

# 2012 Challenges & Opportunities

FOR MANUFACTURERS IN WASHINGTON STATE

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Key Findings from the Association of Washington Business



Economic & Workforce Solutions

# Message from AWB

Manufacturing in the state of Washington is at the same time, an international success story and an industry in transition. From commercial airplanes and heavy-lift cranes to hydraulic jacks, semi-conductors and doors, Washington's manufacturers are recognized around the globe as leading industry innovators.

Yet, at the same time, thousands of manufacturing jobs continue to go unfilled — even in one of the worst economies on record. A lack of skilled workers, able to meet the demands of large and small manufacturers statewide, continues to plague the industry. Workforce training must continue to be a priority, as should efforts to educate future employees as to the benefits of this powerful economic engine for the state's economy. Consider that Washington state manufacturers:

- Have an annual economic impact of \$132.2 billion
- Export \$52.4 billion in goods annually
- Offer average annual compensation of \$77,470 (2009)
- Support 258,300 other jobs in the manufacturing export industry

As such, it is important that the business environment of the state provide an opportunity for the industry to prosper and remain a key contributor to the state's economic climate.

Please take a moment to review the findings of our 2011 listening tour. They are integral to preserving and enhancing our state's manufacturing industry.



A handwritten signature in blue ink that reads "Don C. Brunell". The signature is written in a cursive, flowing style.

— Don C. Brunell, AWB President

# Manufacturing in Washington State

As the state's manufacturing industry association, as designated by the National Association of Manufacturers, the Association of Washington Business represents more than 2,000 manufacturers and works with several partners across the state to ensure the industry is represented fairly in the state. Washington state's business climate, workforce training needs, and business expansion are just a few of the issues AWB addresses through its advocacy work and as a representative on several state level boards and organizations.

In August, September and October of 2011, representatives from AWB and the AWB Institute held focus groups with manufacturers in Moses Lake, Spokane, the Tri-Cities, Vancouver, Everett, and Mount Vernon. The goal: To hear first-hand from Washington manufacturers about the economic, regulatory and workforce challenges faced by the industry. The following areas were discussed with each group:

## Business Competitiveness

- What regulatory structures in Washington state make it difficult for you to conduct and/or expand your business?
- Are there specific transportation infrastructure needs in the state of Washington that would provide more support for your business?
- What value have you realized in state tax credits such as the Machinery and Equipment Sales and Use Tax (M&E), B&O Credit for Aerospace, Rural County Tax Credit, others?

## Business Expansion

- What are the biggest barriers to expanding your business?
- Do you have the opportunity to expand in the domestic market? If so, what markets?
- Do you have the opportunity to expand in the international market? If so, what markets?
- Do you believe you are fully informed about exporting? If not, what resources do you need in order to evaluate your exporting opportunities?

## Workforce/Training Needs

- What are your current training needs?
- What specific jobs are you having the most difficulty filling?
- Where do you currently train your employees; at your workplace, through a contractor, two- or four-year public institution or a private institution?
- Do you require credentials and/or certificates for your positions? If so, which ones?

AWB REGIONAL MANUFACTURING  
MEETING LOCATIONS:

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August - October 2011

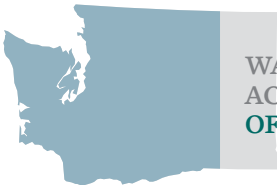
- Everett
- Mount Vernon
- Moses Lake
- Pasco
- Spokane
- Vancouver

## Key Findings

AWB heard from more than 70 employers representing approximately 5,000 employees at six meetings around the state who discussed the advantages of tax credits, struggles with hiring a qualified workforce and issues concerning regulatory oversight. Hearing first-hand from business is key to understanding and addressing the needs of the manufacturing industry in order to support the growth of the sector.

