

**TESTIMONY OF BATH IRON WORKS CORPORATION
IN SUPPORT OF**

**L.D. 1781, AN ACT TO ENCOURAGE NEW MAJOR INVESTMENTS IN SHIPBUILDING FACILITIES AND
THE PRESERVATION OF JOBS**

BEFORE THE JOINT STANDING COMMITTEE ON TAXATION

JANUARY 30, 2018

Senator Dow, Representative Tipping, and members of the Joint Standing Committee on Taxation, my name is Jon Fitzgerald and I am the Vice President & General Counsel for Bath Iron Works Corporation in Bath Maine. Bath Iron Works hereby submits this testimony in support of L.D. 1781.

An economic engine for Maine

Bath Iron Works (“BIW”) has constructed ships on the banks of the Kennebec River for over 100 years. The skilled shipbuilders and engineers of BIW design and construct the world’s most advanced surface combatants for the United States Navy, integral to the national security of the United States and its allies. BIW also provides economic security for over 5,600 Maine citizens and their families, and our employees come from ALL of Maine’s 16 counties (Exhibit A).

BIW is a significant economic engine for the State of Maine. With a payroll of over \$350 million a year and \$45 million (\$30 million to small businesses) in payments annually to 300 Maine companies for goods and services, BIW’s impact is felt throughout the state.

Shipbuilding on the scale occurring at BIW is a capital intensive business which requires significant ongoing investment to maintain its Land Level Transfer Facility, production facilities, cranes, and dry-dock while preparing for the challenges of competing for new work. Maine’s Legislature previously recognized that fact and enacted the Shipbuilding Facility Credit Act to provide incentives to modernize and recapitalize the shipyard in Bath. P.L. 1997, ch. 449, *codified as*, 36 M.R.S. § 6850 *et seq.*

Promises kept

The legislation met its objectives and BIW delivered on its promises. *BIW invested more than \$500 million in its facility since 1996, significantly more than the \$200 million that triggered eligibility for the Shipbuilding Tax Credit of*



\$3 million a year over 20 years. There are few companies in Maine that have committed comparable levels of investment over a similar period.

BIW today employs more than 5,600 people and has consistently maintained a workforce of more than 5,000 men and women, the other qualification for receiving the tax credit. BIW has hired more than 2,000 employees since 2014 as manufacturing jobs have declined in other Maine industries. Moreover, BIW plans to hire up to 2,000 more employees over the next five years in skilled trades, such as welding, electrical and pipefitting, as well as engineering disciplines and many others who apply their unique skills to the collective effort of shipbuilding.

At a time when Maine's young people are leaving a state they love because jobs are hard to find, BIW is preserving many job options. And, these are good jobs that pay well. The Bureau of Labor Statistics reported overall average annual Maine wages for 2016 (most recent available) at just over \$44,000. In Maine, production occupations averaged almost \$38,000 annually. In comparison, the average annual wage at BIW, company-wide, is \$60,820. Similarly, the production workforce average annual base wage of \$53,000 stacks up favorably, particularly when adding benefits including healthcare, pension, 401k with company match, compensated time off and disability insurance benefits.

Continued investment is critical to winning new work

BIW, regardless of its ownership structure, must be a competitive and competent shipbuilder, able to win new work. A review of BIW's history of ownership and operations illustrate the merits of corporate ownership with capital. Beginning in 1967, BIW was involved in a series of corporate mergers, acquisitions and multiple leveraged buy-outs that culminated in BIW being owned by an insurance company and an investment firm until the sale to General Dynamics in 1995. That period of ownership is marked by either unwillingness or an inability to maintain the shipyard facility and invest in the future of the business.

As a result, BIW was in dire need of funding to stay viable in shipbuilding at the time it was purchased by General Dynamics in 1995. The sharp contrast in having an owner with capital and expertise to deploy in BIW's business is evident in the aerial photographs (attached hereto as Exhibit B and C); BIW under the prior owners' deferral of capital investment was dramatically different from the BIW of today.

The investment in BIW's facility was critical in capturing virtually all the construction work on the DDG 1000 USS Zumwalt class of ships, work that continues today on a class of ships that had previously been awarded to



Huntington Ingalls Industries (“HI” or “Ingalls”). Securing this work in 2008 would not have been possible without the modernized BIW facility. That work was what kept BIW in business even as the number of ships being purchased by the Navy continued to decline, as it had since 1991.

