INDIANA MANUFACTURERS ASSOCIATION

Legislative Briefing
Wednesday, January 9, 2019
J.W. Marriott, Indianapolis, IN
Consumers, Government Stimulus Boost Economic Growth into 2019

<table>
<thead>
<tr>
<th>Components of GDP growth</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real GDP</td>
<td>2.2</td>
<td>2.9</td>
<td>2.6</td>
<td>2.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Consumption</td>
<td>2.5</td>
<td>2.7</td>
<td>2.7</td>
<td>2.5</td>
<td>2.2</td>
</tr>
<tr>
<td>Residential investment</td>
<td>3.3</td>
<td>-0.2</td>
<td>-1.1</td>
<td>4.3</td>
<td>3.1</td>
</tr>
<tr>
<td>Business fixed investment</td>
<td>5.3</td>
<td>6.8</td>
<td>4.1</td>
<td>3.2</td>
<td>2.8</td>
</tr>
<tr>
<td>Federal government</td>
<td>0.7</td>
<td>3.0</td>
<td>4.9</td>
<td>0.5</td>
<td>-1.0</td>
</tr>
<tr>
<td>State &amp; local government</td>
<td>-0.5</td>
<td>1.0</td>
<td>1.3</td>
<td>1.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Exports</td>
<td>3.0</td>
<td>4.1</td>
<td>4.0</td>
<td>5.3</td>
<td>3.1</td>
</tr>
<tr>
<td>Imports</td>
<td>4.6</td>
<td>4.8</td>
<td>5.8</td>
<td>6.5</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Source: IHS Markit
### Other Key US Indicators

<table>
<thead>
<tr>
<th>Key indicators</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial production</td>
<td>1.6</td>
<td>4.0</td>
<td>3.0</td>
<td>1.9</td>
<td>1.5</td>
</tr>
<tr>
<td>Payroll employment</td>
<td>1.6</td>
<td>1.6</td>
<td>1.4</td>
<td>1.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Light-vehicle sales (million)</td>
<td>17.1</td>
<td>17.1</td>
<td>16.7</td>
<td>16.6</td>
<td>16.5</td>
</tr>
<tr>
<td>Housing starts (million)</td>
<td>1.21</td>
<td>1.26</td>
<td>1.287</td>
<td>1.38</td>
<td>1.43</td>
</tr>
<tr>
<td>Consumer Price Index</td>
<td>2.1</td>
<td>2.4</td>
<td>2.2</td>
<td>2.2</td>
<td>2.3</td>
</tr>
<tr>
<td>Brent crude oil price ($/bbl)</td>
<td>55</td>
<td>72</td>
<td>73</td>
<td>72</td>
<td>73</td>
</tr>
<tr>
<td>Federal funds rate (%)</td>
<td>1.0</td>
<td>1.8</td>
<td>2.8</td>
<td>3.3</td>
<td>3.4</td>
</tr>
<tr>
<td>10-year Treasury yield (%)</td>
<td>2.3</td>
<td>2.9</td>
<td>3.3</td>
<td>3.5</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Source: IHS Markit
US Industrial Production has Surged in Response to Rising Demand and Energy Production
Labor Productivity Growth Helps to Restrain the Rise in Unit Labor Costs

Source: IHS Markit
Indiana Economic Overview

- Indiana employment growth has leveled off at around 1%, while U.S. growth has picked up in 2018
  - We don’t believe this reflects anything “wrong” with the state economy, and expect state to move closer to U.S. next year
  - Overall manufacturing job growth fell below U.S. average for first time in years – didn’t come from transportation sector; mostly in non-durables
- Job growth will slow to a crawl by 2021 in many states, as their economies reach literal “full employment”
  - States in the Northeast, Mid-Atlantic, Midwest most prone to this due to lower population growth
- Wage growth remains muted, but will pick up by 2020
- Housing growth solid, not spectacular
  - Rising interest rates, labor shortage, lack of buildable lots, high student loan debt cited as drags
Indiana’s Job Market Weakened in 2018; Service Sector Growing More Slowly than National Average

Source: IHS Markit
Indiana’s Real GSP Growth Outpaces Payroll Growth, Indicating Higher Productivity

