



TENNESSEE CHAMBER
of Commerce & Industry

TENNESSEE MANUFACTURERS ASSOCIATION



Tennessee 2019 Legislative Update



Tennessee Chamber of Commerce & Industry / Tennessee Manufacturers Association (Statewide, Nashville based)



Founded 1912:
Partners

Privately funded from membership dues / Enhance TN business climate
National: National Association of Manufacturers (NAM) / U.S. Chamber of Commerce / American Chemistry Council (ACC)

Local:

Chambers of Commerce TCCE / Economic Development TEDC

Statewide:

Board of Directors & Membership

Areas of Engagement: Tax, Environment & Energy, HR Employment, Workers' Comp, Economic Development, Chemical Industry, Immigration, Regulations etc.

Government Affairs: Advocacy, Public Policy, PAC

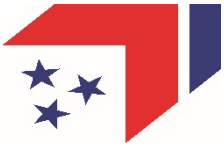




2019 General Assembly

- Lee Administration / House Leadership
- 30 New Members /
- Revenue Collections Modest
- Tennessee 2020 / What to Expect?





FY 2019-20 Lee Budget Priorities

- Revenue for Budget:
 - \$577 Recurring
 - \$801 Non-Recurring Address opioid crisis.
- Dedicated: \$409M- TennCare, K-12 Education BEP, Economic and Community Development, Higher Education, Children Srvs
- Supporting teachers, students, choices and safety
- New WFD Initiatives
- Services to address opioid crisis
- New and Expanded Mental and Health Services
- New Rural Initiatives
- Record breaking Rainy Day Fund (\$1.1B)



FY 2019-20 Gov. Lee Major Initiatives

Programs	Recurring	Non-Recurring
Education Savings Account Program (ESA)	\$25.0	
Charter Schools Facility Fund	\$12.0	
K-12 School Safety Grants		\$30.0
Gym Tax Repeal	\$6.0	
Rainy Day Fund		\$181.0
Opioid Initiatives	\$25.3	
Criminal Justice Reforms	\$24.1	



FY 2019-20 Gov. Lee Economic Development

Programs	Recurring	Non-Recurring
FastTrack ECD		\$75.0
VW – Capital Grant		\$50.0
Amazon – Capital Grant		\$65.0
GIVE – Community Grants		\$29.0
Broadband accessibility grants		\$20.0
Rural Development Fund		\$10.5
Oak Ridge Manufacturing Research Institute Advanced Composites		\$3.0
Rural Opportunity Fund		\$3.0
Total / WO Capital Grants		\$140.5



2019 Tennessee Chamber Policy Agenda

- **KEEPING TENNESSEE COMPETITIVE – Setting a Climate for Growth**

Enhancing Tennessee’s Workforce to Ensure Career Readiness – The evolving demands of a modern, globally competitive labor market necessitates a continued emphasis on rigorous academics, career preparation and skill development in our state’s schools.

The Tennessee Chamber supports the following K-12 education policies that set a firm academic foundation for postsecondary success and career-ready knowledge and skills:

- K-12 Career and Technical Education Awareness CAPS program / NCRC Test
- Work Based Learning – Grant Program
- Tennessee Work Ethic Diploma
- Tennessee Reconnect/Drive to 55
- Tennessee Work Ethic Diploma
- LEAP



2019 Tennessee Chamber Policy Agenda

Taxes and Economic Development – To ensure Tennessee’s continued economic growth the Tennessee Chamber supports exemptions, following federal tax reform that enhances our business climate. In addition, the Tennessee chamber will vigorously defend taxpayer confidentiality and support economic development efforts that grow and expand Tennessee’s economy. With fierce competition, Tennessee must remain competitive and work to ensure we are a welcoming state for all business and their employees.

Mandates and Regulations – The Chamber is working against overly burdensome and costly government mandates, regulations or additional insurance mandates that result in increased costs.

Battling Drug Abuse – Opioid abuse is a serious problem negatively impacting our citizens and challenging our economic growth and workforce. The Chamber is working to enact legislation that seeks to address and offer solutions to this problem.

