MINNESOTA CHAMBER OF COMMERCE

GROWING MINNESOTA

February 3, 2025

Dear members of the Senate Agriculture, Veterans, Broadband and Rural Development Committee:

On behalf of the Minnesota Chamber of Commerce, thank you for the opportunity to share our support for SF 310 (Sen. Dornink), legislation modifying the recently enacted unfunded paid sick and safe time (SST) mandate imposed on Minnesota's agricultural employers, and request it be further amended to apply to all industries. The Minnesota Chamber is a statewide organization representing more than 6,300 businesses and more than half a million employees throughout Minnesota, and a majority of our members are small to mid-sized businesses.

The Chamber leads the statewide business community to advance responsible public policy that creates jobs, enables commerce, and grows the economy, when looking at the key factors of GDP and job growth, a strong workforce, and smart public investment.

During the 2023-2024 legislative biennium, the Minnesota Chamber testified on numerous occasions with our staunch opposition to the imposition of this mandate for several reasons. We sought to limit the scope of the mandate; provide our smallest businesses with some relief from its financial and operational impacts; and ensure employers have the flexibility to manage these new requirements in ways that are feasible and not cost-prohibitive. We specifically asked that legislators work to mitigate the burdens of the onerous compliance requirements and reduce confusion resulting from the interpretation of this new law uncovered during its rollout and implementation.

Industries across Minnesota's diverse economy are experiencing several troubling trends, including high costs, steep increases in regulation and business mandates, and business expansion in other states. While the agricultural sector is no different in experiencing these broader trends, the impacts of one-size-fits-all mandates impact different industries in uniquely challenging ways. This has resulted in skepticism among all business leaders about the economic future of the state. According to the Chamber's 2024 statewide business community survey, the percentage of businesses who say they plan to leave Minnesota is at its highest point since 2019. Lower taxes, better business climate, and the political direction of the state are the top-cited reasons to leave, all up from 2023 levels.

Businesses and site selectors alike have described that overall business climate and hiring issues have led to a trend of expansion outside of Minnesota in recent years, with Minnesota's high state tax rates, cost of doing business, and lack of workers cited as the top barriers that prevented businesses from expanding in Minnesota. Many businesses specifically commented on the new SST and paid family and medical leave (PFML) labor mandates. For those who indicated they are choosing to stay in Minnesota, a strong majority of business leaders say it is simply because their business was established here. We must change that narrative and improve our comparative position so businesses can thrive in Minnesota.

Over the past three years, the Minnesota Chamber Foundation and the Grow! Minnesota program has produced several research reports to establish the broader economic context for evaluating public policy. We hope policymakers will use this economic data to have an honest assessment of the state's headwinds in order to advance policies that will best position our state for economic success.

- In 2022, Minnesota Entrepreneurship – A turning point, which highlighted that the state's complex array of compliance regulations inhibits startup investments and job creation, giving the perception that Minnesota is a high-risk state to hire employees. This report was released prior to the 2023-2024 legislative biennium.

- In 2024, the State of Business Retention and Expansion in Minnesota, which revealed that while Minnesota has increased project activity from the previous year, the state still lags other states in this region. More worryingly, Minnesota-based companies are expanding and investing in other states at a higher rate than out of state companies are expanding or investing in Minnesota - to the tune of a net deficit of $4.8 billion and

10,341 jobs. In that context, it is noteworthy to point out this investment went to both blue and red states, and to neighboring states that share similar actual climate to Minnesota.

- In 2024, the Business Benchmarks report for 2025, which, on an annual basis for the last ten years, lays out economic indicators in several categories that best determine a healthy economy and a competitive business climate.

A few key observations from our 2025 Benchmarks related to GDP and job growth, business costs and regulations, workforce, and public policy informs our support for SF 310 and our request that this bill apply to all small businesses across the state's economy.

GDP and job growth

A strong GDP means an economy is expanding. It reflects increased production, rising incomes, higher consumer spending, expanded business and increased private sector investment. These elements together can expand the tax base without tax increases and increase the standard of living for citizens. Job growth is another key indicator of economic health as it signals business expansion, improved financial position for individuals, and overall resiliency.