Source: IHS Markit
## Key Economic Indicators for Indiana

<table>
<thead>
<tr>
<th>Real GDP and its components</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Percent change</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll employment</td>
<td>1.0</td>
<td>0.9</td>
<td>1.3</td>
<td>0.7</td>
<td>0.2</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>3.5</td>
<td>3.3</td>
<td>3.1</td>
<td>3.1</td>
<td>3.2</td>
</tr>
<tr>
<td>Wage income</td>
<td>4.7</td>
<td>4.6</td>
<td>4.3</td>
<td>4.1</td>
<td>3.7</td>
</tr>
<tr>
<td>Personal income</td>
<td>4.1</td>
<td>4.2</td>
<td>4.4</td>
<td>4.6</td>
<td>4.0</td>
</tr>
<tr>
<td>Real gross state product</td>
<td>1.8</td>
<td>2.7</td>
<td>2.5</td>
<td>1.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Personal consumption exp.</td>
<td>4.6</td>
<td>4.9</td>
<td>5.0</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Housing starts (thousands)</td>
<td>20.7</td>
<td>21.4</td>
<td>22.1</td>
<td>23.4</td>
<td>23.3</td>
</tr>
</tbody>
</table>

Source: IHS Markit
Higher Productivity, Fewer Available Workers Will Translate into Higher Wages
Construction SectorEmerges as a Leader in State Job Growth

Change in Indiana payroll employment, Oct 2017 - Oct 2018

- Construction
- Retail trade
- Transport & warehousing
- Health & social services
- Prof. & business services
- Financial services
- Wholesale trade
- Utilities & mining
- State & local govt.
- Manufacturing
- Federal government
- Education
- Other services
- Information
- Leisure & hospitality

Job change = 25,400

Source: IHS Markit  © 2018 IHS Markit
Change in Buying Patterns Leads to Changing Product Mix Among Auto Manufacturers, a Major Indiana Employer

![Graph showing light-vehicle sales](image)
Home-Building Increasing Gradually in Indiana, but Remains Relatively Slow Given Apparent Demand
Indiana Population Growth Relatively Slow, but Outpacing Most Neighboring States
Bottom Line for Indiana

- Wage and salary income continues steady growth
  - Gains will need to come from wage rates more than payroll growth as state approaches full employment
- Manufacturing employment will reach a peak in 2020
- Major shifts in trade policy creating winners and losers, lots of uncertainty along the way
Bottom Line for Indiana

- Transportation sector thriving as shipping activity and shift toward shopping-at-home drive demand

- Continued increase in labor force is key to attracting and retaining employers and sustaining state economic growth
  - Could use help from in-migration and increased participation

- Service sector can be supported by strong education system, attractive business environment
  - High-tech sectors a bright spot in diversifying state’s economic base
  - Some sectors are dependent on local population growth as demand base
THE IMPORTANCE OF INDIANA MANUFACTURING
Indiana is Most Manufacturing Dependent Economy in Nation
2017 Manufacturing as a % of GDP

28.6%
Top 10 States by 2017 Manufacturing GDP (in Millions)

- California
- Texas
- Ohio
- Illinois
- Indiana
- North Carolina
- Michigan
- Pennsylvania
- New York
- Georgia
Indiana 2017 GDP Share by Industry

$102.6 Billion
Indiana Employment by Private Sector Industry
June 2018

- Manufacturing: 546,931
- Education and health services
- Professional and business services
- Retail trade
- Leisure and hospitality
- Construction
- Financial activities
- Transportation and warehousing
- Wholesale trade
- Other services
- Information
- Agriculture, forestry, fishing and hunting
- Utilities
- Mining
Average Indiana Weekly Wage by Sector
Q2 2018

$1,347
Indiana Manufacturing Establishments by Type
Q2 2018

- Fabricated Metal Product: 1,794
- Machinery: 888
- Printing and Related Support Activities: 611
- Miscellaneous: 641
- Transportation Equipment: 633
- Food: 630
- Furniture and Related Product: 575
- Wood Product: 538
- Plastics and Rubber Products: 529
- Nonmetallic Mineral Product: 506
- Chemical: 423
- Computer and Electronic Product: 381
- Primary Metal: 260
- Beverage and Tobacco Product: 228
- Other: 201
Indiana Manufacturing Employment in Indiana by Type
June 2018

