they are collaborating on a conducting a workforce development summit for Fall 2015.

11:30 AM Prioritize Top KIN Items

Starting at 11:30 Mary Craige facilitated the prioritization process.

Group B discussed three issues:

- Expand and Promote MMEC;
- Increase Access to Capital; and,
- Increase and improve access to Entrepreneurship classes.

Neal Blossom reported on the Jake Jobs College of Business & Entrepreneurship at MSU Bozeman indicating the MSU system has a lot to offer but that aren't offered to people who aren't full time students. Neal said he took a course from MSU that cost \$1,100 (he thought a similar course would cost a lot more at other institutions) and it was excellent. He noted his employer American Chemet incentivizes good grades to employees taking such a course; whereby, if the employee gets an A grade then Chemet fully reimburses the cost of the course; for a B grade, the company covers 90% of the cost; for a C grade 80%, and \$0 for an F.

Paddy Flemming, Executive Director of the Montana Manufacturing Extension Center (MMEC) provided a brief report on current legislation to increase funding for MMEC.

Energy KIN member Craig Wilkins of ViZn Energy - a battery R&D company from Columbia Falls - presented his plan to attract capital to Montana (attached). The primary tenets of the plan are:

- To identify Montana's strongest clusters;
- Encourage the state to create a small venture fund (\$25 million) by providing around seed funding (around 20%) matched by private equity investors; and,
- Creating a marketing plan to get the word out that Montana is business friendly and open.

KIN members present liked the plan.

Group A discussed Workforce Issues.

Co-chair Mike Robbins and Tom Kaiserski reported on Group A discussions. Group A concluded the greatest need is a better match between current workforce training/curriculum across all levels of education in the state to meet the workforce needs of manufacturers. To accomplish this goal, Group A recommended a statewide effort among education officials, labor officials, and the manufacturing industry. KIN members felt the proposed workforce summit would be the appropriate venue for addressing this issue.

Group C discussed Transportation Solutions

Brian Wood summarized Group C discussion on ways companies could improve transportation efficiency such as cooperative agreement among manufacturers, getting more difficult to get containers, small package shipping, etc.

Blossom and Walsh are exploring potential opportunities for American Chemet and Simms to work together to ship product from Seattle and back. Blossom mentioned that Chemet uses rail because it is low cost but timing is much less certain and predictable than trucking. Paddy Flemming mentioned development of a new Internet type of package shipping service similar to the personal taxi/ride service [Uber](#). Transportation was discussed as a cross-KIN issue which needs to be coordinated with the Transportation KIN that is forming (co-chairs for that KIN are Jason Matheny, Chairman and CEO of Davis Transport, Inc., and Thomas Walsh, President and CEO of Montana Rail Link, Inc.).

Mary Craigle noted a need for a communications platform/ hub where the State and KIN members could help with international logistics, helps small businesses. The KIN feels there is a need to hold a transportation summit once the Transportation KIN is formed.

Group E discussed tax policy

K.C. Walsh reported on the outcome of Group E's January conference call. The Business equipment tax and capital gains tax rose to top of the list of issues discussed by the group. K.C. noted that there is a good body of evidence from other states that investment tax incentives are effective in encouraging investment and creating jobs and there is a need to elevate what we're already offering.

1:30 PM Update on Administration and Legislation by Jim Molloy, Senior Policy Director

Jim Molloy noted Governor Bullock's 3 guide posts with regard to tax policy:

1. Structural balance- amount going out can't exceed amount coming in
2. Essential government services are going to be funded (definition of essential might be different than some legislators)
3. Maintain the \$300 million ending fund balance

Molloy discussed House Bill 5, "Build Montana", the unified state infrastructure program, which finances project through a blending of bonding and cash. The bill needs ¾ majority to pass.

Other key bills are the early education initiative, Medicaid expansion, the Flathead water compact, and the campaign finance transparency act. Molloy said the Governor is aware that this KIN has identified the Business Equipment Tax as an issue and that that is fair game – but all the while noting that any tax decrease causes effects.

Molloy noted that the Governor is not advancing any major tax initiative noting the 6th place ranking by the conservative Tax Foundation. He also said, as far as property taxes go, Montana is 8th lowest overall according to MT Department of Revenue biennial report. The Governor further recognizes that any tax initiative will be hard across the aisle.

Molloy reported on the following tax bills in the Legislature:

- House Bill 166, income tax cut, will be vetoed
- House Bill 213, Business equipment tax, increasing the exemption from \$100,000 to \$500,000, \$18.1 million then \$24 million.
- House Bill 277 apprenticeship tax credit, would provide about a \$1 million dollars
- Senate Bill 157 reappraisal cycle would go up every 2 years instead of every 6 years
- Senate Bill 171 tax simplification bill, revise personal and corporate income tax, trying to make it revenue neutral. Up for third reading, will go over to the house
- Senate Bill 200, Senator Ackney, try to "cut taxes for the working stiff" went over to the house

2:00 PM Top KIN Priorities

Following Molloy's presentation the KIN established four priorities to address that will make Montana a more competitive state in which to attract and retain manufacturing businesses, as follows:

- 1) Improve Access to Capital
- 2) Enhance Workforce Development
- 3) Make Tax Policies and Business Incentives More Competitive
- 4) Hold a Transportation Summit to Improve Transportation Efficiencies

The KIN identified a number of **action items** that would help to address these priority areas:

- Support MMEC funding in current legislative session
- Support HB 213 the Business Equipment Tax reduction bill. K.C. Walsh will draft letter to Governor
- Support HB 277 the workforce training bill
- Tom Kaiserski will gather information on tax incentives, funding assistance, and workforce training programs for a webinar(s) for KIN members which would be presented by state experts in these areas. These informational webinars would be a precursor for the Manufacturing KIN to identify new tax and funding assistance proposals with these goals:
 - Move to #1 in Business Tax climate
 - Simplify the MT Tax system for Manufacturing businesses
- Encourage the state to hold a transportation summit once the Transportation Kin is formed
 - Create a cross-KIN transportation information portal with the goals of increased efficiency and decreased cost of transportation
 - Brian Wood, Neal Blossom and Tracy Lofstrom volunteered to gather information on this
- Participate in a cross-KIN access to capital working group to move Craig Wilkin's proposal forward with these goals:
 - Identify three sources for additional funding
 - Use Texas and Massachusetts programs as models
 - Seek to increase funds from Craig's \$25 million vision to \$100 million