Washington state manufacturers attending AWB's regional meetings identified the following items as the top areas of concern for the industry:

- Power rates must remain competitive. Changes are needed to Initiative 937 in order for manufacturers to remain competitive with other states.
- There are serious regulatory issues and impediments with several state and federal regulatory agencies that must be addressed.
- There is a lack of a skilled workforce to meet demand.
- Tax incentives play a vital role in the growth of the manufacturing industry and must be protected.



WA STATE MANUFACTURERS  
ACCOUNT FOR **78 PERCENT**  
OF THE STATE'S EXPORTS.

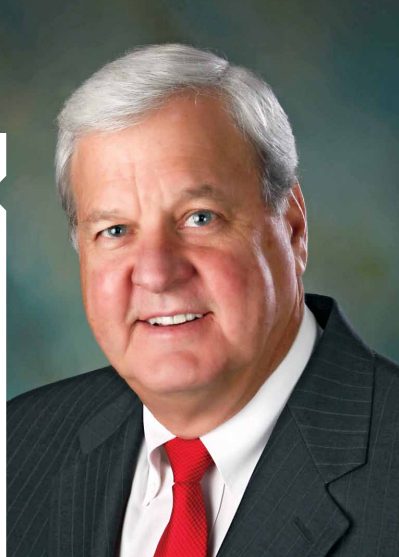
### Power Rates and I-937

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Businesses and industries located in Washington state enjoy the benefits of a reliable and competitive power supply. Washington is a leader in capitalizing on energy efficiency opportunities to extend supplies and keep prices competitive. Washington state is one of the lowest emissions producing states ranking number 5 in per capita emissions from electric power generation pulling

“Manufacturing is key to the economic viability of the state of Washington. The jobs provided by and the global presence of the industry will maintain Washington state’s leadership in manufacturing.”

— Bill Lampson, President,  
Lampson International, Kennewick



70.1 percent of its energy from hydropower (Source: 2011 AWB Greenbook). This competitive advantage of renewable and inexpensive power is attractive to businesses looking at locating in the state and existing businesses that have reached the point of expansion.

Initiative 937, passed by the voters in 2006, requires utilities to buy 15 percent of their electricity from renewable sources by 2020 — and it limits the purchase area to western Montana, northern Idaho, Oregon or Washington. Furthermore, the initiative excludes hydropower, even though hydropower produces 70 percent of our state’s electricity. Changes to I-937 are necessary to keep Washington state businesses competitive and prevent big increases in power rates. Washington state manufacturers attending AWB’s regional manufacturing meetings identified the following key issues concerning power rates in our state:

- There is currently a credit on some of the power generated in the state of Washington.
- This credit will expire, but is permanent in other states, threatening the viability of industry in the state.
- The definition of renewable energy must be modified.

# No.5

WASHINGTON’S RANK IN  
PER CAPITA EMISSIONS FROM  
ELECTRIC POWER GENERATION

70.1% FROM  
HYDROPOWER



# \$132.2 billion

ANNUAL ECONOMIC IMPACT FROM  
WA STATE MANUFACTURERS



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NEARLY **12**  
**MILLION** AMERICANS  
(9% OF THE WORKFORCE)  
ARE EMPLOYED **DIRECTLY** IN MANUFACTURING



“The manufacturing industry has jobs available. The challenge is finding employees with strong math, science, and writing skills. Our company will train specific manufacturing processes, but we need people who can communicate critical project information to their supervisors and peers. Schools need to focus on these basics and industry needs to tell these students how learned skills translate to jobs.”

—Lisa Janicki, Chief Financial Officer, Janicki Industries, Sedro-Woolley

## Skilled Workforce

U.S. manufacturing needs a strong technical workforce. Manufacturers rely on the right workers with the right skills at the right time to drive innovation, increase productivity and remain globally competitive.

