

2020 Election Outcomes and Manufacturing in 2021

Presented by
The Franklin Partnership, LLC

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About The Franklin Partnership

- Bi-partisan Washington, D.C.-based government relations firm
- Provide direct lobbying services on Capitol Hill, White House, Federal Agencies
- Strategic consulting on impact of government actions on clients
- Speak to business, associations about impact of Washington on their operations
- Supply chain risk analysis
- Clients include:
 - Manufacturing companies and associations
 - Defense manufacturers
 - Hospitals,
 - Cities



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COVID Update

Washington (in)action

COVID: What is the New Normal for Governments?

- Politicians struggle to put politics aside
- Local, state governments will have to do more, cannot rely on Washington
- Governments at all levels will not financially recover for many years
- Taxes will go up in Red, Blue states; taxes from Washington go up under Trump or Biden
- Government reach, activism even in red states will expand
- Expect governments to expect more of you, the employer
- Connections to government officials essential, if you don't know who to call, you're too late

Public 2024 GOP (and shadow Democratic) White House primary already underway

COVID-19 Relief Bill Legislative Update

- Bipartisan group proposes \$908 billion compromise
 - Biden, Pelosi, Schumer agree to dollar amount
 - McConnell wants more targeted bill
 - State, local funding deal seen close
 - Providing employers with liability protection is McConnell's top priority
 - Democrats pushing back on liability, want Biden to issue general industry standard
 - Senate GOP wants special standards into 2024 and cases transferred to federal courts
 - Liability protection language not included in bipartisan \$908 billion proposal
- PPP restart has bipartisan support (no new PPP loans since August 8)
 - Treasury Department still opposing deduction of PPP expenses if loan forgiven
 - Bipartisan proposal includes language permitting deduction PPP expenses; Senate GOP bill does not
 - May include payments to suppliers and for PPE as eligible PPP expense
 - May expand Employee Retention Credit to allow PPP recipients to claim ERTC

Goal is to attach COVID provisions, expiring tax items to government spending bill

Could a COVID Stimulus Happen in 2021?

- Capitol Hill now is focused on COVID “Relief” *not* “Stimulus”
 - Proposals drafted in summer months included provisions to stimulate economy
 - Congress now out of time to create something new; simply extending existing
- Biden, lawmakers looking to act on a broader bill in February/March
- Size, fate of bill may depend on economy, jobs numbers released Feb. 5 and March 5
- Stimulus bill would focus on workers, businesses, jumpstart economy
 - Continue some form of unemployment support
 - Funding for Career and Technical Education, job training, online learning, apprenticeships
 - Language to increase government procurement of U.S. made goods, vehicles
- However, to pay for programs and stimulus, Congress likely has to raise taxes
 - Could see an actual rate increase but would take GOP votes, meaning unlikely
 - Dozens of tax credits and deductions expire in coming years, could move up expiration date
 - Lawmakers could narrow those eligible for tax breaks, increasing taxes on some

