



Department of Business & Economic Development

**Preliminary Report to the Governor and the General Assembly
of the
Task Force on Industrial Job Creation in Baltimore County**

Submitted by
The Maryland Department of Business and Economic Development
(DBED)

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Executive Summary

In recent years, Baltimore County's industrial jobs base has faced significant decline, impacting its local communities, ancillary businesses, and residents. Established by an act of the General Assembly in 2011, the Task Force on Industrial Job Creation in Baltimore County was created to examine this issue, by determining the causes of the loss of employment opportunities in the County's manufacturing and industrial sector and by recommending State policies to encourage employment growth in these sectors once again.

The Task Force began its work in October of 2011 and through its preliminary research and work to date, can point to several factors and potential recommendations in this preliminary report, with final recommendations to be forthcoming in the final report, due June 2012. The Task Force has come to its initial conclusions via member expertise, business outreach, roundtable discussions, and through reviewing research conducted by 3rd party organizations. The below initial conclusions can be drawn, and are further outlined in the body of this report.

Top Issues Facing Industrial Businesses in Baltimore County

The scarcity of skilled labor (machinists, operators, craft workers, technicians, etc.) is one of the top issues impacting manufacturers' ability to remain competitive in the State, despite the fact that these jobs, on average, pay over \$60K in Maryland (27% higher than the average for all private industry workers)¹ and are largely clean and safe. A claim often made by manufacturers is that there are no training programs in the State's educational system for what companies need and/or they don't know about any programs or in-State pipelines for the skilled workers that they need. This problem may stem from a number of factors, but perhaps the most important is that the public is unaware of the current face of industrial employment and advanced manufacturing and is therefore reluctant to encourage students to pursue the necessary coursework.

Federal, State, and local regulations were also cited as an important factor impacting Maryland's industrial businesses, to include permitting timelines, healthcare regulations, worker's compensation rates, occupational safety and health regulations, and environmental and zoning regulations. The Task Force will continue to delve into these issues, but this report highlights some business concerns relative to regulations having an impact on business growth.

Industrial businesses also cite high business costs, particularly as they pertain to energy, land, and tax rates. As industrial businesses often consume a large amount of energy, additional surcharges on Maryland energy bills translate into higher overhead costs for any Maryland-based facilities. Similarly, the scarcity and/or unaffordability of real estate for facilities and workforce housing is another factor driving labor and other business costs. Tax rates are also a source of concern for businesses considering locating in the County.

Task Force Plan of Action

To date, the Task Force has worked towards identifying the fundamental problems facing Baltimore County's industrial businesses and has sought to understand the nature and context of those issues. By determining the institutions, processes, and individuals that need to be involved in crafting solutions, the Task Force hopes to present feasible and actionable recommendations in its final report in June. In

¹ Appendix C -- Manufacturing: A Living Industry in Continuous Transformation

this preliminary report however, we have also outlined a few recommendations, as the group activities move forward.

Workforce Development Roundtable Discussion

As discussed above, the lack of skilled labor is one of the main factors hindering industrial business growth. To formulate a plan of attack among county and State institutions, the Task Force held a roundtable discussion on January 9th, which brought together manufacturers, representatives from the State and county educational systems, and other relevant organizations to better understand the issue and look at ways to both encourage students to pursue careers in manufacturing and discuss how to best make this coursework available.

Exploring Options for Revitalizing Underutilized Industrial Properties

As the County's industrial base has declined over the years, facilities and industrial-zoned properties have sometimes stood dormant. While this property is often situated in ideal locations, reinvestment has not always happened to enable new or expanding industries to update and reuse existing property and facilities. The Task Force will explore possible ways of encouraging and incentivizing reuse and reinvestment in industrial-zoned property.

Exploring Regulations

Although particular regulations are of concern, there may be an opportunity to focus on the overall permitting and regulatory process. The Task Force has publicized the Governor's 60-day regulatory review web page to county industrial businesses and will look at ways of improving processes for businesses.

Promoting Public Understanding of a Growth Opportunity

The type of advanced manufacturing currently taking place in Maryland yields products that are competitive anywhere in the world. More importantly, perhaps no other economic sector in Maryland stands ready to benefit from Maryland's natural competitive advantages than the industrial sector, which has access to excellent transportation and export infrastructure, large population centers, and a robust research and development and educational system. However, without a public that understands the opportunity for a revitalized industrial base the economic benefit will be slow in coming.

