

“Manufacturing is the bedrock upon which this country was built. It is the driving force and creative catalyst of our continued progress. Yet, manufacturing has a major problem in America.”

With these words, American Axle & Manufacturing, Inc. co-Founder, chairman and CEO Richard E. Dauch painted a challenging picture of manufacturing in our country at the turn of millennium. In his speech in May 2004 to the Detroit Economic Club he was clear that what he says about manufacturing in America goes double for virtually all types of manufacturing in Michigan. Our state’s manufacturers are, in Dauch’s words, “in the crosshairs.”

A National Association of Manufacturers study shows external overhead costs, including corporate tax rates, health care costs, tort litigation and excessive government regulation add 22 percent to the cost of an American-manufactured product. In Michigan, it’s even higher, with manufacturers here facing some of the highest corporate taxes and regulatory burdens in the nation.

The Michigan Manufacturers Association (MMA) has been at the forefront of fighting to cut the external overhead costs imposed by state and local governments.

In 2003, MMA issued the first Michigan Manufacturing Agenda, prepared after extensive meetings with its member companies. It listed five primary categories of issues that state government should address to give manufacturers a fighting chance here in the Great Lakes state: Control health care costs, reduce business taxes, provide rational environmental regulation, hold the line on litigation reform and increase choice and competition in education.

We saw progress on several of those issues in 2003, particularly in reducing the health care “add back” to the Single Business Tax (SBT), blocking numerous fee increases and encouraging Gov. Granholm to start the process of developing one-stop shopping for state business permits. We were particularly encouraged by the governor’s Michigan Manufacturing Summit in the winter of 2003.

Buoyed by those accomplishments, we issued our second Michigan Manufacturing Agenda in 2004,

again focusing on those same five primary categories. And again, we have seen some progress, as the Legislature and governor moved ahead to give tax breaks to tool and die makers and began streamlining the state environmental permit process.

But these steps alone will not be enough in today’s hyper-competitive, global economy. We must expect — and will push for — stronger actions by our legislative leaders and the governor to match policy action with policy ambition.

We watched as legislators last year failed to approve changes to root out fraud in the state unemployment tax system, missing a golden chance to save employers — mostly manufacturers — some \$60 million in unemployment costs for 2005.

Michigan’s current business taxes serve as a disincentive to investment in our state. Just two percent of the state’s businesses — virtually all manufacturers — pay 60 percent of the SBT.

While balanced and cost-effective environmental regulation, based on sound science, benefits Michigan’s citizens, excessive and unnecessary regulations force manufacturers to spend time and money they don’t have addressing issues that do not contribute to the health and safety of our citizens.

And, with global competition demanding the highest skill levels, how can we discourage efforts to expand the number of charter schools and the choices they bring to beleaguered families?

Michigan’s manufacturers remain in the world’s economic crosshairs. Only through hard work and difficult choices will we regain a competitive edge. If we don’t, we will lose companies and more and more jobs from Michigan.

The 2005 Michigan Manufacturing Agenda is here. We’re ready to roll up our sleeves once again and take it to the men and women who have been elected to lead the state. We have made our commitment to action. We need — and must expect — theirs.

Welcome to the 2005 Michigan Manufacturing Agenda.



This isn't just an agenda for manufacturing, however. The policies and programs described inside are actually an agenda for the Michigan economy as a whole.

During 2004, a strange debate unfolded during which some sought to say that we needed to choose between manufacturing and some other, obscurely defined "knowledge" economy. I say we don't need to choose: Some of the most knowledgeable people you'll ever meet are tool and die makers on shop floors, robotics programmers in assembly plants and line workers running sophisticated, million-dollar pieces of equipment. ***Let there be no doubt: Manufacturing is part of — not apart from — the knowledge economy that is the future for Michigan.***

And that's good for Michigan. Manufacturing contributes nearly a quarter of Michigan's Gross State Product: \$74 billion, compared to \$31.4 billion for retailing and just \$3 billion for agriculture.

Manufacturing payrolls are nearly a third of the state's total payroll. Production workers at manufacturing plants earn an average of \$35,790 annually, well ahead of the average state income for retail workers, at \$31,350, or employees in the service industry who earn about \$21,500. And then there are the excellent benefits, with nearly every manufacturer providing health care insurance for employees.