Politics Impacts Policy

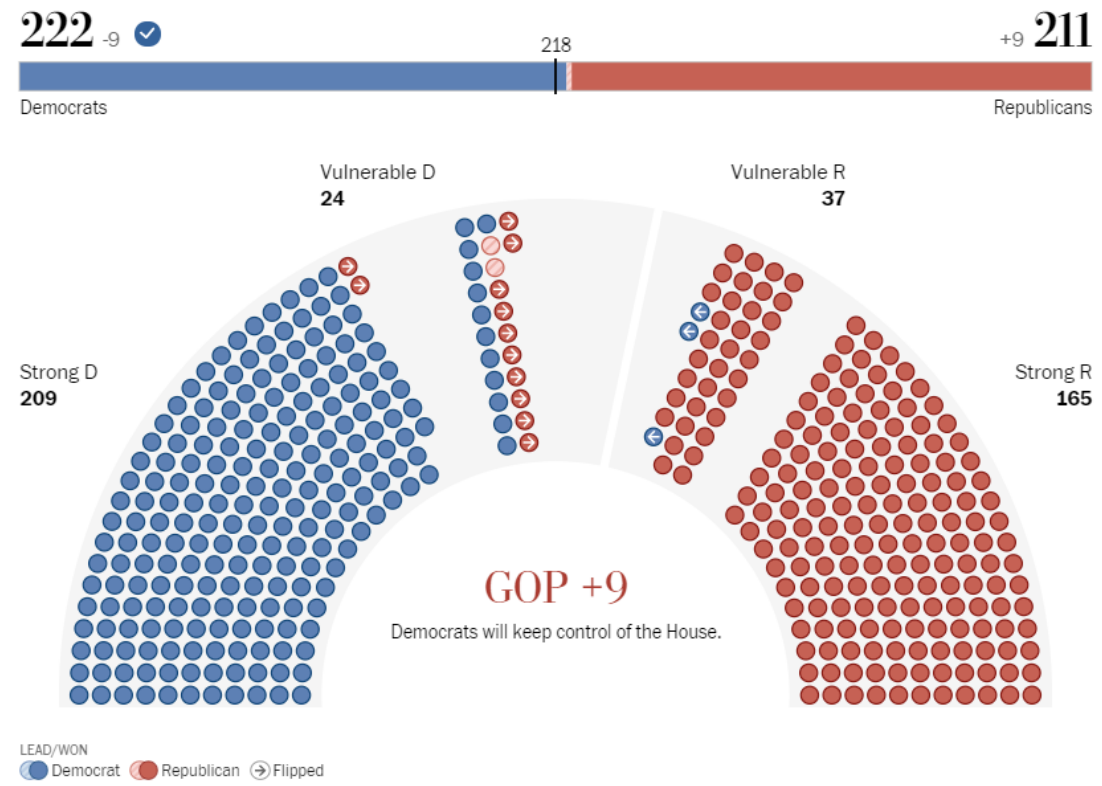
A Divided Washington

What Divided Washington Means for Moving Legislation

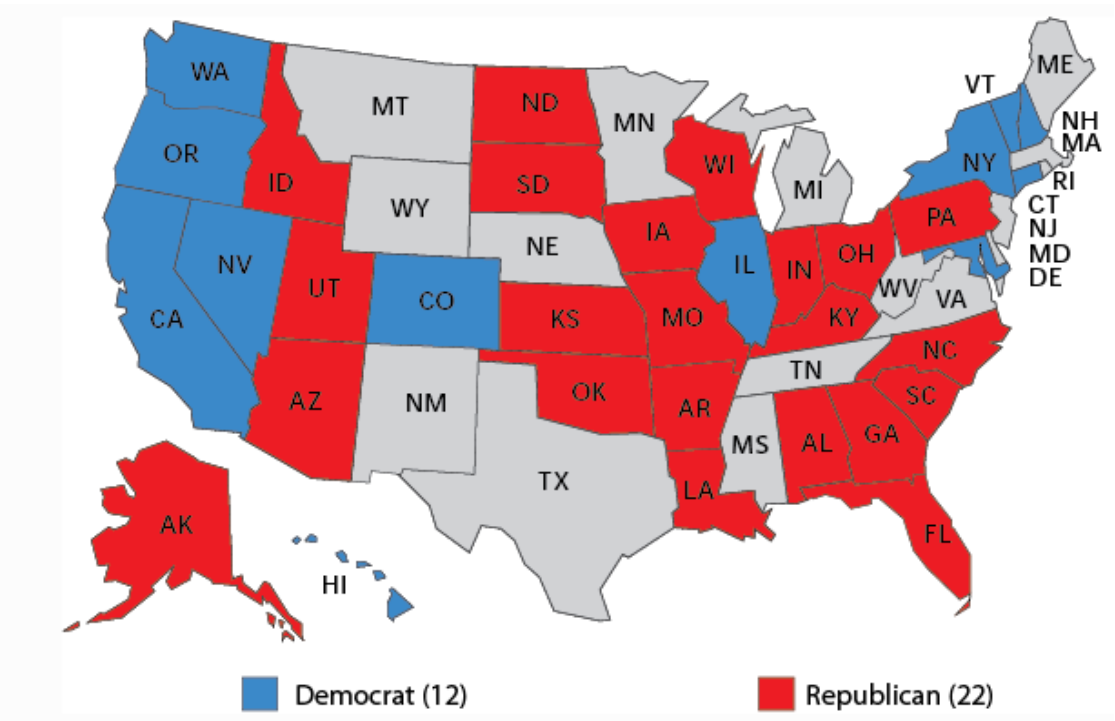
*Difficult for House Democrats to govern
Pelosi can only lose 3 or 4 votes to pass a bill*

