



Bill Blazar, Minnesota Chamber of Commerce Executive

Redesign for better service at lower cost to grow the state economy

A Civic Caucus Focus on Competitiveness Interview

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Summary of Discussion

According to Bill Blazar, senior vice president of public affairs and business development at the Minnesota Chamber of Commerce, given the state budget's turmoil over the last 10 years, policymakers have three possible strategies to help develop and grow the state economy.

The first, raising taxes to improve services, is the strategy Gov. Mark Dayton and the Legislature embarked upon during the 2013 legislative session. Blazar says there are already considerable reasons to question the wisdom of this strategy in the short run and the long run.

The second, balancing the budget using existing resources, was tried during Gov. Tim Pawlenty's time in office (2003 to 2011) and Blazar believes it was successful in the short run. But in the long run, spending down the state's reserves, imposing higher fees and cutting growth in the state budget resulted in slower growth—and actual cuts—in higher education spending, which has a direct impact on the quality of the workforce.

The third, redesigning services to deliver better value, is the best strategy, Blazar says, in both the short and long run. But it hasn't really been tried yet.

Background

Bill Blazar is senior vice president of public affairs and business development at the Minnesota Chamber of Commerce. He has been with the Chamber since 1992. He directs Grow Minnesota!, the Chamber's statewide business retention and expansion program. This year, Grow Minnesota! completed retention visits with over 800 Minnesota businesses and provided direct assistance to 125 of them.

Blazar represents the Minnesota business communities on several task forces and study groups, including the United States Chamber of Commerce's Labor Relations Policy Committee. He is a past

member and chair of the board of the Minnesota Government Relations Council. He currently serves on the board of the Metropolitan Economic Development Association (MEDA).

Prior to joining the Chamber, Blazar was manager of government affairs for Target Corporation from 1987 to 1992. Before that, he was a freelance public policy analyst, specializing in state and local fiscal policy, economic development and telecommunications. He worked for the Citizens League from 1976 to 1980.

Blazar has a B.A. in political science from Northwestern University and an M.A. in public affairs from the Humphrey School of Public Affairs at the University of Minnesota.

Discussion

Given that the state budget has been in turmoil for the last decade, policymakers have three possible strategies to help develop and grow the state economy. Bill Blazar, senior vice president of public affairs and business development at the Minnesota Chamber of Commerce, outlined the three strategies and the justification for them:

1. **Raise taxes to improve services** and have some economic development incentives for businesses to locate and expand here, until the quality of the business services makes Minnesota a highly desirable location for businesses, despite the high price of being here.
2. **Balance the budget with existing resources**, using a combination of spending down the state's reserves, imposing higher fees and cutting growth in the state budget. A stable or declining cost of government will make businesses come here and want to stay here. Over time, the bureaucracy will rise to the challenge and figure out a way to deliver services with fewer resources.
3. **Redesign services to deliver better value**, i.e., quality services at the same or lower per unit price. This strategy requires upfront money to invest in changing the services and requires considerable backbone from policymakers.

Minnesota has tried the first two strategies over the last 10 years.

- Blazar contended that Gov. Mark Dayton and the 2013 Legislature have embarked on the first strategy, raising taxes to improve services. They have also "put tools in the economic development toolbox to deal with companies that complain or are going to leave and are considered significant to the economy."
- Blazar said during Gov. Tim Pawlenty's eight years in office (2003 to 2011) the governor and the Legislature pursued the second strategy, balancing the budget with existing resources, using a combination of spending down the state's reserves, imposing higher fees and cutting growth in the state budget. "It's kind of an ugly approach, but it worked," Blazar said. Minnesota came in fifth out of the 50 states in a recent Brookings Institution survey on how states are performing economically, comparing growth in gross state product for the states over the last decade. "No matter how ugly, in the short run the second strategy produced good results," he said. But Blazar questioned what this strategy of cutting the budget, depleting the reserves and raising fees would do in the long run. "Slower growing and in some areas actual cuts in higher education spending is a result of this strategy, which has a direct impact on the quality of the

workforce," he said. "Businesses do expect high-quality services at a competitive price, much more so now than ever in the past."

Minnesota really hasn't tried the third strategy, redesigning services to deliver better value. "I think you could get the dollars to invest in redesign," Blazar said. "The problem is either lack of backbone or sufficiently creative politicians to figure out how to get it done. It's not for lack of ideas; there are plenty of ideas. I think we could find the money."

The redesign strategy has no downside in the short run, he said, because the increase in taxes (if any) that we might need to finance redesign would be relatively minimal. And in the long run, businesses want high-quality services.

In the short run and the long run, the redesign strategy is the way to go. Blazar said manufacturers are looking for high-quality public services, particularly a trained workforce, and the redesign strategy will deliver that. "The quality of the workforce keeps businesses here," he said. Companies having difficulties finding skilled employees are more sensitive to the fact they're paying high taxes and that, for example, it took them six months to get a permit that they could have gotten in 30 days in South Dakota. "As soon as the workforce begins to deteriorate, warts in the state's business climate become much more pronounced," he said.