- Transportation Equipment: 140,161
- Fabricated Metal Product: 62,555
- Machinery: 44,479
- Primary Metal: 42,069
- Plastics and Rubber Products: 41,589
- Food: 39,109
- Miscellaneous: 30,805
- Printing and Related Support Activities: 30,021
- Wood Product: 25,134
- Nonmetallic Mineral Product: 14,895
- Computer and Electronic Product: 14,450
- Beverage and Tobacco Product: 13,313
- Electrical Equipment, Appliance, and Component: 10,032
- Paper: 8,945
- Petroleum and Coal Products: 6,167
- Chemical: 3,466
- Furniture and Related Product: 3,388
- Wood Product: 775
- Printing and Related Support Activities: 703
FOR EVERY MANUFACTURING EMPLOYEE, 3 OTHERS ARE HIRED

<table>
<thead>
<tr>
<th>Category</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Educators and Service Employees</td>
<td>131,660</td>
</tr>
<tr>
<td>Health Care Employees</td>
<td>225,512</td>
</tr>
<tr>
<td>Business and Professional Service Employees</td>
<td>177,918</td>
</tr>
<tr>
<td>Retail Employees</td>
<td>175,824</td>
</tr>
<tr>
<td>Construction Employees</td>
<td>72,875</td>
</tr>
</tbody>
</table>

531,235 Indiana Manufacturing Employees

* Multiplier number - NAM analysis of IMPLAN data
* Employment data – BLS 2017 annual average. Education and Health categories include government employees.
A diverse coalition of business and community leaders advancing the fight against Indiana’s opioid epidemic.
2019 LEGISLATIVE SESSION

Andrew Berger
2019 Session Preview

- *Budget Session*
- *Hate Crimes*
- *Sports Gaming*
- *Water Infrastructure*
- *Opioids*
- *School safety funding*
- *Department of Child Services Funding*
TAX AND ECONOMIC DEVELOPMENT
Andrew Berger
IMA Priorities

- Move Administration of Business Personal Property Tax from Counties to State (DLGF)
- Worker Relocation Tax Incentive
- Business Personal Property Tax
  - SB 233 (Freeman) – raises threshold for exemption from $20,000 to $40,000
- Protect Research Expense Credit
- Protect Business Real Property Assessment System
Tax

- **Local Income Tax Overhaul (HB 1033 – Thompson)**
  - Estimated to reduce local revenues by $146.6 million annually
  - Expecting bill on multiple local tax increases
- **HB 1088 (Pressel) – Sales Tax Exemption for Data Warehouse Equipment**
  - Expecting debate on sales tax exemption to continue in other areas (energy costs)
- **Department of Revenue Bill**
- **SB 171 (Holdman) – Repeal of Several Tax Credit Programs**
  - Expecting bill more broadly on all incentive programs
Economic Development

**EDGE Certified Amounts - in millions**

**HBI Credits Claimed**
Economic Development

Fix State Economic Development Incentives

• Adjust Employment requirements:
  • Eliminate cap on EDGE for worker retention.
  • Switch from required increases in employees to increases in payroll for HBI agreements.

• HBI Usage Adjustments
  • Transferability – sell portion of unused credit on market.
  • Add Utility Receipt Tax to list of eligible taxes to be reduced.
  • Allow the value of certain energy investments or costs to equal a refundable amount of HBI Credits.
Annexation

IMA supports annexation reforms to protect businesses from potential property tax increases.

- Expecting bills directed at extraterritorial powers of cities
- SB 94 (Boots) – Annexation
  - Voids existing remonstrance waivers
Tort & Civil Law

- HB 1012 (Torr) – Product Liability Action
  - Removes existing asbestos language and redefines criteria for cause of action for asbestos exposure
- HB 1015 (Torr) and SB 230 (Messmer) – Unlawful Indemnity Agreements
Energy

Reduce energy costs by cutting Utility Receipts Tax (1.4% on gross receipts of a utility)

- Phase out.
- Limit reduction to electricity receipts.
- Exemption for utilities used in production.
Water

- SB193 (Bohacek) – Sewer and Water Connections through Right-of-Way
- Multiple other issues likely
- Proposed new revolving loan fund for infrastructure improvements
UNEMPLOYMENT INSURANCE TRUST FUND UPDATE

Andrew Berger
Unemployment Insurance

• Trust Fund Loan paid off on June 25, 2016
• Expect to end Calendar Year 2018 with well over $600 M in the Trust Fund
• Still projected to hit existing solvency target of $1 Billion by 2020
• DWD would like to raise solvency target to $1.68 Billion, mirroring Federal preference
Unemployment Insurance