Environmental and Workplace Safety – The Chamber is working to ensure a fair and balanced approach for existing regulations, the protection of our natural resources and the total economic costs incurred to industry.

Infrastructure and Telecommunications – Economic growth is directly tied to both strong infrastructure and telecommunication systems. The Chamber is supporting efforts to streamline and enhance the deployment of advanced wireless broadband networks and continue to monitor the implementation of broadband grant across the state to enhance economic growth and competitiveness.



2019 Bills Impacting Economic Development

BILL	Sponsors	Description	Outcome
SB513/HB1265	Sen. Roberts Rep. Holt	Proposed Fair Accountability Tax Subsidies Act, as introduced greatly harmed TN JTC for econ dev.	Amended / Approved
SB1292 / HB370	Sen. Pody Rep. Daniel	Expanded open records to include confidential trade secrets PILOT agreements	Failed/ House SubCommittee
SB807 / HB588	Sen. Lundberg Rep. Kumar	Requires all IDB members to disclose conflicts of interest under Tennessee Ethics Commission	General Sub/ Summer Study
SB461/HB273	Sen. Yarbro Rep. Hulse	Save TN Call Center Act/ clawbacks for new Call Centers	Off Notice



2019 Bills Impacting Economic Development

BILL	Sponsors	Description	Outcome
SB382/HB382	Sen. Yarbro Rep. Thompson	Deletes Sales and Use tax exemption for industrial machinery	General Sub/ Taken off Notice
SB1165 / HB1239	Sen. Hensley Rep. Griffey	Expands mandatory private employer use of E-Verify to new hires of 6 or more employees, amended to increase to 25 employees	Passed House/ Senate General Sub
Employer Mandates	Multiple	Enacted a variety of mandates on Tennessee employers resulting in increased costs and compliance	Defeated
SB558/HB1028	Sen. Johnson Rep. S. Lynn	Tennessee based companies tax break on certain income and repatriated: \$9m	Approved



2019 Initiatives Economic Development

- **WorkForce- Governor's Investment in Vocational Education (GIVE)- \$25 million grant program**

Administered through THEC similar to LEAP

Regional Partnerships build WBL and Apprenticeship programs local needs, private industry

Also funds dual enrollment credits

Apply for funds July 1, 2019

Future Workforce Initiative – STEM Innovation Network

New CTE programs STEM fields – Triple schools by 2022

STEM teachers

Postsecondary STEM opportunities in HS

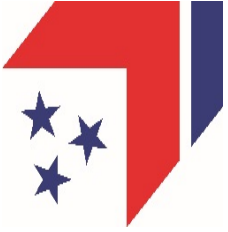
Rural Development Fund / Rural Opportunity Fund / Broadband Initiative- \$24.5M

Distributed through Tennessee ECD

RDF \$12.5M -Distressed counties, site development, marketing, strategic planning, downtown revitalization etc.

ROF- \$2M -Loans and technical assistance to small, minority and women owned rural businesses

Broadband accessibility grants / tax credits \$10M



Tennessee Economic Update

- **Tennessee Business and Manufacturers – Perceptions**

- MTSU/ Tennessee Chamber: Business Barometer Index
- Oct 2018 - 525
- Jan 2019- 355
- April 2019 – 416
- Concerns: Political uncertainty, economic uncertainty and reversing of progress on regulatory policies, greater government regulation: Optimism: Steadily Improving Economy
- Tennessee Chamber Survey Results: Workforce
 - Workforce (Small, medium, large) / Soft Skills / Engage with High Schools and Higher Education
 - Overall 7 million jobs looking for people / TN Share
 - Unemployment 3% / Workforce competition in areas
 - Skilled workers retiring 10,000 daily retirements 2029 / Overall Turnover 1/3 next 5-7 years
 - Tennessee lower workforce participation rates- Males especially, drug abuse, student loan debt
 - Stagnate population growth in areas
 - 39% Small business report unable to fill job openings
 - Immigration policy lacking for skilled workers
- Support Free and Open Trade
- Overall economic growth in Tennessee with minor ups and downs