And, of course, the vast majority of the Single Business Tax is paid by manufacturers.

So, as the Michigan Manufacturers Association unveils its 2005 Michigan Manufacturing Agenda, it is important to realize that there is no fundamental distinction between what is good for manufacturers, what is good for other businesses and what is good for Michigan.

While we call this the Michigan Manufacturing Agenda, we say with confidence that this should be simply Michigan's Agenda. The failure to address items in this agenda hurts virtually all businesses in the state, leading to job erosion across the board and hurting the ability of our state to provide work for our children.

This year's agenda was developed after lengthy discussions with our policymaking committees, and is the result of hard work by our government affairs and communications teams. Elected officials looking for a business plan that will help rejuvenate manufacturing in Michigan need look no further.

But like all business plans, this one must be taken seriously and implemented carefully. We hope anyone interested in helping create jobs and wealth for our state will use the Michigan Manufacturing Agenda as their guidebook. It's not just an agenda for manufacturing. It's an agenda for Michigan.

Sincerely,

A handwritten signature in black ink that reads "John W. 'Mac' MacIlroy". The signature is fluid and cursive, with a long horizontal stroke at the end.

John W. "Mac" MacIlroy
President and Chief Executive Officer
Michigan Manufacturers Association

Reduce health care costs

Spiraling health care costs are severely hampering companies' competitiveness and must be remedied. Unlike other sectors, nearly all Michigan manufacturers provide health care benefits to their employees so this issue hits the entire manufacturing industry extremely hard.

Recommendations

Support a strong Certificate of Need (CON) process

- Block any attempt to weaken or bypass the CON process.
- Support efficient administration of the program.

Oppose any new health care mandates

- Oppose legislation that interferes with employers' right to utilize mail-order prescription services as a cost-saving measure.
- Oppose passage of mental health mandates.

Support consumer-driven health care systems and legislation

- Assist in drafting and seek introduction and passage of health savings account conformity legislation to include incentives for Michigan businesses to participate.
- Support legislation that encourages individuals to take personal responsibility for health care.

FACT:

Virtually all manufacturers provide health insurance benefits to their employees.

Cut business taxes

Michigan's business tax burden is among the highest in the nation. And business taxes go well beyond the Single Business Tax (SBT). Michigan manufacturers labor under a heavy personal property tax burden and face sales and use taxes on certain purchases. The recent tendency to impose increased fees on top of taxes and to sidestep local property tax limits also continues to hamper our state's overall business climate.

Recommendations

Reduce the Single Business Tax burden on manufacturers

- Take a leadership role in discussions to develop and pass legislation that cuts SBT taxes paid by manufacturers.
- Work with executive office and legislative leaders to seek introduction of legislation to broaden the base of the SBT.
- Advocate research and development tax credits.
- Assist in drafting and seek introduction and passage of legislation to eliminate the health care add-back to the SBT.
- Move the sales factor in the SBT apportionment formula from 90 percent to 100 percent.

Reduce the Personal Property Tax burden on manufacturers

- Take a leadership role in drafting, introducing and passing legislation to reduce personal property taxes on manufacturers by instituting a credit for personal property taxes on the SBT.
- Assist in drafting and seek introduction and passage of legislation that will allow local governments to waive personal property tax.
- Oppose legislation that would allow local governments and schools to circumvent current property tax millage limits.
- Assist in drafting and advocate introduction and passage of legislation that will create a presumption favoring businesses that file for exemptions from sales taxes on pollution control equipment.

FACT:

Manufacturers pay about \$740 million in Single Business Taxes, nearly \$30 billion in real and personal property taxes and \$66 million in use taxes — some of the highest business taxes in the nation.



Reduce the sales and use tax burden on manufacturers

- Oppose the expansion of sales and use taxes to services.
- Continue to oppose expansion of local sales and use taxes.
- Oppose streamlined sales tax legislation that would narrow the current scope of the industrial processing tax exemption in Michigan.