The manufacturing workforce in Washington state is projected to increase almost 1 percent per year through 2019 (Source: Washington State Employment Security Department). Support for, and collaboration with, the state's higher education system is necessary to produce the demanded workforce needed to grow the manufacturing industry. Washington state manufacturers attending AWB's regional manufacturing meetings identified the following concerns about the state's workforce and training system:

- It is not difficult to find entry level workers to train, but it is difficult for small- and medium-sized businesses to keep them. Once trained, these employees move on to larger businesses for more pay and benefits.
- Higher-level workers, including management-level employees and engineers, are difficult to recruit. Shortfalls in math and critical thinking skills continue to be a challenge.
- Certifications are a positive aspect in the hiring process if they meet businesses workforce needs. With several credentials available, businesses need to fully understand the skills the credential covers and the value to them as a business if they are to accept them in their hiring practices.
- Work ethic is seriously lacking in the available pool of workers. Businesses are finding that younger workers have not learned it and that many unemployed workers prefer to remain on unemployment and disability benefits than return to work.
- An industry awareness and/or image campaign would be beneficial to the manufacturing industry in recruiting the next generation of the manufacturing workforce.
- The training system has not kept up with the increasingly high tech and automated manufacturing industry.
- Most retraining is done internally.

U.S. MANUFACTURERS ARE THE **MOST**  
**PRODUCTIVE**  
WORKERS IN THE WORLD —

**TWICE**  
**AS PRODUCTIVE**  
AS WORKERS IN THE NEXT 10 LEADING  
MANUFACTURING ECONOMIES.



**7,158**

**MANUFACTURING FIRMS**  
IN THE STATE OF WASHINGTON

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**258,300**

**TOTAL JOBS IN ALL SECTORS**  
SUPPORTED BY MANUFACTURED  
GOODS EXPORTS

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**\$77,470**

**AVERAGE ANNUAL COMPENSATION**  
IN MANUFACTURING

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**290,000**

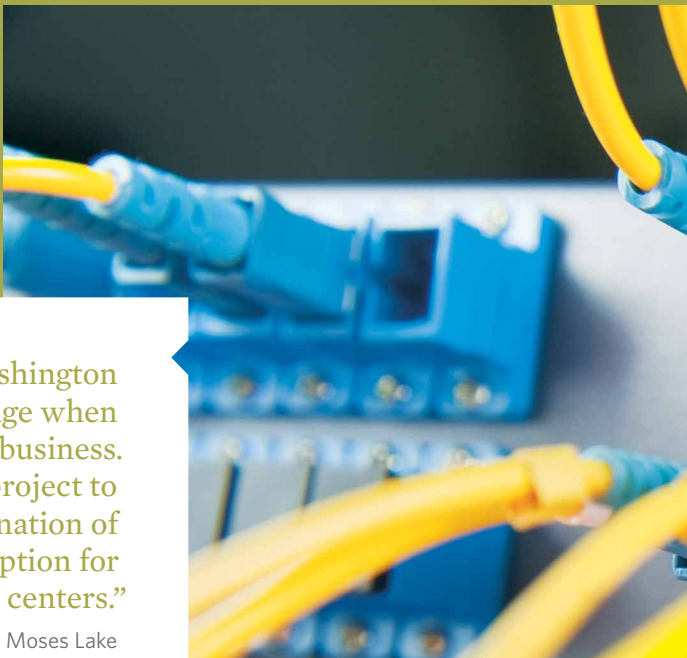
**WASHINGTONIANS ARE EMPLOYED**  
IN MANUFACTURING

## Tax Incentives

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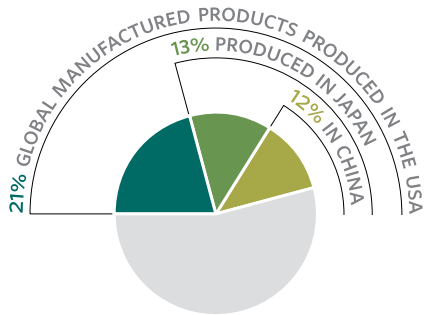
The state of Washington provides several tax incentives for manufacturers. The intent of the incentives is to encourage the development and preservation of jobs by assisting business in growth or relocation efforts. Manufacturers in the state of Washington have taken advantage, to the benefit of the state economy, of several of these tax incentives including the sales and use tax exemption for manufacturing machinery and equipment (M&E), the rural county business and occupation (B&O) tax, and the business and occupation tax exemption for food processors. These, and other tax incentives provided to manufacturers by the state of Washington have been factors in recruiting new business to the state as well as the expansion of existing business. Washington state manufacturers attending AWB's regional manufacturing meetings identified the following concerns about tax incentives in the state of Washington:

- The rural county B&O tax credit is important to preserve.
- The sales tax exemption for new and replacement equipment is extremely valuable to the industry.
- M&E has been used and is beneficial to business expansion in the state.
- Washington is one of the country's leading food processing states; only California and Florida have more agricultural commodities than Washington state.
- Food processing is a \$11.7 billion industry in Washington state, employing more than 40,500 people. That's why Washington state food processors want to retain the current tax incentives set to expire in two years.



“Tax incentives give Washington state a competitive advantage when recruiting new business. WSS lost a \$100 million project to Chicago because of the elimination of the sales tax exemption for new equipment in data centers.”

—Lee Willis, President, WSS Corporation, Moses Lake



EACH YEAR,  
U.S. MANUFACTURING  
PRODUCES  
**\$1.6 TRILLION:** **11.2%**  
OF U.S. GDP

MANUFACTURING SUPPORTS AN ESTIMATED

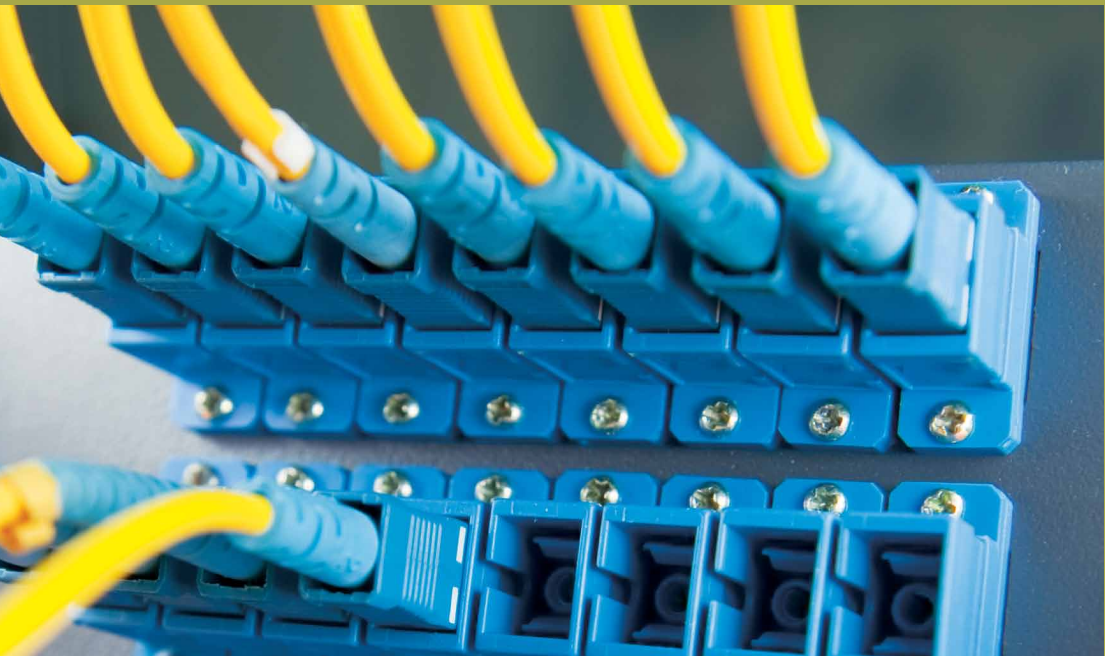
**18.6 MILLION JOBS**  
IN THE UNITED STATES — ABOUT  
**ONE IN SIX**  
PRIVATE SECTOR JOBS

IN 2010, THE AVERAGE U.S.  
MANUFACTURING WORKER EARNED

**\$77,186** INCLUDING BENEFITS

THE AVERAGE NON-MANUFACTURING  
WORKER EARNED

**\$56,436** ANNUALLY



“It is important to protect the environment. However, the fact that Washington state goes beyond federal regulations with no measurable environmental benefit is hurting existing industry and preventing new industry from locating in the state.”