As the issues are so varied (e.g. workforce, regulatory impacts, high business costs), the Task Force believes that a better public understanding of the changing face of Maryland industry is needed, as well as a commitment by the State's policymakers and business leaders to continue addressing these issues beyond the finite life span of this Task Force. The Maryland manufacturing and industrial landscape is filled with many small businesses that don't have a strong and necessarily unified voice. The Task Force and the Department of Business and Economic Development (Department) will therefore work to both identify the means of taking up these issues moving forward and determine how the sector can better communicate to the public, the school system, and government not only its needs, but the opportunity that exists within the industrial sector.

Conclusion

The Task Force on Industrial Job Creation in Baltimore County and the Department will continue its work over the coming months in supporting industrial businesses and will present our final recommendations in June 2012.

Task Force Overview

CHARGE

Established by Chapter 282 of the 2011 Laws of Maryland, the Task Force on Industrial Job Creation in Baltimore County (TFIJC) is charged with examining the causes of the loss of employment opportunities in industry, ship building and repair, and businesses that supply industry in Baltimore County, and then recommending State policies to encourage employment in the County.

PURPOSE

Baltimore County's industrial jobs base has declined over the past several decades, impacting its local communities and residents. The Task Force is working to determine some of the causes of this decline and how local, State, national, and global policies and trends have impacted Baltimore County's industrial economy and manufacturing infrastructure. The Task Force will also explore ways the State can encourage new employers to locate in the county, while retaining and encouraging the growth of existing businesses. Taken together, this work will help the State better understand how it can encourage a strong manufacturing and industrial jobs base in the county once again.

STRUCTURE

The TFIJC is composed of ten members, representing the Maryland General Assembly, county businesses, labor organizations, and State government. Members are appointed by the Governor and the General Assembly to complete a term of service that concludes upon the completion of a report outlining the Task Force's recommendations, due June 2012. The Task Force is staffed by the Maryland Department of Business and Economic Development (DBED).

Task Force Work To Date

The Task Force on Industrial Job Creation in Baltimore County (TFIJC), met three times prior to the submission of this preliminary report. The first meeting was held on October 27th, which provided a starting point for the group's work. The Task Force members were able to quickly agree on a framework to guide their work and for the individuals and organizations that needed to be consulted and involved. The next meeting, held in November, included presentations from the Maryland Port Administration and the Maryland Economic Development Corporation and informed members of some of the tools available and opportunities that exist for the export of Maryland products. The discussions that followed solidified the scope of work to be conducted over the next several months and outlined a plan of action, to be described later in this report.

Business Outreach

In anticipation of the TFIJC's work, the Department began conducting business outreach to county businesses to hear directly from them. The Task Force has continued this activity by reaching out to businesses affiliated with the Task Force members. Through surveying and holding roundtable discussions attended by DBED staff, the Task Force has gained valuable insight into the challenges and opportunities that exist in the County's industrial sector.

To date, the Task Force has heard from close to a dozen manufacturers and other industrial businesses, including a ship repair company, a steel manufacturer, plastics manufacturers, metal parts fabricators, and other companies with often long ties to the County. In these conversations, many of the same issues were voiced, with several businesses saying they would be able to expand their workforce if not for site restrictions, difficulty finding skilled labor, permitting issues, or other global, State, and local challenges. One ship repair company for example stated they could double their workforce to 90 overnight if a suitable deep water location could be found, due to the ever increasing size of ships. However, a lack of undeveloped and available deep waterfront locations has prohibited a move, and dredging the harbor to make a new site suitable is out of the question due to limited space for placing dredged material.

A local steel mill is another business facing challenges, both global and domestic. The facility employs over 2,300 people and is operating below full capacity due to currently low domestic steel orders, foreign competition, soft pricing, and the rising cost of raw materials. Utility fees are also of great concern as they run into the millions of dollars per month and daily plant maintenance is draining budgets. In order to compete globally, the company also needs to dredge at several locations around the mill which would allow larger ships to dock, but the Maryland Port Administration currently lacks the capacity to accept a large amount of dredged material. The company would also like to build a new production facility, but are concerned about the length and cost of the permitting process. Finally, the company has a workforce attrition problem, as an estimated 800 employees will be retiring over the next few years. These retiring employees will need to be replaced and trained, with training costs that they think will run into the millions of dollars.