Consideration of this legislation is informed by additional facts regarding the nature of the Navy competitions for ship construction contracts and BIW’s competition for that work, Ingalls in Mississippi. The contracts are competitively awarded, fixed-price contracts. To secure the work, BIW must submit bids now for delivery of ships years into the future. There is risk and no guarantee of profit. A contract award earns BIW the obligation to turn plates of steel and thousands of components into a technologically advanced integrated surface combatant that meets the exacting specifications and scheduling needs of the United States Navy.

Competitors in South receive significant state support

BIW is competing for work against shipyards in the South and other regions where energy costs are lower and states are eager to support the pursuit of this work by their in-state companies. In 2013, the State of Mississippi provided \$20 million in funding to construct a 70,000-sq. ft. training facility at Ingalls, BIW’s competitor in building DDG 51 class destroyers. In 2010, the State of Alabama opened its \$12 million Industrial Development Training center at the Austal USA shipyard (a BIW competitor for the next generation FFG(X) Frigate Program).

Ingalls and the State of Mississippi are formidable competitors for shipbuilding jobs. Ingalls entire shipyard was built in 1967 with state funds. Ingalls leases the land from the state for far less than BIW pays in property taxes. Ingalls receives significant state bond money: \$217 million since 2005: \$45 million in 2016; \$20 million in 2015; \$56 million in 2008; \$56 million in 2006; and \$40 million in 2005. Ingalls is big. It is an 800-acre shipyard, compared to BIW’s 65 acres. It has 11,500 employees versus BIW’s 5,600+. It is a sole-source provider for multiple ship programs – NSC, LPD, LHA, LHD LXR – and only competes with BIW for Navy destroyers, BIW’s single line of business.

Every dollar matters to BIW

BIW builds complex surface combatant ships for the United States. Entrusted with providing the defense of our nation using an appropriation of tax-payer dollars, the Navy seeks to purchase the highest quality ships delivered at the lowest possible cost.



As one of the largest employers and most energy intensive businesses in the State of Maine, BIW works very hard to reduce the total cost of building ships across all areas of its business. For BIW to win new work in a competitive bid environment, every dollar matters. The ability to win work has a direct correlation to jobs. BIW cannot do it alone.

BIW requires significant ongoing investment to maintain a facility and a workforce capable of producing the world's most complex and advanced surface ships for the US Navy. Mississippi understands how the competitive bidding process works and the value of having part of the shipbuilding industrial base and a large employer in their state.

At a time when the Company is preparing bids for ships that will be built well into the future, BIW needs Maine's support. This Shipbuilding Facility Tax Credit is a recognition of BIW's value to the people and the economy of Maine.

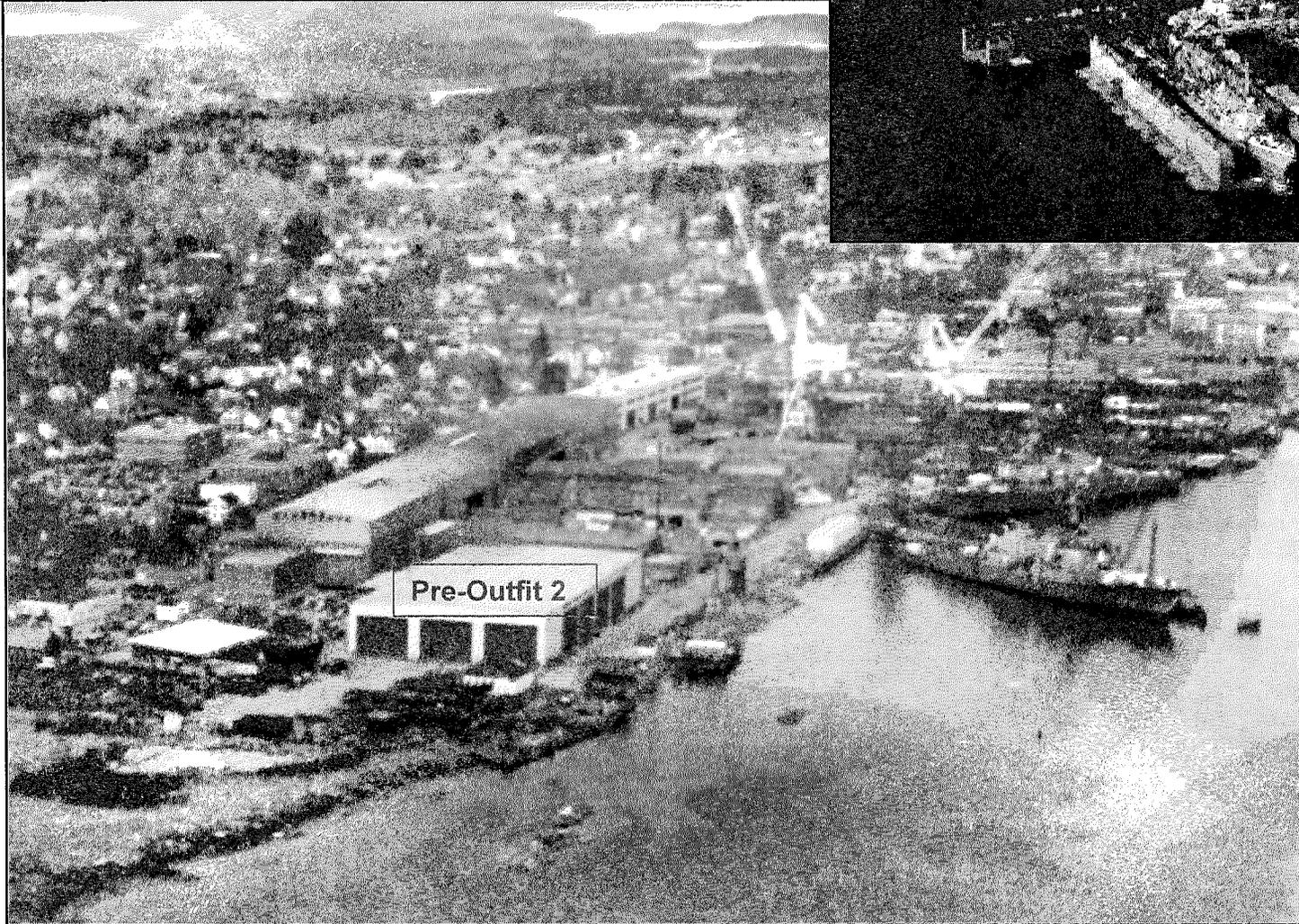
BIW respectfully requests support for L.D. 1781. Thank you and I will be glad to answer questions now or at the work session.



