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**Senate File 4091 (DEED Supplemental Budget)**

Dear Chair Pratt and Members of the Senate Jobs & Economic Growth Committee,

The National Federation of Independent Business (NFIB) is the largest small business organization in Minnesota, with over 10,000 members in every corner of the state. Over 75% of our members have fewer than 10 employees and our mission is to advocate for Main Street.

NFIB opposes Senate File 4091, which would establish a state-run, 24-week paid leave program funded by a new \$1 billion per year payroll tax. After enduring disproportionate harm from pandemic closures and restrictions, small businesses now face years of double and triple-digit UI tax hikes and a new \$1 billion payroll tax proposal.

At a time when small employers are facing unprecedented challenges – record inflation, chronic worker shortages, supply chain disruptions, higher energy costs, lost sales – it is unfathomable that some politicians in St. Paul want to add another expensive mandate on Main Street.

Small businesses are more than a campaign slogan – they’re a vital part of our communities and work hard to do right by their employees. Massive tax hikes and one size fits all mandates only make it harder for Main Street to keep up with larger competitors.

**Costs Will Likely Exceed Projections.** Projected weekly leave payments and leave weeks taken used to estimate the new program’s cost are low compared to usage expectations and utilization data from other states, which points to a more expensive program than currently thought.

If the average user made Minnesota’s median per capita income – just a small increase over the most recent fiscal note estimate – and other assumptions held, the program cost would increase by \$40 million dollars. If the average user took, say, 12 weeks instead of the 6.6 projected and made median per capita income, the cost and payroll tax would increase by \$700 million.

**Past Failures Urge Caution.** The Legislature should heed lessons from past complex IT buildouts for new public programs that exceeded cost projections and failed to perform as expected. In the 2000s, a new social services program [called HealthMatch](#) was expected to take two years and

cost \$13 million. After eight years and \$41 million, HealthMatch was scrapped without ever launching. In its first years of operation, MNsure missed its enrollment estimates by 80 percent or more despite costing over \$360 million to build and operate. MNLARS took 10 years and over \$100 million [before it was scrapped](#) for a new \$34 million driver's license system.

**Upends Small Employer-Employee Relationships.** This mandate supersedes all benefit arrangements that don't meet its extensive criteria. This will eliminate flexibility and negotiating power for both employee and employer in the future, including for those who would prefer other forms of compensation instead of more paid time off. It cannot be tailored for part-time, season or other existing flexible work arrangements.

**Exacerbates Worker Shortage and Increases Labor Costs.** Small businesses will have to replace workers for up to 24 weeks per year. This is an expensive proposition on its own – let alone on top of a \$1 billion payroll tax hike – as backfilling work through overtime or temp workers means a significant cost premium. An inability to backfill the work, as may easily be the case, would lead to lower output and more lost sales.

Finally, even in the face of a pandemic, employees express high rates of satisfaction with existing benefits and pay. According to the [Employee Benefits Research Institute \(EBRI\), in 2020](#):<sup>1</sup>

- 77% of employees are offered paid vacation and 66% are offered paid sick time
- 61% of employees view their paid time off and leave benefits as excellent or very good
- More employees would rather have less paid leave and higher wages (25%) than would want more paid leave and lower wages (17%)

EBRI's findings are consistent with a [2016 NFIB report](#), which noted that 74% of small employers offer paid time off and 77% offer paid vacation.<sup>2</sup> Rather than disrupt almost every small business employment arrangement in the state, lawmakers should find ways to help small employers expand benefit options without mandates, higher taxes or red tape.

Please reject the new mandates, red tape, and penalties on small employers in SF 4091. Instead, work with small businesses to help their employees and give Main Street relief by fully repaying the UI Trust Fund today.

All the best,



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<sup>1</sup> Employee Benefits Research Institute, "2021 Workplace Wellness Survey," [https://www.ebri.org/docs/default-source/wbs/wws-2021/2021-workplace-wellness-short-report.pdf?sfvrsn=c4553b2f\\_6](https://www.ebri.org/docs/default-source/wbs/wws-2021/2021-workplace-wellness-short-report.pdf?sfvrsn=c4553b2f_6), accessed 3/14/2022.

<sup>2</sup> Wade, Chow, "NFIB National Small Business Poll," NFIB Research Center, Volume 13, Issue 4 (2016), [NFIB\\_SBP\\_Emp-Compensation2017\\_v2.pdf \(411sbfacts.com\)](#), accessed 3/14/2022