



Testimony on the Expansion of Manufacturing Tax Exemption House Committee on Ways and Means

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Thank you. My name is Chris Carrigan, and I am the Vice President of Business Development with the statewide Vermont Chamber of Commerce. I manage the Vermont Chamber's Manufacturing Division, Supply Chain Program, and the Vermont Chamber's Aerospace & Aviation Association. I also serve on the Governor's Aviation Council and Restart Advisory Council for Manufacturing and the Freight Plan Advisory Committee.

Today I am going to put forth some background, context, and the benefits of the proposal to expand the manufacturing tax exemption.

Vermont's Manufacturing Economy:

Manufacturing is vital to Vermont's economy. The industry includes 1,200 companies employing almost 30,000 Vermonters, representing 9.5% of all employment. Manufacturing also accounts for \$2.8 billion or 9% of the state's Gross Domestic Product (GDP). Additionally, each manufacturing job supports an additional 1.6 jobs, and each advanced manufacturing job supports as many as 4 jobs in other industries. For all these reasons we want to retain and grow our manufacturing base for good paying jobs that provide ongoing investment in skills, advancement, and good benefits, as well as internship opportunities for high school and technical educational students.

Pandemic Impact:

In 2020 the pandemic's impact to manufacturing in Vermont included a 15% workforce reduction and a pivot by our manufacturers to online commerce, cybersecurity compliance, increased automation, and digitization of the supply chain. Paradigm shifts brought about by the pandemic have also significantly impacted global supply chains, forcing our manufacturers to modify their sourcing strategies and lower costs while enhancing quality and being nimble at the same time to remain viable and competitive in an increasingly competitive, global market.

Expansion of the Manufacturing Tax Exemption:

The Vermont Chamber of Commerce supports the proposal to include machinery and equipment used as an integral or essential part of an integrated production operation and moving away from

the direct use standard to an integrated plan that makes tax exempt the use tax for ancillary processes that protect the quality of the product and which occur throughout the manufacturing process.

Economic Development:

By protecting product quality and including these ancillary processes, throughout and after the packaging process, this change and expansion will enable our Vermont manufacturers to:

- Achieve greater **compliance** and ensure **quality assurance** for their products and customers;
- **Reinvest** in workforce recruitment, new machinery and equipment, updated technology for cybersecurity compliance, increased automation, digitization of their supply chains, and adoption of Industry 4.0 trends, such as artificial intelligence, 3-D printing, and augmented reality; and
- Enhance their **competitiveness** in a challenging environment.

As mentioned by the Vermont Department of Taxes, many of our small Vermont manufacturers do not have the use and sales tax expertise and such a change in the proposal would allow our companies to focus more on recovery from the pandemic and rebuilding their businesses and supply chains.

An example of such a small company is KAD Models & Properties LLC. With clean-up funding through the State's brownfield initiative, KAD was able to establish a new satellite facility in East Randolph, VT and is now manufacturing machined products and prototypes for customers, including Apple, Google, Tesla, and LEDdynamics. KAD is an example of the next generation of entrepreneurial manufacturers we need to recruit, retain, help grow and support our local workforce and educational programs. And the expansion of the manufacturing tax exemption will help us accomplish this.

Expansion of the tax exemption would also serve as a very important economic development tool to attract, recruit, and, importantly, retain our larger, anchor manufacturers and suppliers and grow our tax revenues and economy. Large employers, such as GE Aviation, Collins Aerospace, G.S. Precision, Fulflex, A Garflex Company, KAMAN Aerospace, Sonnax Transmission Systems, Chroma Technology, Concepts NREC, and GW Plastics all provide Vermonters with well-paying jobs in the aerospace, automotive, industrial, and medical industries.

Expansion, furthermore, would serve as an important part of an overall strategy, which, in coordination with our partners at both the state and federal level, to transform Vermont into a Supply Chain Hub for aerospace and aviation manufacturing and strengthen our work to build the Vermont – Québec Aerospace Trade Corridor now officially extended to Connecticut.

Tax Exemption Vital for Competitive Advantage

I understand the difficulty this Committee has in allowing tax exemptions, balancing state revenues with economic growth, but this Committee has done good work in the past which has been very successful. To illustrate the benefits of tax exemptions, you passed the aviation sales tax exemption several years ago on the maintenance, repair, and overhaul (MRO) of parts, equipment, and machinery for commercial and private aircraft. This exemption has proven vital to Vermont aerospace and repair operations, which employ between 8 and 50 full-time, highly skilled employees and for which MRO for both commercial and private use constitutes between 50-98% of their business and gross revenues.

Especially given the downturn in commercial aviation, passenger traffic and the decline for MRO services, these Vermont manufacturers, more than ever, are relying on the aviation sales tax exemption for aircraft and depreciable parts to remain viable and survive, as commercial aviation is not expected to return to pre-pandemic levels until 2023. And the tax exemption is paying dividends. Leading original equipment manufacturers (OEMs) in the aircraft engine industry, including Pratt & Whitney, are engaging our Vermont aerospace manufacturers for the aviation sales tax exemption as they focus on Lean MRO to optimize their maintenance programs seeking greater cost efficiencies.

Vermont Chamber of Commerce Position

In closing, manufacturing is a vital and important industry and economic driver for Vermont's economy. With this proposal, we have an opportunity to further grow this industry and empower our manufacturers to reinvest, ensure quality assurance, be competitive, and, importantly, recover, and rebuild their businesses and supply chains.