U.S. House election results

LIVE: Democrats are projected to keep control of the House



*With no more than a 2-seat majority,
McConnell has to keep all GOP in line
With an eye on 2022, Senate Republicans
defending 22 Senate seats*



What a Divided Washington Means for Stakeholders

House Democrats may only have 2-4 seat edge over GOP in first few months

Pelosi will need some Republicans as likely loses moderates or progressives on some votes

Who Benefits from the Gridlock of Biden-McConnell-Pelosi led government

- Health insurers, health care industries – no major overhaul
- Telecommunications industry – threat of major “breakup” diminishes without Trump
- High wealth individuals – without Senate control, difficult for Biden to raise taxes outright
- Public companies, Stock Markets, traders – more oversight but legislation less likely

Who May Not Benefit from Washington Gridlock

- Infrastructure industries, earth moving equipment, leasing companies
- Stakeholders in expiring tax credits
- Those seeking universal health care, “Green New Deal” type legislation
- Advocates for bank, financial services reform

How Will Biden Govern?

- Seamless transition for H.W. Bush as served VP twice and served decades in DC
- First two years of Clinton was a disaster – no Democrat in White House since Carter
- W. Bush brought new Texas crowd to DC, delegated authority to Department heads
- Obama-Biden controlled most action early on, then delegated to agencies
- Trump ran most of government through White House other than USTR
- Biden has been in Washington for five decades, will draw from DC staff
- Senate under GOP control limits type of Cabinet appointments
 1. At first expect flurry of Executive Orders, Memoranda, Actions that do not need public review
 2. Senate confirmation may take time for agency leaders, White House runs policy until they are settled
 3. By late Spring, early summer many agencies should take over decision-making
 4. Biden must fill 4,400 positions in federal agencies
 5. Some positions do not come open until appointee's term ends

Biden Has Toured an NFFS Member Company



Helps that Biden and his team have some familiarity with industry based on tour

NFFS could use as leverage with EPA, OSHA during rulemaking process

Democratic presidential nominee Joe Biden speaks with Jacob Stradal, a tool room machinist who has worked at the Wisconsin Aluminum Foundry for 22 years. Biden made a campaign stop at the foundry on Monday Sept. 21, 2020. It was Biden's second campaign visit to Wisconsin in 2020. *Hayley BeMiller/Green Bay Press-Gazette*

Post-Election Public Policy:

Looking Ahead on Trade, Taxes, Regulations and Workforce

Current State of Tariffs

- 25% tariffs on 7,000 imported Chinese goods remain (Lists 1, 2, 3)
- 15% tariffs on List 4A dropped to 7.5%
- China List 4B tariffs still pending

- 25% tariffs on imported steel
- 10% tariffs on imported aluminum
- 18% and 45% tariffs on washing machines and parts

- 25% tariffs on European Union imports under Boeing-Airbus 301 Investigation
- 25% tariff on \$1.3 billion of French goods take effect January 6, 2021
- Tariffs on EU under digital services tax 301 dispute threatened
- Section 301 Tariffs on Vietnam likely in January for currency manipulation

U.S.-China Relations, Tariffs Under Biden

- Instinct is for trade to take a backseat, why pressure needed on exclusions
- Sources indicate Biden will focus on repairing and restoring relationships with EU, allies
- Biden will quickly work to build a global coalition to challenge China, keep pressure
- Tariffs on China likely remain through 2021 and very likely up to 2022 November election
- Like them or hate them, tariffs are leverage over China Biden would inherit, need, and use
- Could, however, see narrowing of tariff lists to remove some direct consumer, COVID goods
- Unclear, if/when Biden would open an exclusion process from tariffs
- Expect industrial policies to *incentivize* business to leave China, governments want realignment of supply lines; government procurement policies are changing

U.S. received 52,746 requests from importers to not pay China tariffs - 13% approved

U.S. Trade Relations: Non-China

- Do not expect new Free Trade Agreements in 2021
- Europe seeking quick lifting of Section 301 aviation, and digital services tax tariffs and 232 steel/aluminum tariffs
- U.S. exporters eager to have retaliatory tariffs lifted
- If tariffs not lifted in 1Q 2021, look for action by June
- Biden under pressure from unions/steel to keep tariffs
 - Unlikely Biden lifts steel, aluminum tariffs on China, other non-traditional allies
 - Could lift tariffs in early 2020 on EU, UK, Japan, others
 - Does Biden replace tariffs with quotas as Trump often has?
- Will take time to install senior trade staff at USTR
- If tariffs lifted, how does Biden appease domestic politics?