BIW Employees by Town

| | | | | | |
|---------------|-----|----------------|----|-----------------|----|
| Bath | 453 | Waterville | 46 | Scarborough | 20 |
| Brunswick | 414 | Winslow | 45 | Minot | 20 |
| Lewiston | 278 | Georgetown | 44 | Manchester | 20 |
| Topsham | 266 | Monmouth | 41 | Boothbay Harbor | 18 |
| Woolwich | 205 | Sidney | 40 | Wales | 18 |
| Richmond | 168 | Vassalboro | 39 | Belgrade | 18 |
| Wiscasset | 165 | Chelsea | 37 | Cumberland | 17 |
| Auburn | 154 | Fairfield | 33 | New Gloucester | 17 |
| Bowdoin | 146 | South Portland | 31 | Mechanic Falls | 17 |
| West Bath | 128 | Westbrook | 30 | Leeds | 15 |
| Lisbon Falls | 126 | Turner | 29 | Saco | 15 |
| Lisbon | 121 | Oakland | 28 | Arrowsic | 15 |
| Phippsburg | 108 | Newcastle | 28 | Westport Island | 15 |
| Sabattus | 105 | Windham | 26 | North Yarmouth | 14 |
| Augusta | 95 | Poland | 26 | Union | 14 |
| Bowdoinham | 93 | Randolph | 26 | Alna | 14 |
| Dresden | 92 | Windsor | 25 | China | 13 |
| Gardiner | 90 | Boothbay | 25 | Palermo | 13 |
| Litchfield | 89 | Yarmouth | 24 | Benton | 13 |
| Durham | 79 | Edgecomb | 23 | Pownal | 12 |
| Portland | 75 | Farmingdale | 23 | Biddeford | 12 |
| Greene | 72 | Skowhegan | 22 | Farmington | 12 |
| Pittston | 63 | Winthrop | 22 | Jay | 11 |
| Freeport | 60 | Gray | 21 | Readfield | 11 |
| Waldoboro | 60 | Warren | 21 | Raymond | 11 |
| Harpswell | 53 | Clinton | 21 | Liberty | 11 |
| Jefferson | 52 | Nobleboro | 21 | Buckfield | 10 |
| Whitefield | 51 | Falmouth | 21 | Norridgewock | 10 |
| West Gardiner | 46 | Gorham | 21 | Wilton | 10 |

Main Yard - 1995



GENERAL DYNAMICS
Bath Iron Works

Exhibit B - Bath Iron Works
Public Testimony, January 30, 2018

PUBLIC RELEASE AUTHORIZED

Main Yard - 2017



GENERAL DYNAMICS
Bath Iron Works

Exhibit C - Bath Iron Works
Public Testimony, January 30, 2018

PUBLIC RELEASE AUTHORIZED