Top Issues Facing Industrial Businesses in Baltimore County

Despite a significant decline in the industrial jobs base in Baltimore County over the past several decades, the industrial sector remains strong and has tremendous upside growth potential. However,

there are very real challenges facing industrial firms in the County, which the Task Force has identified via the expertise of the appointed members, and through business outreach, roundtable discussions, and by reviewing research conducted by 3rd party organizations. These challenges are described below.

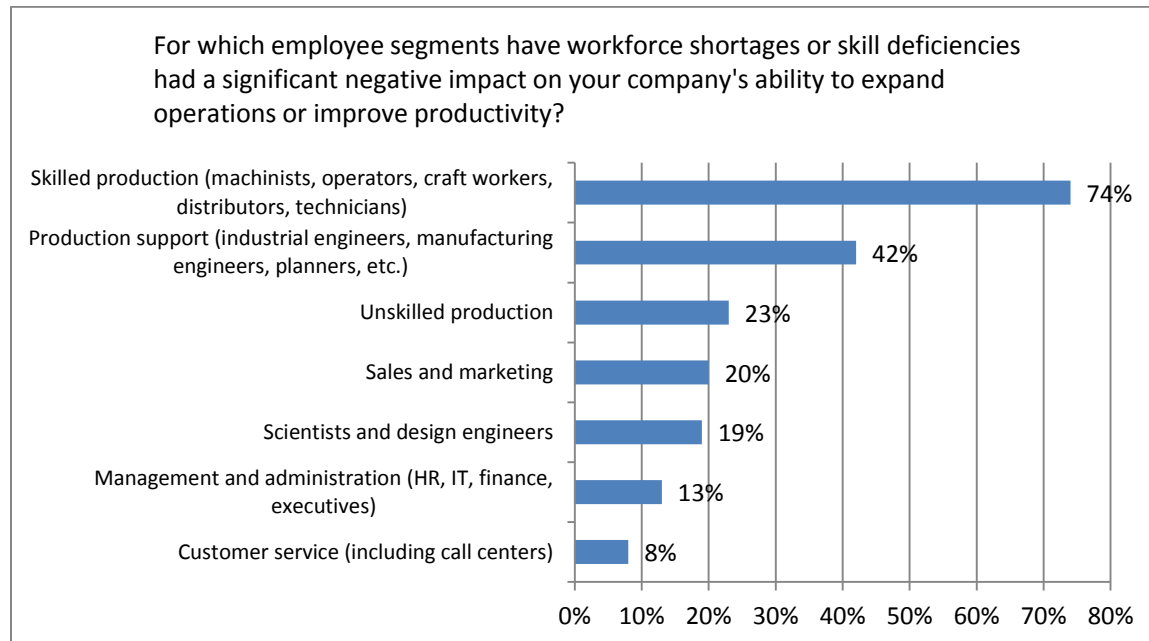
A Lack of Skilled Labor

Despite the higher rate of unemployment in recent years, the County’s industrial businesses are still finding it very difficult to find the skilled labor force that they need. This comes in spite of the fact that these jobs generally include salaries significantly higher than the average. For example, the manufacturing sector’s jobs pay, on average, over \$60K (data adjusted for inflation) in Maryland (27% higher than the average for all private industry workers)² and are, contrary to public perceptions, largely clean and safe. This problem however, is a national phenomenon.

“Customers often say that they would purchase an additional CNC [Computer Numerically Control] machine tool if DMG/Mori Seiki could supply a qualified person to operate the machine”

Rod Jones, DMG/Mori Seiki USA, a manufacturer of machining equipment, talking about their U.S. customer base