Supply Chain Realignment: Government Ahead of Industry

- Government policy is ahead of supply chains, wants to drive change
- Politicians in both parties want to realign supply chains, reduce reliance on China
- Not expecting total onshoring to U.S. but pressure to diversify, leave China to continue
- Globalization, corporate business as usual, “this will pass” approach will not work anymore
- President Trump Executive Actions on reshoring medical/defense-related, critical minerals
- Policymakers expected businesses to realign after tariffs, but industry thought this will pass
- Explore dual sourcing strategies for yourself and potential, former customers
- Many belief that if you are not starting a backup plan, you’re almost too late

Possible Biden Administration Actions: Taxes

Note: Major changes to tax rates or policy require Congress to pass a bill with 51 or 60 Senate votes

| Issue | Biden Administration Possible Changes |
|-------------------------|---|
| 21% C-Corporation Rate | Campaign called for 28% rate; If Democrats take Senate, could increase C-Corp rate but closer to <u>OECD average more likely (24-26%)</u> |
| 37% top individual rate | If Democrats take Senate, top rate at 39.6% returns for highest earners; could see more individuals pushed into top bracket(s) |
| Individual Tax Rates | Even without Congress, can look at TCJA regulations, <u>deductions for pass-throughs</u> |
| 199A 20% QBI Deduction | Narrow eligibility for high earners <u>and</u> high wealth; Phase out for high earners |
| Payroll Tax | Could seek legislation to impose a Social Security surcharge tax on higher earners |
| Net Operating Loss | Narrow CARES Act, limit which years |
| Capital Gains | Treat as ordinary income for top earners |
| Itemized Deductions | Cap deductions at 28% for high earners |
| Estate Tax | Lower exemption level from \$11.58m to \$5.49m; allow to revert |

*Dozens of tax TCJA tax provisions begin to phase out or are eliminated starting in 2022; amounts to a tax increase
Expect tax increases in some form as part of a 2021 economic stimulus bill, need to start addressing deficit*

The Regulatory Landscape - Overwhelming

Difficult even under Trump administration to track all regulations...

65 final new rules
and 2,278 pages
week after
Thanksgiving
under *Trump*

| 2020 | # Final Rules* | # Pages* | Proposed Rules | Signif Docs | # Notices |
|---------------|----------------|--------------|----------------|-------------|--------------|
| Totals | 3088 | 78601 | 1987 | 101 | 20822 |
| 12/4/2020 | 14 | 501 | 11 | | 88 |
| 12/3/2020 | 16 | 212 | 8 | 1 | 47 |
| 12/2/2020 | 12 | 642 | 1 | 1 | 51 |
| 12/1/2020 | 10 | 394 | 8 | | 125 |
| 11/30/2020 | 13 | 529 | 9 | 1 | 101 |

Will be even harder for manufacturers, organizations to follow expected Biden regulatory activity, which will exceed that of the Obama-Biden years:

Table I. The Regulatory State: A 2015 Overview

| | Year-End 2015 | 1-Year Change | 5-Year Change (2011–2015) | 10-Year Change (2006–2015) |
|-----------------------------------|------------------|---------------|---------------------------|----------------------------|
| Total regulatory costs | \$1.886 trillion | 1.0% | n/a | n/a |
| Agency enforcement budgets | \$63.0 billion | 4.3% | 4.6% | 28.1% |
| Federal Register pages | 80,260 | 3.3% | -1.2% | 7.1% |
| Devoted to final rules | 24,694 | -0.7% | -6.0% | 10.5% |
| Federal Register final rules | 3,410 | -4.1% | -10.4% | -8.3% |
| Code of Federal Regulations pages | 178,277 | -0.6% | 5.3% | 15.7% |

