

NAIOP

COMMERCIAL REAL ESTATE
DEVELOPMENT ASSOCIATION

MINNESOTA CHAPTER

To: Minnesota's Business Leaders and State Policymakers

I and other NAIOP members who assist businesses with their real estate relocation and expansion plans hear the same questions every day.

"In this terrible economy, how can we drive down our operating costs so that we can survive and compete? And if we can't do it here, what are the alternatives?"

In today's mobile world, businesses can, and do, operate partly or completely from almost anywhere on the planet. Company owners and managers are routinely making real-world, cost-of-doing-business comparisons, and in this recession, are basing their investment and location decisions on them to an extent we have never seen before.

This is the new reality facing our own association's developer and investor members. And it is the new reality for Minnesota's political leaders and policymakers as well. We are all now players in a vast global economic competition, and our future success or failure in that game will be determined by the decisions we make today.

At a time when thousands of Minnesotans are out of work, our legislators must recognize that addressing the state's current fiscal mess by piling additional fixed costs on struggling employers in the form of increased business property taxes is not a solution but a recipe for even more layoffs. Minnesota's business owners simply cannot afford to pay more than they are already paying.

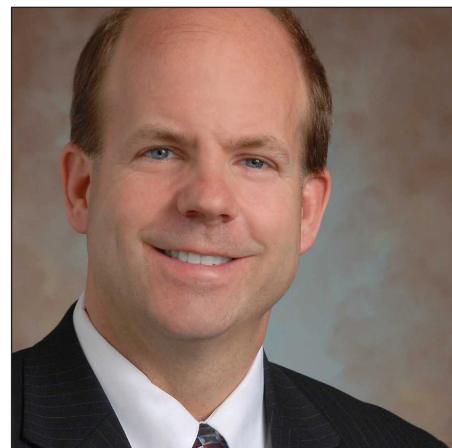
In my leadership role for NAIOP, and as a Minnesota Chamber of Commerce board member and chair of its transportation committee, I am convinced that it is time for our government leaders to reduce costs, deliver essential services more efficiently, and invest wisely the revenue our businesses already pay.

It's time for us to start doing what must be done to make Minnesota a place where businesses can afford to do business...do it profitably...and get our people back to work.

Sincerely,



Doug Fulton
Senior Director, Cushman & Wakefield of Minnesota, Inc.
NAIOP Minnesota 2010 President



Doug Fulton leads a national corporate advisory and tenant representation team at Cushman & Wakefield of Minnesota, Inc.

**“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, NAIOP MN
2010 Comparative Tax Study

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

— Pat Mascia, Senior Vice President, Twin Cities Operations, Duke Realty Corporation,
NAIOP Minnesota Public Policy Committee Chair



Here are **3** things Minnesota’s policymakers can do to help.

FIRST

Hold the line on the statewide business property tax.

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 will only make their task even more difficult, and worsen 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 cut spending wherever possible.

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 services. Policymakers must finally make the wise decisions demanded by a state budget that is deeply out of balance today and into the future.

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 businesses who must create the jobs we need. Don’t hamstring their efforts by placing further hurdles in their path, such as new or higher fees, expensive permitting processes, limitations on land use, and other restrictive regulatory actions. With minimal interference from state and local policymakers, they will soon get Minnesota back to work again.

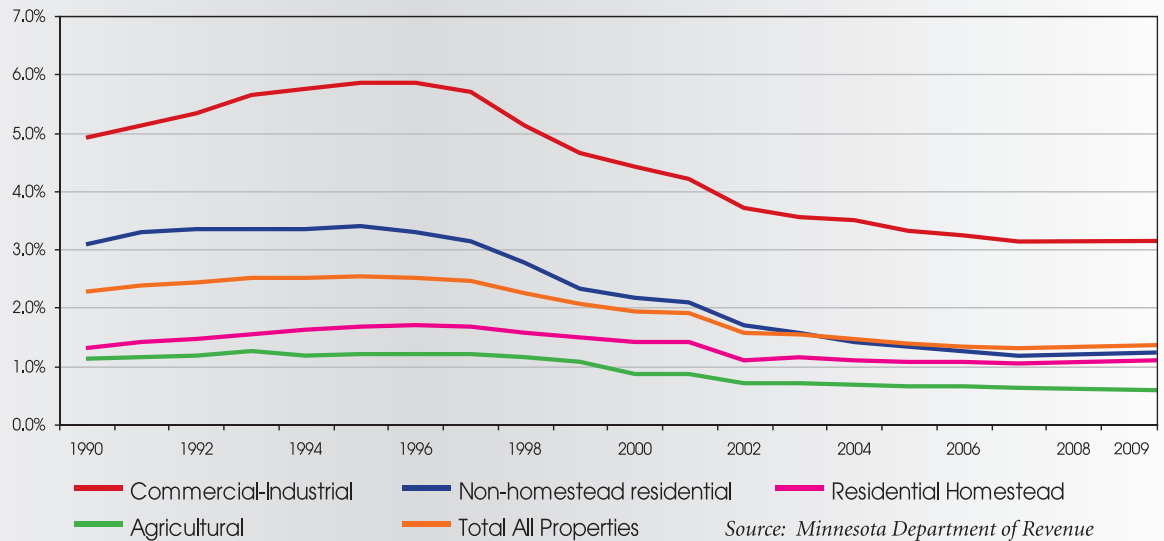
“Like all Minnesota-based companies, we pay a premium in property taxes just to operate here. But property taxes are fixed costs, which we can neither control nor absorb in this down economy.”