Avoid adding new fees and taxes on top of existing high business taxes

- Oppose revenue shifts in legislation or executive orders from General Fund to fees.
- Oppose effort to fund workers' compensation system with new employer fees.
- Encourage administration and Legislature to retain General Fund support in the air permit program to avoid effectively doubling the air fee.
- Lead development and seek introduction and passage of legislation to ensure that the state imposes only the federal minimum fee for the federally mandated Title V air program.
- Oppose fee increases in the hazardous waste program.
- Oppose fee increases in solid waste management programs.

Seek immediate introduction and passage of legislation that will eliminate State Unemployment Tax Act (SUTA) "dumping" to ensure the integrity of the state unemployment compensation rating system

Michigan's landmark product liability and workers' compensation laws have stood the test of time and should be protected. Manufacturers also continue to support appropriate use of state tax incentives to attract jobs and oppose court efforts to impose new regulations that don't meet science-based criteria.

Recommendations

Maintain product liability and workers' compensation reforms

- Oppose legislation that would weaken the current product liability laws.
- Oppose legislation that would weaken the current workers' compensation system.
- Assist in drafting and seek introduction and passage of legislation mandating medical criteria for asbestos lawsuits.

Continue to support manufacturing positions in key cases in state and federal courts by filing amicus curiae ("friend of the court") briefs.

- File an *amicus* brief to support Nestlé Waters North America, Inc. in overturning lower court rulings regarding groundwater withdrawals.
- File an *amicus* brief to oppose in federal courts the *Cuno v. DaimlerChrysler* decision limiting state tax incentives.

FACT:

American manufacturers are burdened by a 3.2-percent cost disadvantage related to litigation costs compared to their major foreign competitors.

Source: NAM "How Structural Costs Imposed on U.S. Manufacturers Harm Workers and Threaten Competitiveness" Report

Reduce and streamline regulation

Red tape is strangling Michigan job creators. Michigan manufacturers are willing to do their part as environmental stewards. However, unnecessary regulations that do not protect the environment waste valuable manufacturing investment. In addition, slow and unpredictable permit processes deter investment and make Michigan a difficult place to grow a business and attract new investment.

Recommendations

Continue to improve efficiency and reduce paperwork in all regulatory programs

- Advocate repeal of the Annual Wastewater Report.
- Encourage the Michigan Department of Environmental Quality (MDEQ) to apply time and efficiency studies to all regulatory programs.
- Encourage MDEQ to implement electronic automation where possible to reduce paperwork, increase efficiency and reduce program costs.
- Eliminate regulatory duplication by supporting suspension of Michigan air toxics rules where federal Maximum Achievable Control Technology standards or other federal standards have been promulgated.

Oppose unnecessary water regulations

- Encourage the administration and Legislature to oppose current Annex 2001 proposals.
- Oppose new groundwater and surfacewater regulation that lacks clear scientific justification and threatens Michigan's economic future.

Encourage a regulatory structure rooted in sound science that encourages economic development, while protecting the environment

- Assist in drafting and seek introduction and passage of legislation to ensure air emission offset credits are available in Michigan's non-attainment areas.
- Assist in drafting and advocate introduction and passage of legislation for the development of a State Implementation Program to meet federal clean air standards while avoiding disproportionate costs on manufacturers.
- Oppose state mercury air emissions regulation where federal rules are promulgated.
- Oppose any state- or region-based greenhouse gas regulation on manufacturers and utilities.

FACT:

Total aggregate air emissions in the U.S. dropped 51 percent from 1970 to 2003, while, during the same period, the GDP rose 176 percent and total vehicle miles traveled increased 155 percent.

Source: U.S. EPA Air Trends report.

Support the on-going success of the brownfield program

- Oppose any efforts to reduce existing brownfield incentives.
- Defend brownfield redevelopment policies from inconsistent or duplicative federal regulation.
- Request more state-based outreach programs to increase potential participants' awareness of brownfield opportunities.

Support continued dialogue aimed at obtaining reasonable, science-based solutions for environmental legacy challenges

Block attempts to impose mandatory, state-based ergonomic standards

Support economically advantageous recycling efforts that do not increase manufacturing costs

- Oppose recycling taxes or fees on manufacturers to support residential recycling programs.
- Assist in drafting and seek introduction and passage of legislation to allow the beneficial reuse of industrial by-products such as fly ash, bottom ash, cement kiln dust, composted materials, sludge and other reusable materials.