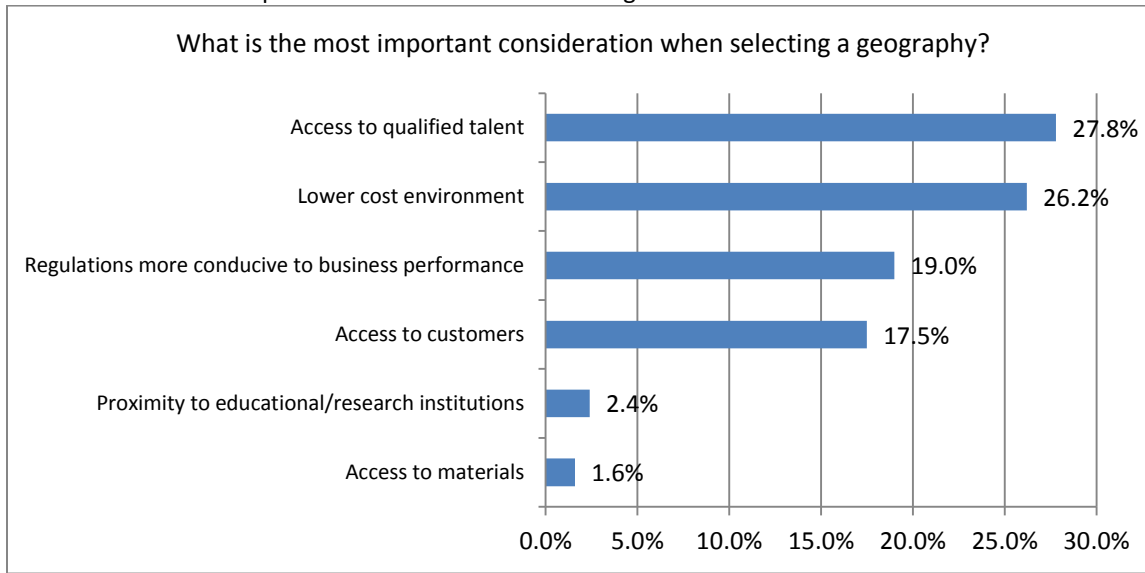
In national research recently conducted by Deloitte and the Manufacturing Institute³, manufacturers cited access to skilled labor as *the* most important factor for their businesses, ranked 20 percentage points higher than any other factor. This problem is also impacting corporate strategy, and is cited as the top factor that manufacturers list when considering locating somewhere (see Appendix F for a concrete example). This is not surprising when considering that the skilled production jobs (machinists, operators, craft workers, technicians, etc.) have the biggest impact on business performance and are also the hardest to fill. These jobs are also the ones that will be most impacted by retirements as a large portion of these workers are nearing retirement age.



² Appendix C -- Manufacturing: A Living Industry in Continuous Transformation

³ Appendix D – Boiling Point: The Skills Gap in U.S. Manufacturing

Source: Deloitte Development LLC and The Manufacturing Institute



Source: Deloitte Development LLC and The Manufacturing Institute

Maryland industrial businesses face a similar situation, as many manufacturers have openings for good jobs that are going unfilled. Some attempt to recruit workers from out of state, but oftentimes end up hiring unskilled labor, attempting to train them on the job. Unfortunately however, many of these employees lack basic employability and critical thinking skills and/or fail drug screening tests. Data indicates that 70% of applicants are rejected from employment opportunities within the manufacturing sector because they lack basic employability skills⁴.

Some Reasons for the Lack of Skilled Labor

There are many reasons for the current shortage of skilled trades workers, from fewer educational dollars going to technical and trades training programs at the secondary level, to low enrollment numbers (and agreed upon coursework) in these programs, to how success is measured in today's educational system. Perhaps most important, is the problem of public perceptions of today's industrial jobs. According to a recent study which gauged public perceptions of manufacturing, only 33% responded that they would encourage their child to pursue a career in manufacturing, with 18-24 year olds listing it as dead last among industries in which they would choose to start their careers. Interestingly however, when respondents were asked about the type of new industry facility they would support to create 1,000 new jobs in their community, manufacturing ranked 1st. Part of the problem is that only 50% of the public sees these jobs as clean and safe, while only 44% believe they pay higher than other industries⁵.

Industrial jobs have changed tremendously over the past 50 years, requiring production workers to have advanced technical skills, at the same time that they have become cleaner and safer. With fewer workers possessing the requisite skills, these jobs are in high demand and thus command high wages. One manufacturer attending a Task Force roundtable discussion shared his frustration at the inability to hire machinists, despite the fact that machinist salaries at his company were roughly \$75,000/year. The

⁴ Appendix C -- Manufacturing: A Living Industry in Continuous Transformation

⁵ Appendix E -- Unwavering Commitment: The Public's View of the Manufacturing Industry Today

story about the changing face of manufacturing has not been told, with the state's technical training centers citing a higher demand from companies for trained labor than students who enroll. As enrollment often drives staffing and funding for technical programs, the public needs to better understand the nature and availability of good paying industrial jobs for their children, and encourage them to consider these jobs as viable career options.

An additional reason for the dearth of trained labor is the lack of an agreed-upon industry-recognized program of study for entry-level workers. In order to enact such a program, educational institutions need to understand what the basic certifications and skill *requirements* are for companies to hire entry-level workers. However, with production workers in such high demand, companies are often simply hoping that they can find someone who has basic employability skills and who can pass a drug test.