Today, Minnesota's GDP growth ranks 40th at 1.6%. Job growth ranks 31st at 1.4%. Over the past decade, Minnesota's economy expanded at a slower rate than the U.S. economy, averaging just 1.7% annually in Minnesota compared to 2.4% in the U.S. While this differential may not seem stark in the short-term, the long run implications are more significant, leaving future Minnesotans at a relative disadvantage. The recent state budget forecast released by MMB also highlights the impact of the slowing of employment growth for our state's current and future stability and success.

Furthermore, slow population and labor force growth will constrain job and economic growth over the next decade or more. Of particular concern for employers already experiencing the effects of the workforce shortage is the onset of extended leave mandates.

Costs should be conducive to investment, expansion

The cost of doing business can likewise have an impact on numerous elements of a state's economic strength. Business owners cite high costs as the most important issue for elected officials to address. In a recent poll, reducing taxes, bringing down costs and reducing government spending accounted for 60% of overall responses. Lower business costs enable wage growth, encourage investment and create jobs, and spur innovation and entrepreneurship.

Minnesota's tax rates have hovered in the top 10 highest nationally for more than a decade. Yet, in the 2023 session alone, lawmakers drained a more than $18 billion surplus and increased taxes by more than $10 billion. Meanwhile, 29 Democrat and Republican states have lowered their tax rates, making Minnesota even more of an outlier.

Sensible business regulations

Looking at the regulatory environment, sensible regulations and requirements on business can ensure accountability, uphold standards and protect consumers. But overregulation and rigid one-size-fits-all mandates increase business uncertainty and costs, add compliance burdens, and it stifles innovation. Balance is necessary to protect public interest and promote economic growth.

In the last two years, the number of unfunded, unbalanced mandates placed on business have burdened them with increased costs (such payroll taxes), operational and staffing challenges (such as additional unaccounted for paid time off), and the cost of staff time, or hiring new staff entirely, to spend on compliance. Small-and medium-sized businesses are disproportionately impacted, as they have less budgetary flexibility, less HR capacity or expertise, and instead could be focused on growth and investing in their workforce.

Employers are already realizing the impact of the escalating number of workplace mandates

The Chamber recently spent a few weeks on the road visiting businesses across the state, and the collective response is that the SST mandate is being misused by employees, causing legitimate operational challenges and cost impacts across the board. This is largely due to the fact that the mandate is so broad and the rules for requesting notice and documentation are so limited.

Looking forward, the PFML mandate alone will raise payroll taxes on employees and employers by at least 0.88 percent - a nearly $2B annual tax on Minnesota's workers - and will continue to increase administrative burdens and exacerbate staffing shortages and constrain operations when it is fully implemented in 2026. Employees right now are not looking for their pay to be decreased due to these new higher payroll taxes. Employers are also anxious about how their employees will be treated by the state as they deal with sensitive, personal leave needs.

These increases coupled with increased costs of doing business discourage growth and impact specific industries disproportionately high, including manufacturers, agriculture, health care, and small businesses. As a response to cost increases, employers are cutting back on hiring, benefits, or services, as examples.

As we shared in 2023 and 2024, and will again this year, our members continue to request reasonable limits on the scope of the paid leave mandates, and our smallest businesses need some relief from the financial and operational impacts of these mandates.

Public policy plays a role in competitiveness

Minnesota's lawmakers have a responsibility to understand the impact of their decisions on employers, employees and the state's economy. The policies that they support can either stimulate or stifle growth and competitiveness and will impact how many people live here, or will start and grow a business here. However, as our multitude of reports show, our state is not reaching its economic potential.

We encourage elected officials to build a better understanding of how employers contribute to our economy and the quality of life in Minnesota. Over-reaching, one-size-fits-all-state mandates disrupt the positive relationship between most employers and employees, unnecessarily inhibit creative workplace solutions, and interfere in the operations of workplaces that are already heavily regulated.

The Chamber is looking forward to working with members of this committee to retain a strong quality of life by focusing on bipartisan solutions to grow our economy such as lowering costs for families and businesses; enacting policies to encourage private sector investment and innovation in Minnesota; adjusting uncompetitive new laws; and reducing workforce barriers and other cost burdens undermining growth. **Because SF 310 would amend the existing SST law to achieve some of these outcomes, the Chamber respectfully urges your support for this bipartisan bill. Furthermore, the Chamber requests SF 310 be amended to apply to all industries so that small businesses across Minnesota's entire economy can experience some relief from this onerous mandate.**

Thank you for the opportunity to share this perspective with the Committee.

Lauryn Schothorst
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