

**Testimony before the House Appropriations Subcommittee on the MDEQ
February 28, 2007**

Thank you for the opportunity to speak briefly, about the proposed MDEQ fee increases. I look forward to the opportunity at a later date to speak in more detail about each individual fee as each fee program has its own history and unique circumstances. I plan to speak in general about fees and share MMA's perspective on fees.

First, let me describe manufacturing in its importance to Michigan's economy. MMA represents about 3,000 members that operate in the full the full spectrum of manufacturing industries. Our members represent 90% of Michigan's industrial workforce. Manufacturing, along with allied industries mining and utilities, is the largest single sector of the economy, creating 21% of the gross state product, far ahead of the next sector, real estate, which makes up 12%. Manufacturing wages are about 25% higher on average than any other sector. Michigan is a large manufacturing state making 23% of the automobiles made in America and hosting 50% of the nation's auto supplier base. Even without the automotive industry, Michigan would be the 13th largest manufacturing state.

A word about global competition - It is important to recognize that the manufacturing sector competes in the global economy in ways that other business sectors do not. We don't compete with companies down the street, we compete on the basis of price with the lowest cost location anywhere in the world. If we don't win on price, we lose market share.

Michigan has lost about 400,000 jobs in this state since 2000. We have the second highest unemployment rate in the nation, sandwiched between Louisiana and Mississippi, both of which were hit by hurricane Katrina. Increasing costs on manufacturers is not a step in the right direction.

The MDEQ proposes to increase program fees by about \$20 million.

- Increase on average about 85% over the current levels,
- Range from 43% to 282% increase.
- The list of individual fees includes,
 - o Air Fees (\$5.5 million – 50% increase),
 - o Groundwater Waste Reduction Fee (\$1.8 million – 140% increase),
 - o On-site Wastewater Management a newly created fee (\$589,000),
 - o Hazardous Waste User Charge (\$1.2 Million – 75% increase),
 - o Waste Reduction Fee (\$2.4 million - 100% increase),
 - o Solid Waste Program Fees (\$1.8 million – 43% increase)
 - o Land and Water Permit Fee (\$6.2 million – 282% increase).

To move forward more productively, we suggest some different approaches.

First, we are concerned about the recent trend of removing general fund from the Department of Environmental Quality and replacing those revenues with new and increased fees on the back of the business community. Director Chester has pointed out that the department has lost about \$100 million dollars in general fund support since 1996 and we share his concern. We believe that the public has an interest in efficient, effective, and well funded environmental programs. It is good economic policy to ensure that environmental permitting is performed in a timely manner to ensure that government is not a barrier to the meeting the ever increasing pace of the global marketplace.

However, we have become increasingly concerned, because as general fund contributions drops, that cost burden is shifted largely to manufacturers. This increases the cost of production in Michigan reducing our ability to compete in the global market. Some might say that the increase is only \$20 million, but we have lost \$100 million in general fund - \$100 million here and \$100 million there; pretty soon you're talking real money. Shifting the tax burden to manufactures is an economic policy that is going in the wrong direction for Michigan.

Secondly, if you look at all of the fee proposals they are based fundamentally on automatic cost of living increases, while keeping the same number of staff or some cases increasing the number of staff. Designing budgets, and defining revenue demand based solely on the consumer price index, will always result in the increased cost of Government. Manufacturers must continually increase efficiencies and do more with less, just to stay in business. We think the agency should offset the increased cost of CPI with efficiency increases. While the MDEQ has talked about increased efficiencies, you will notice none of the fee proposals suggest fewer FTE's going forward as a result of increased efficiencies. We think efficiencies ought to translate into lower costs and be communicated in terms of fewer FTE's.

Moreover, we suggest that every division should implement efficiency programs, like the "value stream mapping" process used successfully in the AQD. The agency has proposed eight new fees, but has only implemented the efficiency programs in two of them. These efficiency programs should be an integral part of operating programs just like the business community does.

Thirdly, we believe government must live within its means. Total state revenues have dropped. Just like businesses, government must shrink to match revenues. The agency cannot afford their current set of programs, but they are still creating new programs – such as the mercury program that goes beyond the federal standard, which is the only mercury specific regulation on the planet. At a minimum, we suggest the agency shouldn't create new programs when they can't afford to run the programs they have now. In addition, the agency should be looking at programs and services that can be eliminated.

Fourth, let me describe the insidious cycle of fees. Environmental regulatory program fees are different than other types of state fees like vehicle registration fees, or real estate license fees. Regulatory fees are generally based on emission. As emissions drop, and as the number of fee payers drops, fees must increase on the remaining fee payers. Moreover, the remaining payers must pay to replace the drop in the general fund contribution, pay for the automatic Consumer Price Index increases, additional state and federal regulation, and the lack of increased agency efficiency. This cycle has continued to the extent that the agency is calling for an average of 85% fee increases. Where is the point at which the manufacturing base can no longer support this much government?

In closing, let me share some sobering statistics reported recently by the Mackinac Center:

- The Bureau of Labor Statistics reported that 2006 was the first full year that total government employment in Michigan exceeded the number of manufacturing employees (this BLS data set goes back to 1956 and also is seasonally adjusted).
- In 2005, on average state government employees, earned about 18 percent more than private sector workers.
- In fiscal 2005, Michigan-classified state employees' benefits averaged almost 54 percent of base payroll, whereas in the private sector, nationwide benefits averaged almost 41 percent of base payroll.

Government must live within its means. The agency's plan to shift the increased cost of running the agency almost exclusively to manufacturers, is just plain bad economic policy.

Thank you for the opportunity to share our views.

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