Possible Biden Actions: EPA Regulations

Please note many environmental regulations are subject to court review, often reversal

| Issue | Biden Administration Possible Changes |
|--|---|
| Expedite Environmental Review for Infrastructure Projects – NEPA | <u>Will reverse Trump NEPA</u> order to expedite environmental reviews; Trump policy sought quicker approval of infrastructure projects |
| Cost-Benefit Analysis | Include social cost of carbon, public health impact in rulemaking |
| Ground Level Ozone – NAAQS | Possibly lower to 65ppb |
| <u>Particulate Matter 2.5 Level – NAAQS</u> | Lower permissible 8 hour limit |
| Auto emissions | Up to 5% annual increase; expand state rights to set tighter standards (California) |
| Heavy Duty Truck Emissions – NOx | Likely aligns with California standards |
| Electric Vehicle | A top priority for Biden is <u>building electric charging infrastructure</u> |
| Industrial efficiency, safety | Possible industrial machinery standards to increase efficiency; dross; MACT |
| Power Plant Regulations | Revert to Obama secondary impact policy |
| Water Quality and Waters of the U.S. | Revert to Obama WOTUS rule; Section 401 Water Quality Certification rule review |

Many reversals of Trump environmental policies can happen on “Day 1”

Will seek to quickly revert to and enhance Obama-era EPA regulations

Possible Biden Actions: Human Resources Policy

| Issue | Biden Administration Possible Changes |
|-----------------------------|---|
| Federal Minimum Wage | Increase possible depending on Congress |
| Increase Overtime Threshold | <u>Regular increases through regulatory changes; more pay for telework, working from home</u> |
| <u>FMLA Expansion</u> | Expansion of paid leave likely; Increase number of paid weeks, reasons for leave |
| EEOC Reporting | Seeks to expand data reported, released |
| Union Legislation | <u>PRO Act will lack Senate votes</u> ; Biden will seek to implement some through regulation |
| Union organizing votes | Revert to Obama policies – short term voting, harder to decertify, easier to organize, loosen private property access rules, require employers provide employee contact information |
| Affordable Care Act | Revert to original Obamacare, expand coverage options, lower Rx pricing |
| Silica, Combustible Dust | Biden could review silica/combustible dust, at first in context of coal |
| OSHA Inspections | Inspections increase along with fines, especially for willful/repeat violations; Emphasis returns to pre-COVID PPE (hearing, inhalation, heat exposure requirements) |
| State Regulations | Significantly Accelerate on their own but “blue states” coordinate with federal government |

Increased time off flexibility for workers is a top priority

Biden under pressure to establish nation-wide COVID workplace policy – much of which remains post-COVID

Look for increased OSHA emphasis on general PPE, eye/face/respiratory protection; recordkeeping, injury/illness reporting

Here to Stay? Federal, State Workplace Laws

- Democrats pushing for universal General Duty COVID requirements
- FFCRA provided 80 hours of paid leave expiring December 31, 2020
 - Could extend FFCRA to July 2021; states could expand
- California, Oregon, CT, others have new laws – liability, presumption of guilt
- Expansion of Family Medical Leave Act could become reality
 - 12-week paid federal employee approved just prior to COVID
 - Trump supports 6-weeks of paid private sector maternal leave
 - Biden wants 12-weeks paid parental and medical leave
- Requirement to permit remote work in some circumstances increases
- Business required to develop emergency response plan, identify key contact, train employees, document steps taken – RECORDKEEPING an OSHA focus

Possible Biden Actions: Job Training

Note: Significant policy changes require Congress to pass a bill likely with 60 Senate votes

| Issue | Biden Administration Possible Changes |
|---|---|
| Higher Education Act | Passes Congress if no vote in 2020 |
| <u>National Apprenticeship Act</u> | Bill passes by end of 2022 |
| Industry Recognized Apprenticeship Program (IRAP) | <u>Pause/cancel IRAP program</u> or make significant changes to audit standards; Democrats skeptical of non-registered apprenticeships, want focus on registered only |
| Job Training Funding/Grants | Increased funding for MEPs, TAA, WIOA, CTE, minority/women/youth training grants; focus on unions |
| College Transparency Data | More interested in access to college |
| Community Colleges | <u>Increased role for community colleges</u> in training and preparing students for work |
| Industry Partnerships | Emphasize industry, association should partner with unions |
| Work-based Learning | Include livable wage requirement |
| K-12 Curriculum | Focus on broadband access/learning tools |