Develop a productive workforce

Michigan's workforce must continue to increase its skills and preparation for the jobs of tomorrow if we are to win the high-tech manufacturing jobs that are least susceptible to export. Improvement in Michigan's education and workforce development operations are imperative.

Recommendations

Raise the cap on charter schools

- Seek reintroduction and passage of legislation to raise the cap on charter public schools.
- Oppose any efforts to eliminate or limit the autonomy of existing charter schools.

Develop effective career development programs

- Work with the Departments of Education and Labor and Economic Growth to continue Career Pathways and to explore blended high school/skilled trades/higher education career opportunities.

Support efforts to increase Michigan's skilled workforce

- Work with administration officials to increase manufacturer appointments and participation in Regional Skills Alliances across the state.
- Support development of a state-based manufacturing careers website.

Support new high school academic and workforce skills assessment testing system

- Lobby for adoption of ACT/WorkKeys as the vendor for a high school exam to replace the MEAP.

FACT:

There is a looming shortage of highly skilled, technically competent manufacturing employees who can fully exploit the potential of new technologies and support increased product complexity.

Effective economic development activities start with steps to prevent companies from considering moves out of the state. We need to ensure that Michigan takes action to reduce the huge structural impediment imposed by state costs and works with the federal government to overcome key bottlenecks in international trade, through fair currency valuation and cross-border efficiency.

Recommendations

Support efforts to allow government incentives to manufacturers through appropriate tax and regulatory policies

- Encourage the Michigan Economic Development Corporation to make job retention a top priority.
- Support extension of the Michigan Economic Growth Authority cap.
- Support a fair-valued dollar.
- Work to maintain federal funding for Trade Readjustment Assistance and Manufacturing Extension Partnerships.

Support efforts to improve border crossing efficiency, while stopping the traffic of counterfeit products

- Coordinate with key federal, Canadian and metro-Detroit groups on development of a regional border crossing plan.
- Work to raise awareness of product counterfeiting and the corporate and state revenue losses it creates.
- Work with the Michigan Congressional delegation to support efforts to protect international intellectual property rights and oppose currency manipulation.

Improve tool and die recovery zone law to increase effectiveness and efficiency

Assist in drafting and seek introduction and passage of legislation to:

- Amend the law to allow collaboratives to replace and/or add new members.
- Increase the number of employees a company can have to be eligible for the recovery zone law.
- Increase the number of collaboratives allowed by the state.
- Broaden current law to allow inclusion of other at-risk industries.

Continued



Develop a long-range plan to address energy needs, costs and delivery for manufacturers

- Actively participate and advocate manufacturing needs with the Michigan Public Service Commission on plans to meet Michigan’s long-term energy needs.
- Advocate for legislation and other state policies expanding utilities’ ability to obtain rights of way.

Encourage mining and forestry investment in Michigan

- Continue discussions with the MDEQ regarding appropriate regulations that will encourage mining.
- Oppose legislation aimed at increasing mining and forestry regulation, particularly if it yields little environmental benefit and is not backed by sound science.
- Encourage more active management and wise use of state and federal forests.



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Advisory Committees

The Michigan Manufacturers Association's 14 Advisory Committees are made up of member-company representatives and meet periodically to review issues and help develop public policy positions. Contact MMA today for more information, at 517-487-8552 or government@mma-net.org.

Air Quality Advisory Committee

Actively monitors air quality regulations and participates in the development of legislative and regulatory policy.

Education Advisory Committee

Provides advice and ideas to MMA on education and training issues and reviews education reform initiatives.

Energy Advisory Committee

Provides a forum for exchanging information on energy utilization and potential industry strategies to lower overall energy costs.

Environmental Quality Advisory Committee

Addresses environmental issues of broad concern to manufacturers and provides opportunities to interact with policymakers and legislators.

Government Affairs Advisory Committee

Addresses major issues that impact industry and provides opportunities for interaction with state government officials.

Health Care Advisory Committee

Closely monitors issues that impact employers' health care costs.

