

MINNESOTA CHAMBER *of* COMMERCE

2009 Priorities

Fiscal Policy

People love to complain about taxes, yet we all understand the need to fund essential programs and services such as schools, public health programs and roads. As Minnesotans, we only ask that the tax laws be written fairly and that our tax dollars are used efficiently. The Minnesota Chamber makes those same requests when we advocate on tax policies at the state legislature. Our goal is to keep Minnesota competitive as a place for businesses to create new jobs and fulfilling careers for individuals.

Why Business Taxes Matter to All Minnesotans

Business taxes cannot be viewed in a vacuum. Tax studies show that most businesses recoup higher taxes by charging customers more for their goods and services, limiting employee wages and benefits, or reducing returns to shareholders. Businesses are increasingly competing on national and global scales. High taxes reduce their profits and make them less competitive in the marketplace. As a result, business owners are forced to make difficult decisions such as reducing workforce or relocating operations.

Regardless of where we work, all Minnesotans are affected by business successes and failures. Jobs are the backbone of our economy. As a state, we should enact policies that encourage businesses to create good jobs and economic growth. Excessive state taxes only serve as a deterrent.

Where We Rank

Minnesota remains one of the highest taxed states for businesses. We rank among the highest states for the individual income tax (10th) and the corporate income tax (3rd). In 2008, the Minnesota Chamber blocked proposed increases in the statewide property tax and corporate income tax. These tax rates are not attractive for start-up businesses or employers looking to create jobs in our state.

The projected deficit for the next two-year budget cycle biennium could exceed \$2 billion. The 2009 legislative session looms important, especially if the economic downturn continues and there is pressure to raise taxes to close the shortfall.

Minnesota's high business taxes are driven by two factors:

1. **Budgeting is Hard. Raising Taxes is Easy.** To their credit, legislators want to solve problems. As a result, the state government provides a lot of services to a lot

of people. Unfortunately, government solutions are often complicated and expensive, as is their method of budgeting. Instead of establishing the amount of tax revenue available and prioritizing spending within those limits, the government often creates a wish list of projects and programs and then looks for ways to pay for them - usually with increases in taxes or fees.

2. **Businesses Don't Vote.** Not surprisingly, voters are not in favor of increasingly higher taxes. Lawmakers understand this. They also understand that businesses pay taxes but don't vote. It is tempting, then, to fund programs by raising taxes on businesses. This may seem like a great idea in the short term but the long-term effects on job creation and economic development hurts all Minnesotans.

The Minnesota Chamber studies tax policies around the nation. We frequently weigh in on tax debates to ensure that public policy will make Minnesota more attractive for good jobs, greater economic development and provide a better quality of life for all Minnesotans.

Education Policy

Employers are increasingly dissatisfied with the quality of the workforce pool - regardless of whether potential employees are high school or college graduates. The problem will be exacerbated by demographic trends that show a decline in workforce growth and, more specifically, college graduates. The state's education systems must address the workforce shortage more effectively with the goal of ensuring that our businesses have the talent to stay competitive in the global marketplace.

Given changing demographics, we need to do a better job of bringing minorities and lower-income high school graduates into our higher education system. The business community must candidly express workforce needs to the public entities responsible for teaching the skills to our future workforce. Greater accountability is at the forefront of how we spend money and measure student performance.

Overall, we support greater academic and financial transparency systemwide by setting goals, measuring achievements and reporting results. Our initiatives at the 2009 Legislature will focus on three areas in the K-12 system - global competition, the achievement gap and school funding.

Do the Math^{MN} on Local School Funding

Education funding is receiving plenty of attention in the 2008 Minnesota legislative campaigns and promises to be among the major debates before the 2009 Legislature. The issue will receive extra attention in the approximately 75 school districts that are seeking additional funding through levy referendums this fall.

Do the Math^{MN}, a tool provided by the Minnesota Chamber as a member of the Coalition of Minnesota Businesses, is intended to help Minnesotans analyze information

specific to their school districts. The Web site can be accessed at www.dothemathmn.com.

To see how your district performs on statewide tests and fares on academic progress, visit the Minnesota Department of Education's Report Card at <http://education.state.mn.us/ReportCard2005/index.do>.