Tennessee Economic Update

- **Mixed Bag / Positives / National / Tennessee**

- Tennessee benefits from economic Growth 2018-Q2-4% Q3-3.5% - 2% for Prior 10 years
- Federal Tax Reform – Corporate and Individual Tax
- Worker compensation is now rising at faster pace than prices 1.9% from year earlier in December- U.S. Department of Labor / Inflation is in check or cooling
- YTD State Revenue Growth, February 2019 \$229m / Sales tax driving growth
- Tennessee Economic Development / Workforce Progress / State Management
- Just three months ago: Outlook for manufacturing and small business U.S. Chamber surveys 70% positive / due to regulatory reform and tax reform



Tennessee Economic Update

- **Negatives - National / Tennessee – Automotive / International**
 - Q4 2018 GDP 2.2% -3.4% 2018 Sector growth only Healthcare 2.9% Utilities 2.7% all others negative growth IT, Consumer, SP500, Financials, Material, Industrial, Communications, RE & Housing new demand slowing / pricing growth
 - U.S. Manufacturing outlook dimming; Dec 2018 factory activity fell most in one month since great recession; Federal Reserve surveys softening factory activity; production rates order backlogs and prices all fell slightly to start 2019: Auto sales
 - Causes: Tariffs levied U.S. and China; Trade war, Diminishing returns from tax cuts and cooling global growth; threat of tariffs on auto imports from other countries; European nations, Germany, U.S. Economic growth sustainability,



Tennessee Economic Update

- **A Tennessee Business Perspective**

- Tennessee Budget: 70% Revenue: Sales and Use and Franchise and Excise : Goes to 70% Education / Health and Social Services
- Business Burden: 50% Sales and Use and 100% F&E Taxes / Fuel Taxes:
- Automotive Manufacturing Strength in Tennessee #1 Nationally
- Direct Foreign Investment / Tennessee's prominence
- Strong Growth / Tennessee Revenue Collections (over) Millions
 - 2014-2015 - \$552.7
 - 2015-2016 - \$852.4
 - 2016-2017 - \$757.5
 - 2017-2018 - \$303.7 Total \$2.46
- Growth Drivers: Economic Development efforts account for 2% of State Expenditures
- Tennessee delayed to see outcomes 2/3 quarters



Tennessee Manufacturing Facts

Manufacturers in Tennessee account for 16.1 percent of the total output in the state, employing 11.5 percent of the workforce. Total output from manufacturing was \$55.70 billion in 2017. In addition, there were 346,800 manufacturing employees in Tennessee in 2017 with an average annual compensation of \$69,260 in 2016.

Manufacturing Output and Firms

Total Manufacturing Output (<i>\$billions, 2017</i>)	\$55.7
(<i>Percent share of total gross state product</i>)	16.1%

Manufacturing Firms in Tennessee (<i>2015</i>)	5,096
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Employment and Compensation

Manufacturing Employment (<i>2017</i>)	346,800
(<i>Percent share of nonfarm employment</i>)	11.5%

Average Annual Compensation	
(<i>Manufacturing, 2016</i>)	\$69,260
(<i>Nonfarm Businesses, 2016</i>)	\$46,804

