

Testimony on SB 242 (Stamas), SB 243 (Schmidt), and SB 244 (Bieda)
House Committee on Tax Policy
6/20/17

Chairman Tedder, Members of the Committee, thank you for the opportunity to speak today in support of The Good Jobs for Michigan package. My name is Sandy Ring and I am here today on behalf of the Michigan Manufacturers Association, as its Vice Chairman. But I also bring some other perspectives and insight that I trust the Committee will find useful.

- I have been the Chief Operating and Business Development Officer of the MEDC.
- I was a senior executive with a Japanese transportation OEM where I was directly and intimately involved in siting decisions – including obtaining state and local incentives.
- As a lawyer in private practice, I assisted companies with issues related to plant locations and negotiating incentives.
- And currently, as Executive Vice President and General Counsel of Ghafari Associates, a global Architecture and Engineering firm based in Dearborn, we see how incentives affect our clients' siting decisions – and, while we will follow our clients to any State they choose, we certainly like to see investment in Michigan.

Manufacturing in Michigan

While my main purpose is to forcefully reiterate the message that incentives DO matter . . . please allow me to make a quick plug for the manufacturing sector – even though the Good Jobs package, importantly, IS NOT sector specific.

- Manufacturing is the largest sector of the Michigan economy by Gross State Product, making up 21% of the private sector GSP.
- Manufacturing employs about 600,000 people in Michigan.
- Michigan is doing really well – leading the nation in manufacturing job growth. Almost 165,000 manufacturing jobs have been created in Michigan since June of 2009.

Good Jobs for Michigan Package

I appreciate that some of you may be ideologically against incentives. And, in a perfect world, your view might, in fact, be the most thoughtful and intellectually “pure.” However, we are not living in perfect world when it comes to incentives. Like it or not, many other States have far richer incentive programs than Michigan – particularly in the context of siting major projects.

In my varied experience, each company considers and ranks any number of factors in siting decisions: proximity to suppliers and customers; availability of skilled employees; cost of utilities; access to multimodal transportation; insurance costs/savings unique to a location; and the list goes on.

I do not think any company worth its salt makes a siting decision based solely on incentives. But where the other factors are roughly equal, make no mistake, the better incentive package is likely to close the deal.

Before I briefly share a couple of economic development anecdotes, there is one aspect of the legislative package I would like to highlight: it is limited to relatively large deals paying relatively high wages. While there are many arguments for this threshold – I believe among the most important is that these projects are likely to have a significant multiplier effect. If a company is going to create 500 new jobs, it will likely need to build a new building, or substantially renovate an existing building – in other words, construction jobs. Five hundred new employees require furniture, fixtures, and equipment – creating sales for the nearby providers of these products. Of course, the 500 jobs may also lead to residential construction, more retail sales, additional business for the local car dealers, etc.

If you will indulge me just a little longer, I would like to share some of my experiences that will hopefully give you sense of the incentive world today. When I was with the MEDC, there was a multi-facility company planning an expansion – which it could have done at any number of its locations. The company’s in-house economic development person shared that the company believed the expansion was worth “x” dollars in various incentives. I was told the company would shop the expansion among the many States where it had locations, and whichever State came closest to “x” is where the company would expand.

I also think that in the 11 or 12 years since I left the MEDC, there is simply more focus on incentives . . . on both sides of the equation. While I would defer more to a Birgit Klohs or other longtime economic developer – my sense is that States and localities are increasingly more creative in devising their incentive programs, and companies have gotten smarter about making the business case for receiving incentives.

While I am not specifically aware of whether this takes place as part of a company’s siting decision, consider the following scenario: publicly traded company X is going to site a new 500 employee manufacturing facility. It is considering Indiana and Michigan. The States are roughly equal in terms of access to suppliers and customers, workforce, etc. Indiana offers \$25 million in incentives; Michigan offers nothing. Is it arguable that the company has a fiduciary obligation to its shareholders to take the \$25 million?

I think the point is simple, even if politically unpalatable for some: incentives are a way of life for siting and multi-facility expansion decisions. I appreciate that for some, incentives equate to corporate greed or governments picking winners and

losers. I think it could be argued that incentives, in fact, are part of the free market system that incentive opponents claim as the ideal.

Let me expand on that statement. In a sense, a siting company is a consumer – not unlike all of us – and the States are automotive OEMs or clothing retailers, for example. As car buyers, if we like two roughly similar vehicles, one with a five percent rebate and one at full price – we are likely to purchase the vehicle with the rebate. Similarly, as savvy fashionistas, we are going to buy the tie on sale at J.C. Penny rather than the one not price reduced at Kohl's. Competitive pricing of products IS the free market at work.

We should be proud of Michigan's historic attractiveness as a place to site a business. We were and remain the State most associated with putting the world on wheels . . . We were the heart and soul of the Arsenal of Democracy . . . We continue to boast an incredibly skilled blue and white collar workforce . . . And we still offer beautiful coastlines and awesome golf courses.

And in recent years, we have reformed our corporate tax structure, removed antiquated regulations, and streamlined the permitting process.

But it is not enough.

In the context of deal closing incentives, we are at 56 kilobit dial up speed while other States are at 5 gigabits – I am not really that tech-literate – but I know Michigan is behind.

The Good Jobs For Michigan package is not a panacea. It does not guarantee that Michigan will win every siting or expansion battle.

But it does put us in the fight and help level the incentive playing field.

On behalf of the Michigan Manufacturers Association, we urge swift passage of Good Jobs For Michigan.

Thank you.