- FUTA – 0.6% of the taxable wage base of $7,000 for each employee ($42 per employee)
- SUTA - Indiana Remains on SUTA Tax Schedule E through 2020
  - Taxable Wage Base $9,500
  - Tax Rates 0.5 Percent to 7.4 Percent ($47.50 to $703.00 per employee)
- No interest surcharge again in 2019 (due to no federal borrowing)
Trust Fund Snapshot

- UI Contributions
- Benefits Paid
- Trust Fund Balance

$1.68 B - Proposed Trust Fund Target
$1 B - Current Trust Fund Target
Unemployment Insurance

- HB 1054 (Torr) – Professional Employer Organizations
- HB 1062 (Leonard) – Unemployment Insurance Matters
  - Allows for exclusively electronic notification to parties in UI claim
  - Permanently removes $5 Million cap on Penalty & Interest Fund
  - Changes the date for UI contribution rate calculation for certain types of business transfers
- SB 130 (Doriot) – Unemployment Insurance Matters
  - Clarifies that independent contract drivers who are driving the vehicle that is the commodity are not employees for purposes of UI
Labor

- HB 1073 (Engleman) – Pregnancy and Childbirth Discrimination
- SB 99 (Boots) – Wage Assignments for Clothing and Tools
- HB 1085 (Morrison) – Device Implantation as a Condition of Employment
Healthcare

- SB 242 (Freeman) - Telemedicine expansion
- SB 108 (Grooms) - Pharmacist reimbursement
Environment

• IDEM Fees
  • IDEM wishes to move all permitting fee rate setting to the Environmental Rules Board, and to raise most fees to cover their existing budget shortfall
  • IMA is supportive of funding IDEM programs at a level that allows permits to be quickly processed and administered by professionals with the necessary expertise
  • The General Assembly, and not the ERB, should set fee increases by statute. The IMA will continue to work with IDEM to resolve their current fee shortfall

• SB 137 (Niezgodski) – Prohibition on Sale or Use of Coal Tar Pavement Products
Governor’s Workforce Cabinet

• Workforce Funding Realignment
  • Increase funding and flexibility for the IMA-driven Next Level Jobs Employer Training Grant by unwinding the unsuccessful “Skill UP!” program and make changes to the WorkIndiana program so that the funding is direct to employer.
  • Set standard metrics for all workforce programming – HIGH WAGE JOB, WAGE INCREASE, CREDENTIAL ATTAINMENT.

• Statewide Career Coaching
  • Replace problematic vendor for Indiana Career Explorer (Kuder) with true online aptitude testing platform.
  • Mandate more career awareness activities in the K-12 space.
  • Provide more industry externships for educators.
  • Regional (limited) career coaching grant program, administered by the Governor’s Workforce Cabinet.
  • Skillful Initiative for adult workers/learners
Governor’s Workforce Cabinet

• Career and Technical Education
  • Continue to fix career and technical education funding to incentivize concentrators as opposed to “one-and-done” CTE enrollment and work on aligning CTE curriculum with industry needs;
  • Fix K-12 accountability and funding so that more students are given relevant work-ready training and work-based learning opportunities;

• Higher Education Funding
  • Petition federal government to make Pell eligible for technical certificates and to support the PROSPER Act
  • Have Commission for Higher Education continue to study 21st Century Scholars and Frank O’Bannon Scholarship programs
Workforce Advocacy

- Career Coaching
- K-12 Alignment
  - Graduation Pathways
  - Accountability Metrics
- Work to Streamline Workforce Spend
  - Career and Technical Education Funding
  - More Employer-Directed Programming
  - More Funding for Successful Programming
  - Elimination or Re-Boot of Non-Performing Funding
Workforce Advocacy

- Strategically address barriers to employment, including:
  - Lack of workforce housing
  - Lack of transportation
  - Inadequate supply of affordable, high-quality child care
  - Lack of high-school equivalency
  - Previous incarceration
  - Drug misuse and abuse
Workforce Bills

• HB 1002 (Sullivan), is the Governor’s Workforce Cabinet Agenda bill
• Ruckelshaus (R, Indy) has a “gap year” program created in SB 158 and a marketing program highlighting career and lifestyle opportunities in Indiana for Indiana college students (SB 93)
• Expect a Commission for Higher Education bill
• Budget funding for workforce and CTE funding
WORKER’S COMPENSATION

