

What will the legislative session bring?

Jobs, costs are business's primary concerns

BY PAT MASCIA AND KAYE RAKOW

(Following are excerpts from an NAIOP Public Policy Committee conversation with Rep. Ann Lenczewski, chair of the Minnesota House of Representatives Tax Committee.)

Q: How bad is our budget situation, and how will the Legislature address it?

A: It's really bad, and getting worse. No one in state government has any experience in dealing with a situation this bad. With a total potential problem of \$8 billion out of a \$32 billion biennial budget, the stage is set for a really epic session.

The House and Senate will want to raise revenue, but I'm asking everyone to start finding cuts now. It would be a waste of time to pursue revenue solutions. The governor is certain to veto them.

Q: What should the Legislature do about our other crisis—widespread unemployment?

A: We hear both sides: Let the private sector create the jobs we need; or, government needs to step in and create jobs.

A number of senators are pushing a \$500 million loan guaranty fund for construction lobbied heavily by the builders and unions. I'm not an advocate, and have some policy questions: Which projects? Where's the analysis? Should government pick winners and losers? And there's no provision for accountability. If a project fails, what's the impact on taxpayers? The argument is, "I don't care if it is bad policy, carpenters are 45 percent unemployed, and we need the jobs."

There are a bunch of other jobs programs being bandied about, but there is no money laying around. Republicans and Democrats alike think these programs are great, but can't explain where the money will come from. The simple fact is, we can only fund new initiatives by cutting something else.

Q: Explain your position on reviewing the state's tax expenditures every two years and possibly even eliminating them altogether?

A: We have this paradigm regarding the budget, that we have just two choices: cut spending or increase taxes. That doesn't take into account the billions in tax expenditures we make "above the line," in the form of R&D credits, K-12 credits, the home mortgage deduction and hundreds of other subsidies and special credits. These are all taken out of the revenue stream before tax payments ever hit the general fund. If these are important priorities, let's discuss them during the budgeting process along with general fund direct expenditures, and then appropriate for them. I say, make it all transparent.

Take the mortgage interest deduction. Taxpayers think it's an entitlement and everyone gets it. In reality, only 27 percent of Minnesotans receive the deduction because taxpayers have to itemize to claim it. That means 73 percent of all citizens pay more to replace what the state loses from the 27 percent who do claim the deduction. The same is true of sales taxes. We exempt clothing, which could raise \$400 million a year and would allow us to reduce the overall sales tax rate to 4 percent.

We have a lot of sacred cows like these, all lobbied into law by some organization or special interest years ago. These tax ex-

penditures total \$11 billion in every biennium. If we eliminated them, the money saved could be used to reduce spending, or even cut taxes.

Q: What should NAIOP's members and the business community watch for during this session?

A: Your industry, and businesses in general, will be targets in this session and again in 2011. A lot of legislators think the shift in property taxes from commercial/industrial to residential has not been fair. They will work to undo the reforms of the '90s and 2001.

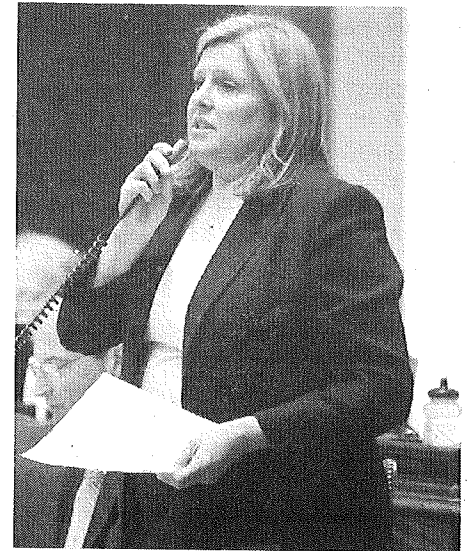
Q: What should we do to defend industry's interests?

A: Get involved now in the November elections. Find your candidates, and help them. It's not about contributing money. It's about actually working for your candidate's success. Think about the potential tax reforms that are likely to be proposed, and decide what positions your organization will take.

Q: What about the response of local governments to the recession—for example, by reducing their employment levels, or cutting spending just like the private sector is being forced to do?

A: We are a huge local control state. We give money to our 87 counties and 800 mayors and let them make decisions and collectively bargain with their employees. It would be really difficult to strip all of that away. Some cities and counties are acting very aggressively to reduce costs. Others seem to not even recognize that there is a problem. The solution? Vote them out.

Q: With the coming change in the gover-



Ann Lenczewski

nor's chair, what should we expect from the 2011 session?

A: The changeover in the governor's office will have a real impact on next year's Legislature. A new governor will bring the first new people we've seen in the administration and our state agencies in eight years. Whether he or she is a Democrat or Republican, the next governor will have to simultaneously raise revenue and make big cuts. Whoever occupies the office will have to act fast, with only six weeks in which to create a budget. It's likely to be an ugly first year. The strategy will be to do big reforms in Year One, while hoping voters will have forgotten what was done by Year Four.

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