Environment

Clean water and clean air are essential to the health of our state's economy and citizens. The issues demand immediate attention if we are to reduce threats to commercial/industrial and residential developments as well as our sensitive ecosystem.

Impaired waters as defined by the federal Clean Water Act - nearly 1,500 statewide - are identified in every county. Officials thus far have assessed only 18 percent of the lakes and 14 percent of the streams in Minnesota. Of waters monitored, about 40 percent do not meet federal water quality standards. The Minnesota Pollution Control Agency, in 2003, estimated the long-term cost to restore these waters to range from \$600 million to \$3 billion.

The 2008 Legislature approved the Clean Water, Land and Legacy Amendment to be placed on the November 2008 ballot. The amendment would add three-eighths of 1 percent onto Minnesota's sales tax, creating more than \$300 million per year in revenue for the state to divvy among environmental and arts causes. A portion of the proceeds would fund the Clean Water Legacy Act.

Greenhouse gases are a serious issue, but Minnesota by itself has a limited ability to bring about a globally significant reduction in emissions. The problem must be addressed at the national and international levels. Actions taken by the state must not put Minnesota's economy at a competitive disadvantage.

Energy

A reliable and affordable supply of electricity is critical to all businesses regardless of industry, size or location. That can be accomplished by increasing conservation, base-load generation and transmission system capacity.

Electricity is a significant operating cost for Minnesota businesses. In 2006, Minnesotans spent \$4.66 billion on electricity with the state's commercial/industrial customers accounting for \$2.75 billion. Minnesota ratepayers have begun to pay significantly more for electricity. Statewide average electricity rates typically mask high rates paid by many business customers. Although Minnesota's commercial rates appear to be low relative to

national averages, rates vary substantially based on which utility provides the service and where the customer is located.

Climate change legislation with mandates to reduce greenhouse gas emissions is the driving force in energy policy conversation. The Minnesota Chamber's primary focus in 2008 was on the cap-and-trade bill that eventually became a study which we supported. Next year promises to be an active year at the Capitol with the report due of the Governor's regional greenhouse gas initiative as well as potential federal legislation regulating emissions.

Transportation

Minnesotans often joke that we have two seasons: winter and road construction. Yet, even with all of our construction projects, Minnesota's transportation infrastructure continues to fall behind our current and future needs. In the metro area, resident annually spend approximately 43 hours delayed in traffic and waste 30 gallons of fuel. In Greater Minnesota, safety continues to be an increasing concern.

Investing in Our State

Roads, transit and bridges are often referred to as a state's 'arteries,' and with good reason. They literally carry the lifeblood of our communities - family, friends, employees and products. From a business perspective, Minnesota needs a transportation system that moves our people and products safely and efficiently to remain competitive within the global market.

Roadblocks to Investment

The cost of building and maintaining our transportation infrastructure has been steadily increasing over the last few years. That cost is amplified with each year the Legislature fails to address the additional funding needs. The major sources of funding for the state's transportation system are the gas tax, license tab fees and the motor vehicle sales tax.

The Minnesota Chamber led the effort in 2006 to pass the constitutional amendment that dedicated the existing Motor Vehicle Sales Tax to transportation funding. However, the gas tax has not been increased since 1988 and license tab fees were dramatically decreased in the late 1990s, compounding our funding shortage. Divisions in the Legislature over how dollars are shared between Greater Minnesota and the metro area continue to create a roadblock to progress. Policy makers struggle to find the right balance between increased funding for roads and transit.

As these debates continue, transportation funding bills become larger than policy makers, the public, and interest groups can support. Instead of searching for compromise, it has become an 'all or nothing' debate, with each year resulting in nothing. Until we find common ground, Minnesota's transportation system will continue to fall further behind.

Road Map for the Future

The Minnesota Chamber's 2,400-plus members and their half-million employees depend

on the statewide network of roads, bridges and public transit. We recognize the need for additional investment and the inherent risk of overburdening taxes. We are seeking consensus from all the stakeholders to develop a moderate and balanced package that can be passed by the 2008 Legislature and signed by the Governor. In 2006, we led the effort to pass Minnesota's Transportation Amendment that dedicated the existing vehicle sales tax to transportation funding. We view our 2008 package as the next step in developing a long-term solution to Minnesota's transportation needs.

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