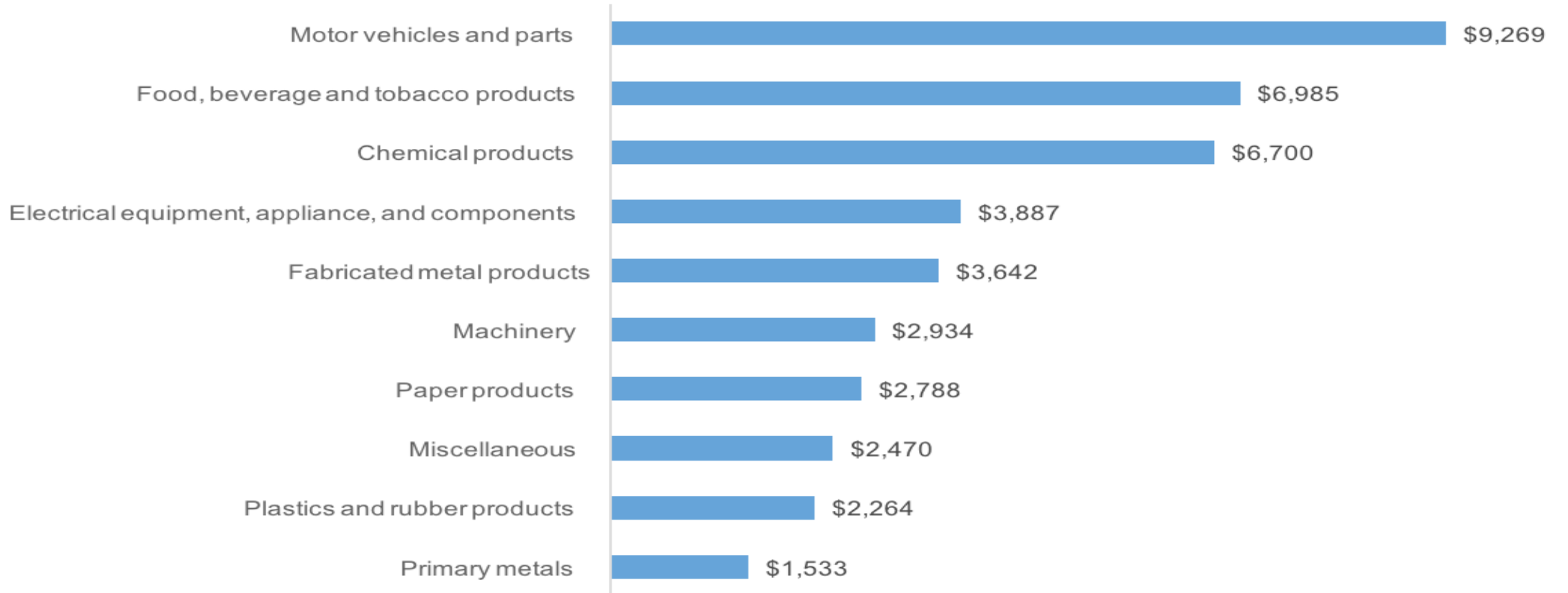


Tennessee **Export Facts**

Manufacturers help to drive Tennessee's economy, with \$30.22 billion in manufactured goods exports in 2016. That same year, \$16.87 billion in exports was with our free trade agreement (FTA) partners. This helps create jobs in the state, and 22.80 percent of its employment stemmed from exports in 2011. Small businesses comprised 83.0 percent of all exporters in Tennessee.



Tennessee Top 10 Manufacturing Sectors





Tennessee Manufacturing: Why Tennessee?

Why Recruit Manufacturing:

- History / TVA / Water / Transportation / Proximity / Rail – Organized Better / 341k employees; 5,110 Firms
- Economic Impact – (NAM data) Urban / Rural / Suburban - \$1.81 impact / Wages \$67k vs. \$44k / Benefits – Drive growth small business, services, raw goods, trucking, hospitality / Drives local and state tax collections to keep taxes overall low.
- Major Sectors - Automotive / Food, beverage, tobacco / Chemical / Electrical appliance etc. / Fabricated Metals / Machinery / Paper products - Exports and foreign direct investment

Reasons Manufacturers like Tennessee: Business-friendly environment:

- No personal income tax on wages and salaries.
- A right-to-work state / facilitate compliance / union participation low
- Working relationships TVA/ ECD / Local ECD / TN Dept of Revenue
- State Governance / Budget and revenue estimation process, long history of fiscal responsibility that crosses party lines; Lowest state debt per capita in the country—The Tax Foundation / Pension plan funded / 3 elected office
- Judicial System consistently ranked better than other SE states / U.S. Chamber Institute for Legal Reform / 30th / 23rd / 26th
- Triple A-rated state, with our most recent bond sale at the lowest interest rates in recorded history.
- Responsive Elected leadership addressed, transportation and infrastructure/ single sales factor / workers' comp reform / tort reform and others.
- Workforce/ Tennessee has comprehensive plan / Drive to 55 / CTE / LEAP / Coordination TBR institutions
- Tennessee Work Ethic Diploma / Statewide





