



June 10, 2003

TO: Governor Gray Davis
All Members, California State Legislature

RE: Permanently Extending the Manufacturer's Investment Tax Credit

On behalf of job providers throughout California we write to support a permanent extension of the Manufacturers' Investment Credit (MIC). As you know, the MIC allows qualified taxpayers a 6% credit on certain types of property used in connection with specified manufacturing, research and development activities.

The MIC was a strong component of California's growth in the 1990s and is an essential tool with which California can rebuild from its current recession. The presence of the MIC as a tax incentive has been a positive factor when companies consider where to invest in new machinery and equipment. The extension of the MIC as a targeted tax credit will both encourage future growth and sustain the continued presence of manufacturing facilities and related jobs in California.

Additionally, in these challenging economic times, the MIC is a necessary component for offsetting the high cost of doing business in California and to help California become more competitive in the national and international marketplace. It is also critically important to have a stable MIC - so that it can be considered by businesses for long term operational and business planning.

Just since January of 2001, California has lost tens of thousands of manufacturing jobs. Loss of the MIC this year would amount to a significant tax increase on manufacturers and be an additional reason for companies to abandon California for more hospitable places to do business in the future. For many manufacturers, the question is not only whether or not to further invest at this time or in the near future, but also whether or not to locate future investments within California.

If the MIC is a predictable component of the state's tax policy, California will be far more likely to be the beneficiary of future site selection and site expansion of manufacturing companies. If we take away the MIC and maintain a cost of doing business that is 32% higher than the national average, California risks a continued economic decline, or at best, only a modest recovery when global demand rebounds.

We respectfully urge you to support the permanent extension of the MIC.

MIC Fact Sheet

- The Manufacturers' Investment Credit (MIC) was originally enacted in the early 1990s during a severe budget shortfall as part of a business stimulus package supported by both Democrats and Republicans. The intent behind enacting the MIC at that time was to help off-set the higher costs of doing business in California, provide some stimulus to the struggling manufacturing sector, and to help restore California's tarnished business climate. Many of the same conditions that exist today were the justification for enactment of the MIC in the early 1990s.
- Following its enactment, the MIC helped produce over 200,000 manufacturing jobs in California; regrettably, many of these have recently been lost with the unprecedented economic conditions facing the state and its manufacturers.
- Manufacturers, small and large, have relied on this credit since 1994 to expand investment in California and employ a high-wage manufacturing workforce. Manufacturing jobs are very well paying jobs, with the average manufacturing job paying \$25,000 more than the average service sector job. In addition, workers employed in the manufacturing sector receive on-going training and opportunities for career development.
- Stimulation of the manufacturing sector also has a positive rippling effect on other economic and employment sectors. For every one manufacturing job, an average of 2.5 more jobs are created in other sectors- the highest "multiplier" of any sector.
- Maintaining the MIC helps California compete with other states in terms of site selection for new facilities and for expanding existing facilities. The MIC serves as a partial offset to sales tax imposed on manufacturers' equipment purchases. **Thirty-eight other states exempt manufacturing equipment purchases- fifteen of those states also give manufacturers credits for purchasing equipment.**
- The MIC has also allowed manufacturers – small and large – to offset a small portion of their expenses in a state where they endure operating costs 32 percent higher than the national average.
- Loss of the MIC this year would be an additional reason for companies to abandon California for more hospitable places to do business in the future. Removing the MIC will effectively be a tax increase for manufacturers. If the MIC is taken away and the already high cost of doing business increases, California risks a continued economic decline or, at best, only a modest recovery when global demand rebounds.