Expect an increased focus on career pathways for students – a diploma and a credential

Not just college focus, will push for credentials, certifications, apprenticeships leading to “livable wage”

Race for the White House



What the 2020 outcomes mean for both parties

Election 2020: Looking Back and Forward

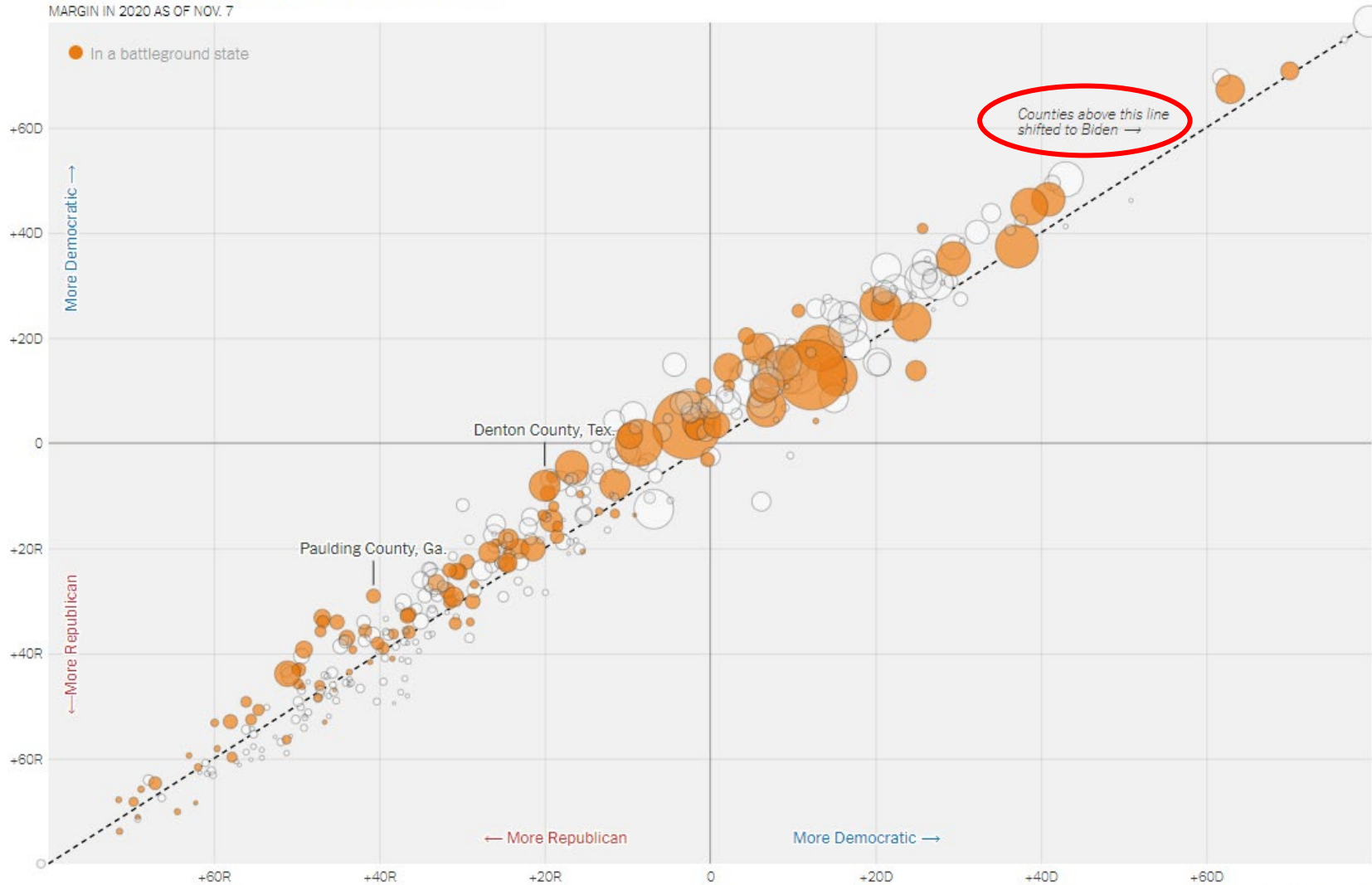
- Total votes cast: 155.505 million
- Total votes cast early (includes mail-in): 101.4 million
- Both Trump and Biden received more votes than any candidates in history
- 12% total more votes cast in 2020 than in 2016
- 16.3% more votes cast in 15 key battle ground states
 - Arizona 30% increase; FL 17.6%; GA 22%; MI 15%; NC 16; OH 5%; PA 11%; TX 25%; WI 11%
- Biden's 2020 vote share (at least 51.3%) has officially surpassed Reagan's (50.7%) 1980 vs. Carter, making this officially the biggest win by single candidate vote share against an incumbent president since FDR against Hoover in 1932
- Democrats have a problem with economic, socialism message to minority voters
- Other than COVID response, many voters supported Trump's message but not messenger
- Trump campaign rarely mentioned trade, immigration, 2016 issues, was all about Trump