Ed Roberts
Worker’s Compensation

- Request for study of WC Medical reimbursement
- Possible consideration of spreading reimbursement cap of 200% of Medicare across all WC Medical
- Bill will increase IOSHA penalties and possibly WC burial benefits if death is caused by “willful/intentional” violation of IOSHA standard
- Likely to be a proposal for increase in WC benefits
INDIANA FAME
Stephanie Wells
Indiana FAME

- Indiana Federation of Advanced Manufacturing Education
- IMA 501(c)3 initiative
- Created based on findings from IMA-commissioned Thomas P. Miller & Associates Study in Summer/Fall 2018
- Founding partners
  - Toyota
  - Batesville Tool & Die
  - Duke Energy
  - Zimmer Biomet
  - Fort Wayne Metals Research
  - ArcelorMittal
  - Vincennes University
  - Ivy Tech Community College
  - Purdue IN-MaC
ADVANCED MANUFACTURING TECHNICIAN. THE BUILDING BLOCK OF FAME.
AMT

- Post-secondary program for qualified HS graduates and incumbent workers
- Dual-track, five-semester program
- 1,800 hours paid work experience
- Students receive AMT certification and associate degree in applied science
- Students graduate debt-free
- Employers gain best-in-class entry level technician talent
AMT

**Technical Skills**
- Electricity
- Fluid Power
- Motor Controls
- Maintaining Industrial Equipment
- PLCs
- Welding
- Machining
- Drawing
- System Trouble Shooting
- Robotics

**Personal Behaviors**
- Attendance
- Communication
- Diligence
- Interpersonal Relations
- Initiative
- Teamwork

**Mfg Core Exercises**
- Safety Culture
- Workplace Organization
- Lean Manufacturing
- Machinery Maintenance & Reliability
- Problem Solving
PATHWAYS EXIST BEYOND AMT: ADVANCED MANUFACTURING ENGINEERING AND ADVANCED MANUFACTURING BUSINESS
EMPLOYERS PAY FOR FAME. STUDENTS PAY TUITION THROUGH WAGES AND RECEIVE DEGREE
EMPLOYER ROLE

WHAT ARE THE BENEFITS OF BEING A INFAME CHAPTER?
INFAME companies will inform local educational institutions on what curriculum is to be taught and how it is to be delivered, thereby ensuring a continuous pipeline of appropriately manufacturing talent. Company sponsors also have the opportunity to hire students into full-time positions at the completion of the program. Being an INFAME company will provide you with the opportunity to access the very best trained and prepared entry-level manufacturers available, giving you an immediate competitive advantage.

HOW ARE STUDENTS SELECTED FOR THE PROGRAM?
Companies recruit high-achieving technically-minded high school graduates with STEM backgrounds, current employees and veterans. Candidates complete and submit an application for acceptance into the program. EASIEST TO BEGIN WITH INCUMBENT WORKERS!

WHAT ARE A COMPANY’S OBLIGATIONS TO THE PROGRAM?
Over the course of the program, company sponsors commit to providing valuable work experience, including competitive pay, hands-on instruction and a flexible schedule. Most students earn $25,000-$30,000, enough to cover the cost of tuition.
HIGHER EDUCATION PARTNERS ARE KEY.

EACH EMPLOYER CHAPTER CHOOSES THEIR PARTNER
K-12 partners bring critical recruit pipeline. **Must identify partner(s) to build program.**
FAME IS IMPORTANT TO ECONOMIC DEVELOPMENT. SHOWS THAT INDIANA IS COMMITTED TO BEST-IN-CLASS MANUFACTURING WORKFORCE
INFAME IS NOT JUST AMT. OTHER OPTIONS EXIST FOR THOSE EMPLOYERS NOT SPECIFICALLY INTERESTED IN THIS PROGRAM.
SAVE THE DATE

FEBRUARY 27, 2019
AMT LIVE! CONFERENCE
DECATUR, ALABAMA

MARCH 20, 2019
AMT LIVE! CONFERENCE
VINCENNES, IN

MAY 13-16, 2019
NATIONAL FAME CONFERENCE

JUNE 2019
INDIANA FAME CONFERENCE
INDIANAPOLIS, IN

INFAME
QUESTIONS?

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