

MN panel considers biz tax incentives

By Betsy Sundquist, Staff Writer

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Should Minnesota continue to offer companies tax breaks to move their operations here, or to convince them to stay in Minnesota?

A panel charged with making tax reform recommendations to Gov. Tim Pawlenty before the end of the year heard arguments Friday both for and against that strategy.

“Generally speaking, economists would tell you that business incentives are very inefficient, and we should question tax incentives,” Art Rolnick, senior vice president and research director for the Federal Reserve Bank of Minneapolis, told the 15-member Governor’s 21st Century Tax Reform Commission.

“Even though tax incentives look good from a parochial point of view, having an economic bidding war – playing cities and states off against each other – that’s counterproductive.

“It’s difficult to get out of this game,” Rolnick said. “It’s difficult not to compete. But the bottom line is that from a national perspective, this isn’t an economic development tool that we should allow cities and states to have. The better idea is to keep taxes as low as you can on all businesses.”

Paul Moe, a deputy commissioner with the Minnesota Department of Employment and Economic Development, and Louis Jambois, executive director of the Association of Metropolitan Municipalities, took a different view.

“We are very strong advocates of business incentives,” said Jambois, whose organization works as an advocacy group for 86 municipalities in the Twin Cities metro. “In lean times, Minnesota has leaned on tax incentives; in times of financial plenty, or relative financial plenty, we’ve used cash and bonding [as business incentives]. There is no third alternative. If we’re going to do incentives, they have to be either tax or cash.”

Both Jambois and Moe stressed that if Minnesota is to be competitive with other states, it has to continue offering business incentives. The state’s incentive programs are “modest” compared with those of other states, Moe told the panel: He pointed to Tennessee, which offered \$500

million in incentives to Volkswagen; Alabama, which gave \$300 million in incentives to Mercedes Benz; and Nashville, Tenn., which anted up \$166 million in incentives for Dell.

“Million-dollar incentive packages are the norm in many states,” Moe said.

By comparison, the Minnesota Investment Fund, which provides grants to businesses to add new employees and retain high-quality jobs, used only \$25 million in state funds from 1999-2008, he said, with a projected \$2 million set aside for fiscal year 2008.

The state’s Job Opportunity Building Zone (JOBZ) program, which provides local and state tax exemptions to new and expanding businesses in rural Minnesota, is estimated at \$46 million (in property and sales tax exemptions) through 2007. The program was launched in 2004 and will expire at the end of 2015.

Without JOBZ, Moe said, a number of projects would have located elsewhere, including the relocation of Andersen Corp.’s plastic extrusion business from Bayport to North Branch, the relocation of Arctic Cat’s snowmobile and ATV manufacturing operations from Thief River Falls to St. Cloud, and a manufacturing operation for Daktronics in Redwood Falls, which relocated from South Dakota.

“We think we use these programs strategically and that there’s a benefit to the programs,” Moe told the panel. “We also provide an annual report to the Legislature on the programs, so it’s all very transparent.”

Nevertheless, Rolnick said, in many cases, if a company says it can’t expand or relocate without incentives from a city or state, perhaps the business shouldn’t be expanding anyway.

He offered as an example a recent request from the Mall of America for \$400 million to expand its parking facilities. “I would argue that if the economics are right, they’re going to expand the Mall of America with or without the state’s help,” Rolnick said. “Suppose I’m wrong, though, and suppose they literally need that subsidy. The market would say that expanding that business isn’t viable if they need that kind of help.

“Is the government supposed to step in to help businesses that aren’t viable?”

He argued that tax incentives – which, in many cases, cause a business to choose one state or city over another – end up being a “zero sum game.” “Suppose you’re successful in taking jobs away from Minneapolis into St. Paul, for example,” he said. “How long will it be before Minneapolis starts taking jobs away from St. Paul?”

“The argument is that you take jobs away from one state, but in the long run it will all average out. Some programs look like they’re working, luring jobs from other states, but you add up the states who lost vs. the ones who gained, and who benefits from this?”

Jambois countered Rolnick’s argument.

“You’ve heard the phrases – it’s corporate welfare, it’s a zero sum game,” he said. “The question is, why does Minnesota provide them? And the answer is simple: Done well, these incentives stimulate business activity that wouldn’t have occurred without them.

“There’s no such thing as the status quo. You’re either on the ascent or the descent, and if we want to be on the ascent as a city, as a state, as a region, we have to make some investments. We can be fairly limited and still get some things done. The incentives are all there; what they need is an injection of new life.”

The tax reform commission will provide recommendations to Pawlenty in a report due no later than Dec. 1. The governor has asked for “advice and recommendations” on reforming the state’s tax laws, “with the goal of making long-term improvements in the revenue system that reflect changes in business practices, demographics and the economy that have occurred in Minnesota and in other states,” according to the governor’s executive order, issued in February.

The impact of the commission’s recommendations should be “revenue neutral” and should reflect principles of “sound tax policy,” including equity, simplicity, competitiveness, efficiency, stability and ease of compliance and administration, according to Pawlenty’s order.

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