Democrats underestimated importance of economic message among Blacks, Hispanics, Asians

Suburban Shift to Biden in Key Toss-Up States

How Suburban Counties Shifted to Biden

MARGIN IN 2020 AS OF NOV. 7



Note: The battleground states shown here are Arizona, Florida, Georgia, Michigan, Nevada, North Carolina, Pennsylvania, Texas and Wisconsin

MARGIN IN 2016

- Biden won Maricopa County, AZ by 301,000 votes (Trump won in 2016)
- Biden only won Erie County by 1,424 votes out of 138,000 cast – 24k more registered Democrats
- Clinton lost Erie County by less than 2,000 in 2016
- However, Trump gained votes in Philadelphia

The Next Steps: Inauguration Day Jan. 20

Key transition events

Pre-election “planning” phase

- Name transition chair(s) and key staff
- Develop relationships with the GSA, FBI, OPM, OGE, current administration, and Congress
- Set goals and develop project plan for transition

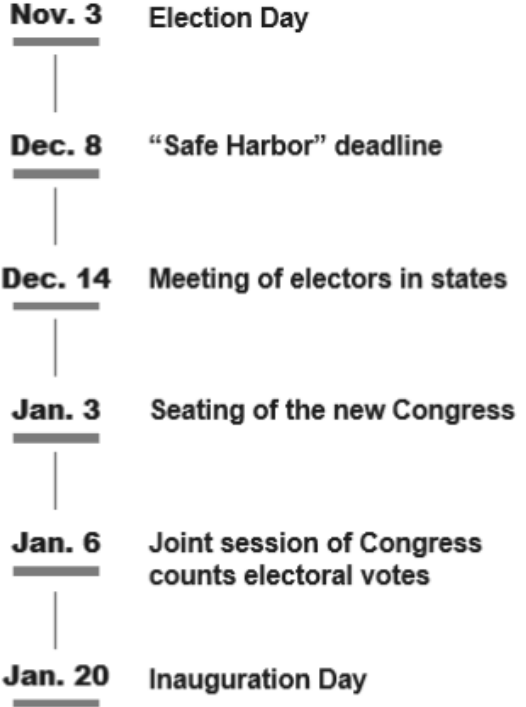
Post-election “transition phase”

- Appointing key White House and agency staff
- Deploy teams to agencies for policy/structure review
- Finalizing policy agenda/schedule
- Naming cabinet

Post-inauguration “handover” phase

- New admins must fill about 4,000 political positions
- Over 1,200 positions require Senate confirmation
- Official transition organization must also wind down