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

Minnesota's struggling economy cannot bear the weight of even greater fixed costs on doing business here.

Since 2001, taxes payable as a percentage of market value—the “Effective Tax Rates”—have fallen for all classes of property in Minnesota...

But Minnesota's employers—the users of commercial and industrial space—continue to pay almost \$3 per \$100 in market value, compared with homeowners, who pay just \$1 for the same amount of market value.

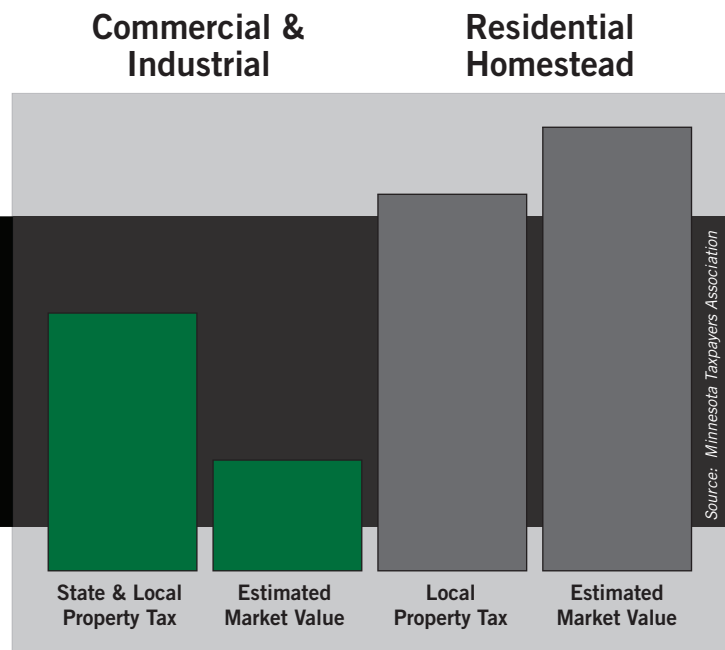


Many policy makers labor under the misconception that the owner of an office tower, a shopping center, or an industrial building with multiple tenants actually pays the property taxes. In fact, each tenant business in these buildings pays its own pro rata share of both local and statewide general property taxes, along with all other operating expenses.

Increasing fixed costs, such as property taxes, on any Minnesota employer in this tough economy will only make it even more difficult for them to retain existing employees and keep them working, let alone create new jobs or bring back workers who have already been laid off.

Minnesota businesses already contribute *far more* than their FAIR SHARE—in fact, in 2009 they paid more than 3 TIMES THEIR SHARE!

Business property owners and their employer-tenants paid 31.6% of all property taxes collected...but in 2009 represented only 13.6% of total statewide market value.



In 2010, our best job-creators—the thousands of businesses, large and small, who drive the local economies of hundreds of communities across the state—will again be taxed *twice* on the property they own or lease for their operations.

Like homeowners, businesses pay property taxes to their local city, county and school district... and then are taxed a **SECOND TIME** on the **SAME** property by the State of Minnesota, with a special Statewide General Property Tax that is actually paid only by them, seasonal property owners and utilities.

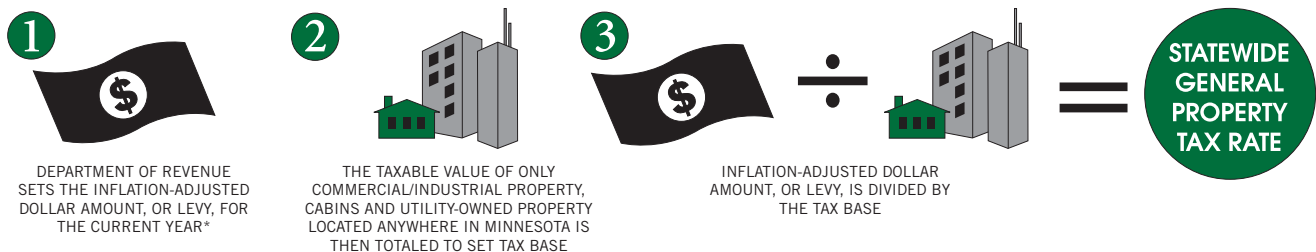
HERE'S HOW PROPERTY TAX RATES ARE CALCULATED IN MINNESOTA

The Statewide General Property Tax rate is set in almost the same way local governments calculate their own tax rates.

How Local Governments Set Local Property Tax Rates



How State Government Sets the Statewide General Property Tax Rate



*The dollar amount or levy is increased each year by the percentage increase in the implicit price deflator, a measure of the level of price change in the U.S. economy.

In 2010, the Statewide General Property Tax will raise more than **THREE-QUARTERS OF A BILLION DOLLARS** for the state's General Fund—more than 90% of it paid by Minnesota's businesses and employers—**ON TOP OF ALL OF THE PROPERTY TAXES THE SAME BUSINESSES WILL PAY IN THEIR LOCAL TAXING DISTRICT.**

The Statewide General Property Tax was originally set at \$592 million for taxes payable in 2002. Since then it has increased by \$187 million to a predicted \$779 million in 2010, up more than **31%** in just 8 years.

PAYABLE YEAR	MONEY RAISED BY THE STATEWIDE GENERAL PROPERTY TAX LEVY
2002	\$592.0 (millions)
2003	595.0
2004	615.0
2005	625.0
2006	655.0
2007	693.0
2008	729.0
2009	774.0
2010 (preliminary)	779.0

31% Increase Since 2002

Source: Minnesota Department of Revenue