Companies need to understand that if there are no prerequisites for employment, there is no incentive for a student to take technical training courses or for an educational institution to fund a program if students can get hired without it. At the same time, if a student gets hired into a decent job without continuing on to college or without completing all of the coursework for a technical training degree program at the college level, should this lack of degree achievement be looked at positively? Focusing largely on college enrollment or degree completion as a measure of success might not fully capture whether business needs and student success is being achieved.

Regulatory Impacts

County industrial businesses also cite difficulties with permitting and regulatory processes as a challenge to business growth. Of note, it is not generally a particular permit or regulation that businesses find onerous, but an overall dissatisfaction with the process. Listed below are some of the concerns raised.

- Lengthy permit review times
- Perceived reluctance on the part of state agencies to rewrite proposed or existing regulations or to revisit decisions, in spite of comments made during review process
- Perceived subjectivity in agency decision making
- Maryland's environmental regulations are stringent
- Most industrial businesses in the County are small businesses, with little ability to stay abreast of and influence regulatory proposals
- Uncertainty about potential regulations
- The perception is that Worker's Compensation Commission decisions are rarely made in favor of the business
- Healthcare costs are difficult to contain

The Task Force will continue to look into these issues in the coming months, but encouraged businesses affiliated with the Task Force to comment via the Governor's 60-day Regulatory Review process established by Executive Order 01.01.2011.20, which took place from October to December.

Business Costs

With slim profit margins and a large number of global competitors, the County's industrial businesses are very sensitive to any input costs that are higher than those of their competitors. Companies cite energy, real property, and tax rates as a concern.

Energy Surcharges and Utility Costs

Industrial businesses are large energy consumers and are therefore greatly impacted by high energy costs and surcharges. High overhead costs due to energy surcharges that don't always exist elsewhere are one concern. Similarly, the way wastewater fees are assessed and regulated is also cited as a concern.

High Property Costs

As undeveloped land, suitable industrial facilities, and affordable housing have become less available in the County, property costs have increased, increasing the cost of business expansion and location. At the same time, expensive housing and higher costs of living regionally require businesses to pay higher wages to attract workers. The scarcity of suitable, affordable land and/or modern facilities makes business recruitment difficult for businesses that would otherwise find the County's location ideal.

Tax Rates

To a lesser extent, tax rates have also been voiced as a concern amongst manufacturers.

Task Force Plan of Action

In laying out the below plan of action and preliminary recommendations, the Task Force has sought to understand each issue it is speaking to and will continue to do so by seeking out the institutions, individuals, and processes that need to be involved to address each issue raised. Due to the temporary nature of this Task Force, part of the goal will be to determine how the State will continue to engage stakeholders, promote the industry, and ensure implementation of policies that support industry after the final recommendations are issued in June.

Workforce Development Roundtable Discussion

Determining ways to better provide the skilled production workers than industry needs was the focus of the Task Force at a January 9th roundtable discussion held at the Community College of Baltimore County and will continue to be a topic for discussion. This is one of the top issues currently hindering County industrial growth and it is an issue that will require a broad coalition of actors and leadership from the highest levels of state and county government. The roundtable discussion brought together manufacturers, county and State officials, and other organizations involved in workforce development to try and determine a format for better meeting business workforce needs.

To do this, the Task Force first inventoried the current technical education landscape at both the secondary and post-secondary levels, in the County but also Statewide. At the meeting, some concrete steps to encourage industrial skills development were identified, which the Task Force will be following up with. The next step will be to determine if existing resources are up to the task and how to help students' better access existing resources and coursework. Topics discussed at the roundtable included:

- Can a program of study for basic, entry-level skills be agreed upon by the industrial community
- Is dual-enrollment at a community college for high school students a viable option
- How to change perceptions and encourage students to pursue careers in industry
- How does the way success is measured by educational institutions impact competency-based education (vs. degree-based)?
- Determining the institutions/mechanisms for continuous industry involvement

One successful model that was considered at the secondary education level is the Carroll County Career and Technology Center (CCCTC), located at Westminster High School. The CCCTC recently became the first National Institute for Metalworking Skills (NIMS)-accredited school in Maryland with a Manufacturing and Machine Technology program that is helping students find good jobs right out of high school. Upon receiving their diploma, students have been hired at employers such as General Dynamics' Robotics Systems, NASA, Northrop Grumman, and other Maryland manufacturing facilities.