— Doug Krapas, Environmental Manager,  
Inland Empire Paper Company, Spokane



One business stated they have a need to expand their facilities but they will build a new facility in another state because the regulatory process in our state will delay progress by up to two years.

## Regulatory Environment

Washington state businesses are regulated by various local, state and federal agencies. While regulations and oversight are necessary, manufacturers in the state believe they are faced with regulations and regulators that have more of a “how can we get you?” attitude than a “how can we help you?” attitude. Attendees told AWB the current regulatory environment makes it difficult for businesses to expand or locate in the state of Washington.

During AWB’s regional meetings, one business stated they have a need to expand their facilities but they will build a new facility in another state because the regulatory process in our state will delay progress by up to two years. Today, Washington small businesses and major industries face a costly and expanding array of regulations from all levels of government that is making it difficult for the industry to grow. Washington state manufacturers attending AWB’s regional manufacturing meetings identified the following concerns about the regulatory environment in the state of Washington:

- Several Washington state regulators are extremely difficult to work with.
- The fact that Washington state goes above and beyond the federal regulations is hurting existing industry and preventing new.
- Colorado Springs established a not-to-exceed time limit in processing for the building authority. This process proved effective in streamlining the regulatory process.

# Conclusion

The United States was built on the success of manufacturing. The industry has evolved to a new level of advanced manufacturing that provides high-wage jobs and supports a level of creation that builds and develops sustainable economies. Unfortunately this is now done by not just the United States, but by other countries across the globe.

Several factors, including the lack of a solid energy policy, a trained workforce, and a prohibitive regulatory environment, are leading to the bleeding of manufacturing innovation in the United States, while other countries are recognizing the importance and promise of an industry sector capable of building an economically strong country.

As well-documented by the National Association of Manufacturing, the manufacturing industry in the United States supported 18.6 million jobs in 2009, with an average annual salary and benefits package worth \$77,186.

In the state of Washington manufacturing jobs accounted for 9.3 percent of the state's employment in 2009 with an average annual salary and benefits package worth \$77,470. The manufacturing industry in the state of Washington has an annual economic impact on the state of \$132.2 billion with exports from the industry accounting for 78%, or \$52.4 billion, of the state's exports.

The economic viability of the State of Washington depends on the manufacturing industry. The state needs to work with industry to revitalize support of Washington's manufacturing industry and secure its future.

**\$38.9  
billion**  
TOTAL OUTPUT FROM  
MANUFACTURING IN WA, 2009

**\$52.4  
billion**  
ANNUAL EXPORTS FROM  
WA STATE MANUFACTURERS

WASHINGTON MANUFACTURERS  
ACCOUNT FOR NEARLY **12%**  
**OF THE TOTAL OUTPUT IN THE STATE,**  
**EMPLOYING 9.3% OF THE WORKFORCE**

**FOR EVERY DOLLAR** OF  
MANUFACTURED PRODUCTS CREATED,  
THERE IS **\$1.40 CREATED AROUND IT**  
IN THE SUPPLY CHAIN.



U.S. MANUFACTURERS **PERFORM  
HALF OF ALL R&D IN THE NATION,**  
DRIVING MORE INNOVATION THAN  
ANY OTHER SECTOR.

To learn more about  
manufacturing in Washington state  
or the AWB Institute, contact:

Kris Johnson (KrisJ@awb.org)  
Amy Johnson (AmyKJ@awb.org)  
Mike Hudson (MikeH@awb.org)

Or, call 1.800.521.9325.



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Statistical data sources: National Association of Manufacturers,  
AWB Institute, Washington State Departments of Agriculture and Commerce.