Tennessee Manufacturing:

Challenges / Opportunities

- Workforce participation 59% / 75,000 retirements by 2025 / Happened Fast -2007 workforce ranked 7 most concerning out of 9 choices / Great recession cutbacks worker training, retirements, Gen X, Millennials
- Skills for new employees / severely lacking
- Drug testing / compliance / shift schedules / perception of manufacturing jobs
- Tennessee's tax burden - Local – Tangible and Real Property, business tax / State - Franchise and Excise / Sales
- Unemployment is lowest SE 3.4% / January 2010 11.2%
- Local engagement / Local chambers, industry, higher education, schools director – CTE focus greater
- Onshoring / Reshoring / Trade Disputes / Foreign owned manufacturing
- TN Reconnect / Goals Drive to 55





Tennessee Manufacturing: Workforce

Trends

- Lack of both skilled and unskilled workers
- What is driving low unemployment? Drop in labor force growth 1.3% in 2016 to 0.7% in 2017 ; Growth in work age population is falling to .25% per year to 2020.
- Fewer people entering workforce / significant drop in number of people unemployed for 6 months or less
- Results in increased wages with demand; noticing a trend toward more technical career interest, less college time, strong wages, industry WBL apprenticeships TN create the right environment for these,
- WBL Catching on gains for business ROI of 5% to 25% ; lower recruiting costs, higher productivity, lower turnover rates, aligned skill training to specific companies
- U.S. Factor activity surging: manufacturers employment highest point since beginning of 2009
- Manufacturers will add 12 times as many jobs as in 2016 by large and small
- Why is this happening: Returning to America, technology and automation more cost effective to operate in U.S. , cuts labor costs, comparisons 80 employees in china is now 10 in us,
- New technology and automation enhance production quality
- American manufacturers can retool faster, ramp up or down faster, reduces risk; Foreign factories can require long lead times and produce in bulk quantity
- Operations must be more nimble to cater to consumer tastes; fashion for example, can't afford 3 month lag time to market
- Customers prize customization



Tennessee Economic Development

Looking Ahead:

Questions and scrutiny will continue: Media, activist groups right and left, corporate “handouts” level playing field

Must focus on message of economic development- Tennessee’s competitiveness and economic growth, we have to keep up; IDB’s are powerful group to discuss with elected leaders

- Long term benefits of revenue growth

- Explain it is to kick start a project, infrastructure and idle time

- Helping local communities

- Tennessee is responsible and our system works; passionate about our work for our local areas

- Data speaks for our work

- PILOT and FastTrack info is public, know what is currently available



2018- Tennessee CAFR Reports

- During the first three quarters of 2018, TNECD located 80 projects that received a FastTrack grant commitment to expand or re-locate in Tennessee. The department forecasts that over the next ten years, these projects will generate 26,289 new job opportunities across the state.
- This includes 9,829 jobs directly created by the company expansion and recruitment activity as well as 16,460 indirect and induced jobs from across the supplier network and other industries as a result of expanded economic growth. Over the next ten years, TNECD forecasts these projects will increase Tennessee's economic output by nearly \$51 billion and generate almost \$11.8 billion in new salaries.
- The state's investments in projects during the first three quarters of 2018 have a projected annual rate of return of 39.9 percent. The costs of incentives are projected to be returned to the state in 2.7 years as a result of additional revenues the projects will generate. (These return on investment figures take into consideration additional costs of providing state services as well as tax credits companies may be eligible for.)
- The state is proactive in its analysis of its incentive packages and the economic benefits, and, operates in a fiscally responsible way when recruiting new business and supporting existing business growth. TNECD has developed a key performance indicator (KPI) transparency platform to provide current information measuring its strategic objectives that features an interactive dashboard for tracking economic data and strategic initiatives; and, using a model built by an economic consulting firm, forecasts the fiscal benefits each of its project will generate over a ten year time period, and measures this return relative to the state's investment in the form of grants and tax credits