However, there is much greater demand for these skilled graduates than are enrolled at the CCCTC, and a program like this takes time to establish. It is therefore important that existing resources such as those that exist at the Community College of Baltimore County and the Magna Baltimore Technical Training Center be leveraged to help meet industry's workforce needs.

Exploring Options for Revitalizing Underutilized Industrial Properties

One of the biggest challenges for industrial businesses looking to locate or expand in Baltimore County is the scarcity of available and suitable industrially-zoned facilities and land. However, as the County's industrial base has declined, former industrial sites have sometimes stood dormant. The Task Force will investigate options for encouraging reinvestment in underutilized industrially-zoned properties, to upgrade facilities and reuse land that might be ideally located for new industrial ventures. The Maryland Economic Development Corporation, may be one organization that is equipped with some tools for this task.

The Maryland Port Administration is also equipped to provide both short and long term benefits to the Port of Baltimore and the regional economy by creating a viable new option for the placement of harbor dredged materials, which a number of businesses sorely need. The Port Administration has the ability to remediate environmental conditions at the Coke Point portion of the Sparrows Point peninsula, which would allow dredged materials to be placed at Coke Point and eventually capped. The end result would be to create a site with deep water access that could be used for either a potential future port terminal or another port-related industrial activity. Given the current scarcity of both dredged material placement sites and property with deep-water access, the Port's ability to effectively provide remediation services at Coke Point provides an excellent opportunity. As such, the owners of Sparrows Point and the State and federal government should work expeditiously to redevelop Coke Point.

Exploring Regulations

As described earlier, concerns with State and county regulations do not seem to stem from any specific regulations, but with the overall regulatory process. Businesses want a better mechanism for providing input and to be able to trust that their input receives due consideration. Timeliness and a clear understanding of timelines and decision-making processes is also very important. The Task Force will continue to look into ways of addressing these issues and asked businesses affiliated with the members to provide feedback during the Governor's 60-day regulatory review.

Promoting Public Understanding of a Growth Opportunity

Nationwide, industrial production and growth has been one of the few bright spots in the economic recovery. With global factors such as a weakening U.S. dollar, rising labor costs in China, and higher transportation costs from abroad, industrial production is increasingly viable domestically once again. Baltimore County is no exception and there is a tremendous opportunity to be found in supporting the needs of industrial businesses. There are good reasons that the County has a proud industrial history, as there are a number of competitive advantages that make industrial production here a natural fit.

Listed below are some of the reasons why an industrial recovery in the county is a real economic opportunity, but this is a story that needs to be told to the wider public. The Task Force will therefore look to ways to promote a better public understanding of this growth opportunity and ask that County and State leaders help promote and champion the needs of industry. An example of where this is already happening is with the Maryland Port Administration's public outreach in support of Maryland's Dredged Material Management Program, which has been highly successful in building community participation, and from that, an understanding of both the environmental challenges and job opportunities associated with Maryland's deep water seaport.

Technological Changes

As industry has changed, it has become much more technologically complex, but at the same time more competitive globally. The advanced manufacturing conducted in Maryland makes our products competitive anywhere in the world. The technological changes also mean that industry has become much cleaner and safer than it once was. With a robust educational system, Maryland has the ability to train workers with the skills needed for manufacturing and other industrial jobs.

Geographic Location

Baltimore County's and Maryland's mid-Atlantic location provides avenues for County-produced products to easily reach large number of customers. With 75 million consumers (and other industrial customers) located within an 8-hour drive (25% of the U.S. population), and millions more reachable due to our access to the sea, a strong customer base has historically allowed County manufacturers to thrive. In light of rising transportation and energy costs (and the need for timely supply), the County's close proximity to large domestic markets (with considerable purchasing power) makes its products increasingly more attractive compared to overseas competitors.



