"In the past year we have visited 800 firms and conducted three statewide polls. The message that has come back, loud and clear, is… 'tell the legislature not to increase our taxes.' Taxpayers have deep concerns about the value they receive for every state dollar spent."

— Bill Blazar, Minnesota Chamber of Commerce, leader of the "Grow Minnesota" Initiative

NAIOP'S COMPARATIVE TAX STUDY compares property tax and other tax costs of doing business in Minnesota for a typical manufacturing business with those paid by a similar business in comparable, competing states.

THE BUSINESS used as the basis for the study is a typical small firm with 99 employees, occupying a 70,000 SF single tenant building. Gross revenues, $8.7 million; taxable purchases, $145,000; personal property, $700,000; annual net income, $98,450 before corporate taxes; and gross annual payroll, $2.8 million.

VARIABLES include building location, taxes and tax rates imposed by state and local jurisdictions, and assessed value. The study takes into account the fact that the valuation of the building a business occupies has little or no bearing on its owner's decision to expand in Minnesota or relocate to another state offering a lower cost tax environment.

INDUSTRIAL BUILDINGS COMPARED were originally selected for similarity in age (eliminating any effects of local tax incentive programs), and in size, construction type and land area (2-5 acres). Variations in building size have been adjusted to match the model building, with the same factor applied to assessors' market values and property taxes paid.

TAX DATA used in the study is obtained each year from local assessment records, adjusted only for building size and land area. Changes are limited only to taxes, tax rates and valuation occurring at the local jurisdiction level.

ASSUMPTIONS related to sales, employee count and profitability are used to calculate other taxes paid, as well as total business tax burdens. Each year's actual rates are applied against these assumptions. The complete study examines all taxes imposed on the business, including real and personal property, sales, unemployment and other tax costs of operating the business.

"The threat of further increases in the statewide property tax following on the heels of this year's increase would be just terrible. There is no way we can raise our prices in this economy to offset them."

— Bruce Torell, owner of Leaders Manufacturing, Willmar, MN, a producer of abrasive products, has seen sales decline while property taxes on the two buildings his company occupies have gone up again.

"We are the largest taxpayer in five of the eleven communities in which we operate. In this tough economy, when we have had to make some layoffs, the property taxes we have to pay are taking an awfully big bite out of revenues."

— Terry Tone, administrator of Affiliated Community Medical Centers, an operator of clinics and medical facilities in 11 Greater Minnesota cities.

"There is nothing like a recession to make us realize the importance of economic vitality and good jobs…We hope Minnesota policymakers can look beyond quick fixes and toward measures that promote long-term economic health."

— Opinion, St. Paul Pioneer Press, November 29, 2009

NAIOP Minnesota is one of 56 chapters of the Commercial Real Estate Development Association, representing thousands of developers, owners and managers of business properties throughout North America. Members and their firms invest in, develop and manage modern facilities housing Minnesota's most valuable economic resource, the thousands of job-creating companies who provide the livelihoods for hundreds of thousands of Minnesota's workers and their families in communities across the state.

NAIOP Minnesota is committed to being the first line of defense for our nearly 1,000 owner and investor members, for their business tenants and for all of Minnesota's business property taxpayers, statewide.

NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION
MINNESOTA CHAPTER

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23rd ANNUAL NAIOP REPORT

COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION
MINNESOTA CHAPTER

—An Urgent Message to Our State's Policymakers—

MINNESOTA'S JOB-CREATORS ARE EAGER TO GO BACK TO WORK!

There are 3 things you can do to help them get going.

"The jobs agenda must begin with a Hippocratic oath: First, do no harm to employment."

— Michael J. Boskin, Economist, Stanford University

FIRST, hold the line on the statewide business property tax.

Minnesota's high property taxes on buildings used for business are a heavy burden on our only true job-creators—thousands of employers, large and small, located in communities all across the state. Commercial-industrial property in Minnesota is actually taxed **twice**—once locally by cities, counties and school districts—and a **second** time by the state itself, through the so-called "Statewide General Tax." Collected on the same property and paid directly into the state's General Fund, that tax alone will cost Minnesota businesses more than **three-quarters of a billion dollars** in 2010, in addition to the property taxes they pay in their own local communities.

Targeting business for property tax increases might appear to be an attractive and politically feasible solution for Minnesota's dramatic budget problems. But piling additional fixed costs on employers already struggling to survive and compete in this "Great Recession" will only make their task as job-creators even more difficult, while worsening economic conditions for workers and their families who ultimately must bear the cost in higher prices, reduced wages or even wider unemployment.

SECOND, exercise great caution in how you invest scarce taxpayer dollars—and, wherever possible, cut spending.