Post-election timeline

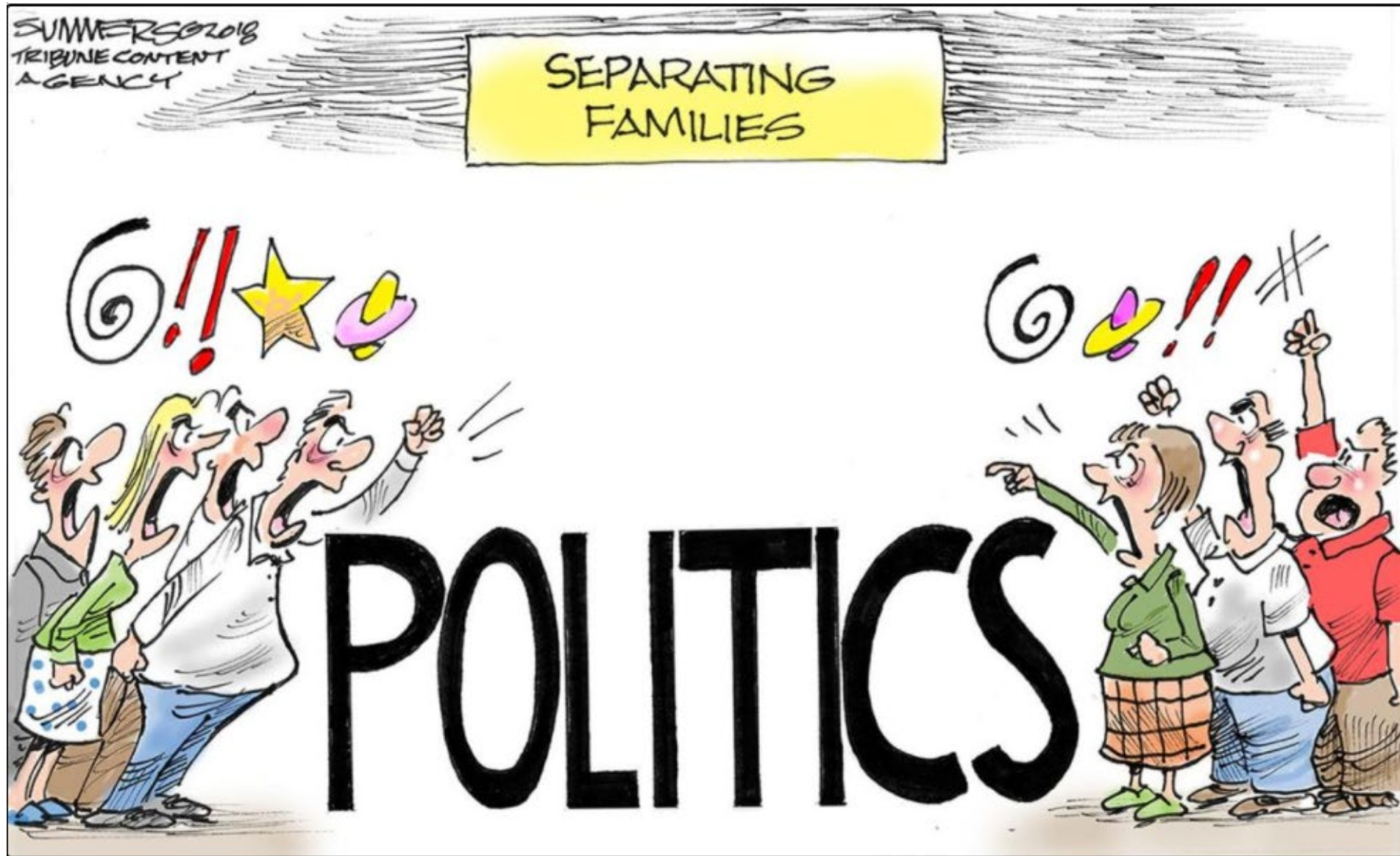


Some court challenges continue around U.S.

GOP legal scholars skeptical of enough votes, states changing

Concern among donors that legal donations enriching law firms, paying debt, not for legal work in courts

We Are All Tired of Politics...



2024 Race Has Begun... You Know you Can't Wait

Which party will win the 2024 U.S. presidential election?

| Contract | Latest Yes Price | Best Offer | Best Offer |
|--|------------------------|------------|--|
|  Republican | 51¢ <small>1¢↑</small> | 51¢ | <input type="button" value="Buy Yes"/> <input type="button" value="Buy No"/> 50¢ |
|  Democratic | 51¢ <small>1¢↑</small> | 51¢ | <input type="button" value="Buy Yes"/> <input type="button" value="Buy No"/> 50¢ |
|  Libertarian | 3¢ <small>1¢↑</small> | 3¢ | <input type="button" value="Buy Yes"/> <input type="button" value="Buy No"/> 98¢ |
|  Green | 3¢ <small>1¢↑</small> | 3¢ | <input type="button" value="Buy Yes"/> <input type="button" value="Buy No"/> 98¢ |

Questions

Omar S. Nashashibi,
Founding Partner

The Franklin Partnership, LLC

Omar@franklinpartnership.com