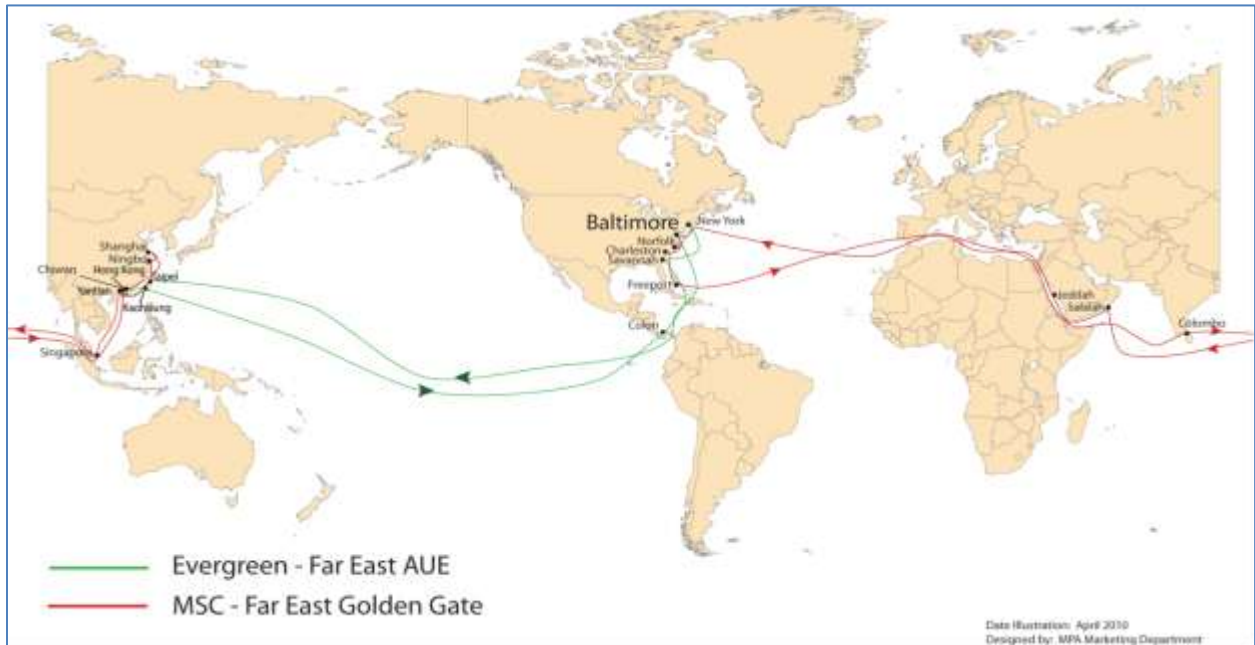
Source: Maryland Port Administration

Additionally, the County is located in close proximity to the largest swath of largely uninterrupted farmland on the East Coast, in the Eastern Shore. It is no accident that Maryland was one of the vegetable canning capitals of the world for many years, something which is once again becoming more viable due to rising production and transportation costs for our far-off competitors to supply the Eastern U.S. DBED in fact has seen a rise in regular inquiries from the food processing industry looking to locate in-state, with lack of available land being one of the biggest inhibitors to this opportunity.

Excellent Transportation Infrastructure

Baltimore County is also benefitted by an excellent regional and global transportation infrastructure, which allows locally-produced products to reach locations around the world with ease. The focus on exports is in fact one key to helping the Port of Baltimore outperform Norfolk in recent years. And starting next year with the opening of a widened Panama Canal, Baltimore and Norfolk will be the only

two East Coast ports with the capacity to take advantage of the larger ships and cheaper shipping costs, which should further advantage the County's industrial exporters.



Source: Maryland Port Administration

Conclusion

Jobs that provide family-supporting wages and benefits and that also meet business needs are available in the County, but without public support, this opportunity for strong industrial growth could be missed. The Task Force therefore will work to identify stakeholders who need to be involved in championing industry needs, sharing this story, and changing public perceptions. The Maryland Department of Business and Economic Development supports these activities and will make every effort to expand the conversation with the institutions that need to be involved and to provide support and a voice for the County's and State's industrial businesses. The Task Force and Department look forward to the work ahead and creating an actionable final report in June.

Appendices

Appendix A: Enabling Legislation

Appendix B: Task Force Members

Appendix C: *Manufacturing: A Living Industry in Continuous Transformation.* A Report from the Manufacturing Steering Committee, Governor's Workforce Investment Board, Center for Industry Initiatives

Appendix D: *Boiling Point? The Skills Gap in U.S. Manufacturing.* A Report on Talent in the Manufacturing Industry. Deloitte Development LLC and The Manufacturing Institute

Appendix E: *Unwavering Commitment: The Public's View of the Manufacturing Industry Today.* Deloitte Development LLC and The Manufacturing Institute

Appendix F: *FTCC's Offering Helped Attract Cat.* By Lisa O'Donnell, Winston-Salem Journal