Taxpayers know and understand the real causes for Minnesota's budget bust: spending that has continued to grow faster than the state's economy. According to the Minnesota Department of Revenue, from 1960 to 2007 state General Fund spending galloped ahead, often by double-digit, year-over-year percentage increases (see inside chart). Now we understand that this level of spending is unsustainable and certainly disastrous when the state's economy is as bad as it is today. We encourage policymakers to adopt a "Priorities of Government" approach to government and to reduce the likelihood of over-committing resources in good times.

It's time for everyone to re-think and re-frame the role and level of responsibility of government in our daily lives: **taxpayers** must put the brakes on their desire for new or additional services; **policymakers** must finally make the wise decisions demanded by a state budget that is deeply out of balance today, and for many years into the future.

As business owners, in times like these, our customers expect us to deliver the same quality, if not a higher level, of service as before, but at a lower price. If we don't, our competition will. Minnesota's taxpayers are expecting policymakers to do the same—deliver more effective services, and potentially more services, with fewer resources.

"We're facing a massive deficit. Reform is change and that scares people. We've all known that we have to cut. We'll cut again next year and the next year. Minnesotans have to get used to that. We have to get our heads around that."

— Representative Ann Lenczewski, Bloomington

FINALLY, consider the potential for damaging private sector job growth of any legislation you are voting on or proposing.

It's not government, but Minnesota's small businesses that must ultimately create the tens of thousands of jobs we need and policymakers are clamoring for. But their efforts must not be hamstrung by the growing number of hurdles placed in their path by state and local policymakers: multiple government-imposed regulations and fees, cumbersome and expensive permitting processes, restrictive land use legislation, and other burdens on the cost of doing business which will impact their continuing ability to grow and compete, nationally and worldwide.

With minimal interference, Minnesota's businesses can and will create the new jobs we so urgently need.

"Like all Minnesota-based companies, we pay a premium in property taxes just to operate here. But property taxes are fixed costs, which we can neither control nor absorb in this down economy."

— John Forbes, president of Heart Throb Exhaust, a Litchfield, MN manufacturer of automotive equipment, has been forced to lay off employees due to the recession.

The Minnesota Chamber's recent *Business Barometer Survey* spotlighted the problem: 213 of the 350 businesses surveyed—61 percent—called the state's high taxes *"the biggest barrier to creating jobs in the state."* Only 6 percent of the firms surveyed said they plan to add employees in the next 12 months.

History of State General Fund Spending

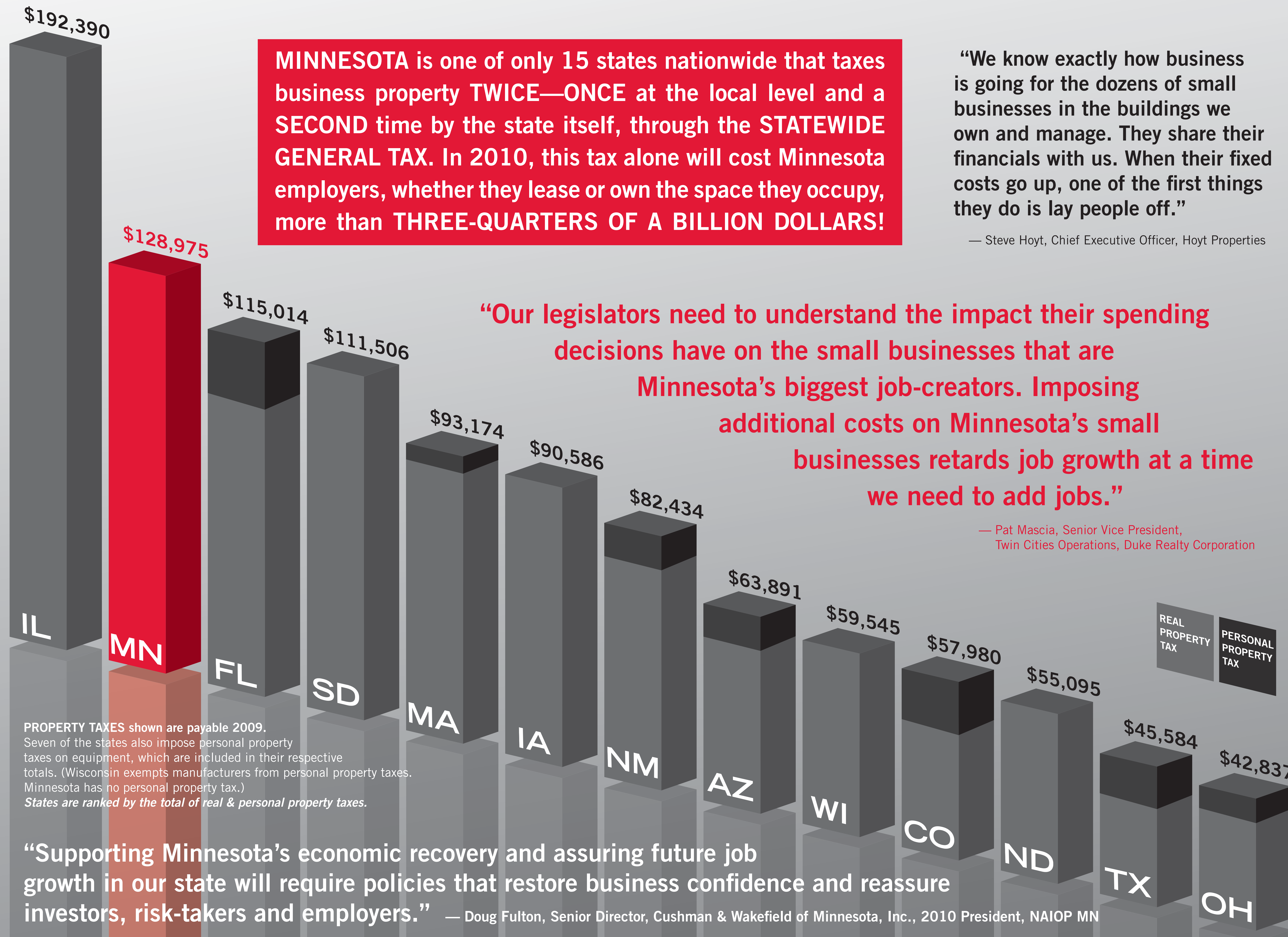
Taxpayers should be reminded that in the 2008-2009 biennium, General Fund spending only consisted of 59% of total state spending. The other 41% was spent through dedicated funds, such as the gas tax. **The total spending for the biennium was $57,432,392,000.**