Industrial Health Advisory Committee

Facilitates communications between MIOSHA, Michigan's Joint Committee on Administrative Rules and employers on issues related to health standards and other state regulations.

Information Technology Advisory Committee

Explores advances in technology and how they will affect manufacturers and participates in the development of technology-related policy.

Lawyers Committee

Monitors and takes an active role in major court cases that may impact manufacturing.

MIOSHA Advisory Committee

Discusses issues and recommends positions on matters related to MIOSHA programs.

Solid and Hazardous Waste Advisory Committee

Reviews and analyzes solid waste, hazardous waste and recycling proposals and regulations.

Tax Advisory Committee

Reviews and provides recommendations on tax-related issues.

Water Quality Advisory Committee

Reviews a broad range of water quality issues, regulations and permit requirements.

Workers' Compensation Advisory Committee

Reviews workers' compensation issues that impact employers and provides an opportunity to interact with state government officials.

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Facts about manufacturing's contribution to Michigan

Diversity

Michigan has one of the most diverse industrial bases in the world. According to the North American Industrial Classification System (NAICS), Michigan is represented in 229 different classifications of manufacturing enterprises.

Michigan remains first in the nation in automobile manufacturing, producing 34.1 percent of the nation's output, and is second in production of trucks (15.6 percent). However, more than half of Michigan's manufacturing output is unrelated to the auto industry. Without taking into account vehicle manufacturing, Michigan would still rank as the 13th-largest manufacturing state.

GSP contribution

Manufacturing contributes 23 percent of Michigan's Gross State Product — nearly \$74 billion out of a total \$320 billion and far outranks such economic sectors as finance, insurance and real estate (\$50.3 billion), retailing (\$31.4 billion), construction (\$16.0 billion) and agriculture (\$3.0 billion).

Employment

Manufacturing payrolls make up nearly 30 percent of Michigan's total payroll, \$37.8 billion out of the state's \$128 billion total. Michigan's manufacturing industry employs 701,000 workers out of a total workforce of 4.4 million workers, about 16 percent.

The mean average annual income for production workers in Michigan is \$35,790, with the median hourly

wage of \$15.47 ahead of the state median hourly wage of \$12.25. In addition to good pay, virtually all manufacturers provide health care benefits to their employees.

Tax support

In 2000, Michigan manufacturers paid \$743 million in Single Business Taxes and contributed \$29.5 billion in real and personal property taxes in 2002. Michigan manufacturers also pay significant amounts in use taxes. Transportation manufacturers paid \$66.4 million in use taxes in 2003.

Manufacturing employers are also taxed to support Michigan's unemployment insurance and workers' compensation funds. In 1999, manufacturing paid 34.9 percent of the state's total unemployment insurance collections of more than \$990 million.

Knowledge production

More than 1,100 firms in Michigan performed \$13.5 billion worth of research and development in 2002. Research on transportation equipment contributes the greatest amount of the total, with \$10.4 billion.

Export growth

Michigan remained the nation's fifth-ranked state for exports in 2003, shipping \$32.9 billion in goods and services. The state accounts for the largest share of U.S. exports of transportation equipment, with sales abroad of automobiles, trucks and parts in excess of \$14.6 billion.

Industrial machinery and computers account for \$6 billion in exports from Michigan, followed by electronics (\$1.8 billion) and plastics (\$1.3 billion).

Community commitment

Of our state's nearly 16,000 manufacturing firms, more than 98 percent have fewer than 500 employees and nearly 64 percent have 19 or fewer employees — indicating that the small, community company is the backbone of Michigan's manufacturing industry.

Estimates by the Council of Michigan Foundations indicate that our state's manufacturers set aside more than \$1 billion toward educational, cultural, human services and other charitable initiatives.

Environmental stewardship

Efforts by Michigan manufacturers to improve air and water quality have resulted in substantial gains in these areas. The Michigan Environmental Science Board reported that "as a result of these [manufacturers'] improvements in pollution control and recycling, as well as the encouragement of brownfield redevelopment and other factors, many of the air, water and land environmental problems that were of greatest concern 30 years ago have been corrected or are in the final stages of being corrected."



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