2018- Tennessee CAFR Reports

- Tax credits and incentives are a critical component of Tennessee's long-run economic growth, business-friendly environment and strong record of job creation. More Tennesseans are working now than ever before. Statewide unemployment was 3.6 percent in September 2018 and has held below 4.0 percent since April 2017.
- Tennessee's GDP totaled \$345.2 billion in 2017, the highest level in state history. During the past decade, Tennessee's economy has grown 17.1 percent, the largest growth rate in the Southeast and 11th in the country. Tennessee's real GDP growth rate during this time is more than double the rate of the Southeast as a whole. Economic growth has led to higher household income levels in Tennessee. In the last five years, the median household income in Tennessee increased by an inflation-adjusted 11.8 percent. On a percentage basis, Tennessee ranks second in the Southeast for income per capita growth over the last three years at 11.1 percent.
- TNECD's OpenECD website <https://www.tn.gov/content/tn/transparenttn/jobs-economicdevelopment/open-eed.html/> has been designed to provide the above mentioned and additional information and documents pertaining to TNECD grants and incentives in a userfriendly manner.
- *Source: Tennessee Comptroller of the Treasury, 2018 CAFR, pg 6-7*



2017- Tennessee CAFR Reports

- The consultant's report reinforced that Tennessee's primary business credits are working as intended. For example, Tennessee companies receiving the industrial machinery credit invested about \$4.4 billion annually in qualified industrial machinery and equipment between 2011 and 2014.
- The evaluation attributes \$86 million of the annual business investment exclusively to the industrial machinery credit, or in other words, in the absence of the credit, businesses would invest \$86 million less each year.
- Wages at companies claiming the credit were five percent higher than those of peers who did not, suggesting the credit is also increasing productivity and income benefits to Tennesseans. The analysis also found companies claiming the jobs tax credit created more than 41,000 new jobs from 2011 to 2014, and grew jobs at a faster rate than peer companies that did not.
- Companies claiming the headquarters tax credit made purchases of qualified items averaging \$88.5 million each year, a significant return relative to the headquarter sales tax credits claimed each year. Tennessee's broader job growth and economic development success also speak to the effectiveness of state incentives.



2017- Tennessee CAFR Reports

- Between 2011 and 2017 (year-to-date), TNECD has secured more than 152,000 job commitments and \$30.0 billion of investment from companies. Job creation is taking place all across the state and the percentage of rural job commitments in rural counties has increased from 31.7 to 45.2 percent over the last five years.
- During the first three quarters of 2017, TNECD located 102 projects that received a FastTrack grant commitment to expand or re-locate in Tennessee. The department forecasts that over the next ten years, these projects will generate 36,867 new job opportunities across the state. This includes 13,775 jobs directly created by the company expansion and recruitment activity as well as 23,092 indirect and induced jobs from across the supplier network and other industries as a result of expanded economic growth.
- Over the next ten years, TNECD forecasts these projects will increase Tennessee's economic output by nearly \$70 billion and generate almost \$13 billion in new salaries. TNECD operates in a fiscally responsible way when recruiting new business and supporting existing business growth. Using a model built by an economic consulting firm, TNECD forecasts the fiscal benefits each project will generate over a ten year time period, and measures this return relative to the state's investment in the form of grants and tax credits.
- The state's investments in these projects from Q1 through Q3 of 2017 have a projected annual rate of return of 28.8 percent. The cost of incentives is projected to be returned to the state in 3.2 years as a result of additional revenues the projects will generate. The model does take into consideration additional costs of providing state services as well as tax credits companies may be eligible for <https://www.tn.gov/transparenttn/jobs-economic-development/openecd/tnecd-performance-metrics/openecd-business-development-quick-stats.html>



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national partners