Fiscal Year	Biennium to Biennium % Change
1960 1961	
1962 1963	↑ 20.8%
1964 1965	↑ 20.6%
1966 1967	↑ 24.6%
1968 1969	↑ 46.3%
1970 1971	↑ 46.0%
1972 1973	↑ 38.6%
1974 1975	↑ 24.3%
1976 1977	↑ 39.4%
1978 1979	↑ 26.0%
1980 1981	↑ 15.5%
1982 1983	↑ 14.9%
1984 1985	↑ 19.1%
1986 1987	↑ 4.9%
1988 1989	↑ 12.0%
1990 1991	↑ 18.3%
1992 1993	↑ 6.3%
1994 1995	↑ 15.5%
1996 1997	↑ 11.3%
1998 1999	↑ 13.8%
2000 2001	↑ 14.1%
2002 2003	↑ 10.2%
2004 2005	↑ 5.6%
2006 2007	↑ 11.9%
2008 2009	↑ 7.7%
2010 2011 (estimate)	↓ -7.6%
2012 2013 (estimate)	↑ 23.6%

Source: Minnesota Management & Budget — 2009

THE PROPERTY TAX BURDEN UNDER WHICH MINNESOTA BUSINESSES LABOR TOPS ALL OTHER STATES IN OUR STUDY BUT ONE

NAIOP'S 23RD annual study of 13 comparable and competing states shows Minnesota again leading all four neighboring states and all but one of the others in total property taxes paid by commercial-industrial building owners, users and tenants. Photos shown are of actual industrial buildings in each state, comparable in size and value to a typical building used by a Minnesota manufacturing company. NAIOP has compared actual property tax costs on these same buildings every year since 1986, with Minnesota consistently leading most other states by a wide margin.



MINNESOTA is one of only 15 states nationwide that taxes business property TWICE—ONCE at the local level and a SECOND time by the state itself, through the STATEWIDE GENERAL TAX. In 2010, this tax alone will cost Minnesota employers, whether they lease or own the space they occupy, more than THREE-QUARTERS OF A BILLION DOLLARS!

"We know exactly how business is going for the dozens of small businesses in the buildings we own and manage. They share their financials with us. When their fixed costs go up, one of the first things they do is lay people off."

— Steve Hoyt, Chief Executive Officer, Hoyt Properties

"Our legislators need to understand the impact their spending decisions have on the small businesses that are Minnesota's biggest job-creators. Imposing additional costs on Minnesota's small businesses retards job growth at a time we need to add jobs."

— Pat Mascia, Senior Vice President, Twin Cities Operations, Duke Realty Corporation

PROPERTY TAXES shown are payable 2009.
Seven of the states also impose personal property taxes on equipment, which are included in their respective totals. (Wisconsin exempts manufacturers from personal property taxes. Minnesota has no personal property tax.)
States are ranked by the total of real & personal property taxes.

"Supporting Minnesota's economic recovery and assuring future job growth in our state will require policies that restore business confidence and reassure investors, risk-takers and employers." — Doug Fulton, Senior Director, Cushman & Wakefield of Minnesota, Inc., 2010 President, NAIOP MN