There is already considerable reason to question how well the first strategy, raising taxes to improve services, is going to work. Blazar said even though this strategy has been in place for just 60 days, there are a number of examples of companies reacting negatively to the tax changes:

1. Red Wing Shoes has put on hold a possible new distribution center in Red Wing because of concerns about the cost of locating it in Minnesota. The owner is looking at the potential of the state's adding sales taxes to business-to-business services, as Gov. Dayton proposed at the beginning of the legislative session. (Because the company would likely own the warehouse, it wouldn't be subject to the new sales tax on distribution centers enacted during the 2013 session.)
2. Digi-Key, the fourth largest electronic component distributor in North America, has about 1,600 employees in Thief River Falls. It also owns land in Fargo, where it's going to locate a distribution center and add a significant number of employees. "They've run out of people," Blazar said. "They already run their own bus service to get people to Thief River Falls. It's a growing business and they need another location. They could have thought about Little Falls or Bemidji or Grand Rapids. Instead they're going to Fargo. A big deal was access to people, but these tax changes didn't help."
3. A large Minneapolis accounting firm merged with another firm outside of Minnesota. Its headquarters is in Minneapolis, but they've made it clear there will be no further growth in Minnesota because of the new fourth tier in income taxes enacted by the 2013 Legislature.
4. A Twin Cities financial services company will likely take its job growth of about 200 jobs to South Dakota because of the new tax changes
5. Ralco is an animal nutrition business located in Marshall that tailors feed to the biological characteristics of swine, poultry or cattle herds to improve their health. The company services herds in 20 countries and is currently expanding in Marshall. Ralco also has another expansion in mind, a new manufacturing facility, but the owner has written local economic developers that

the current political climate and current trends for taxation in Minnesota are not favorable to further expansion in the state.

In the short run, then, there are real concerns with the first strategy, raising taxes to improve services. There are also concerns in the long run when the strategy is coupled with two other changes over which we have no control: our aging population and the world economy. Blazar said the state's aging population, which will leave every Minnesota industry looking for people, and competition from the world economy raise serious questions about the first strategy, "which is to raise taxes and figure that in the long run the quality of services will be so high that people won't be concerned about the premium they're paying and will want to be here."

We've conditioned businesses that are planning to expand to want public help. In response to a question, Blazar said the 2013 tax bill extended the life of lots of tax increment financing (TIF) districts, which use the increased property taxes that a new real estate development generates to finance costs of the development. "The change in the direction of policy is pretty dramatic," he said.

According to Blazar, the Minnesota Chamber of Commerce supported the Legislature's decision to invest in the expansion of the Mayo Clinic in Rochester, but didn't take a position on a change in the allowed use of TIF to help finance the expansion of the Mall of America.

"The Legislature created \$90 million in economic development tools in the state's toolbox," he said. "That's the dough to grease the squeaky wheels."

"A lot of companies in Greater Minnesota hear about the economic toolbox and say, 'Yeah. I'm going to pay higher taxes so they can bring my competitor to town.' It really does drive them nuts. Most of them figure they'll never benefit an ounce from that stuff."

State policymakers have not had a good discussion about competitiveness. "We've not figured out how to talk about competitiveness," Blazar said. "The Democrats this session were so caught up in the fact of DFL dominance in government and there was lots of pressure from service providers to reinvest to where they were before the eight to 10 years of no state tax increases. And the Republicans were so concerned with taxes. We've not had a good discussion about competitiveness or, more importantly, about what kind of spending rises to be a good strategic investment that over time will really help the economy change and grow."

The 2013 Legislature enacted a number of tax changes affecting businesses. Blazar noted the unemployment tax was scheduled to go back down next year, after a temporary increase to replenish the unemployment insurance trust fund after the recession, when we drew down those resources. It was scheduled to go back down by about \$400 million. The Legislature decided to move back the date for dropping the tax by six months or a year.

He said the corporate tax alone went up by \$400 million and there was about a \$1 billion increase in the personal income tax. "This is a big deal to businesses," he said, "because most of the businesses in the state are organized for tax purposes as pass-through entities, which means anything on their bottom line flows through to their owners' personal tax returns. So the personal income tax is more of a business tax."

Many Minnesota manufacturing companies struggle to find engineers. An interviewer noted that Ed Swallow, vice president at Northrop Grumman's Information Systems, (See [Civic Caucus interview with Ed Swallow and Susan Lavrakas](#) of June 21, 2013) compared engineering training in Minnesota to Virginia and Maryland. Swallow said the big gap in Minnesota between high-tech jobs available and enough people to fill them is due to a shortage of engineering training in Minnesota compared to other states.

Blazar responded that a lot of manufacturing companies in Minnesota struggle to find engineers. They tend to find them from engineering schools in North Dakota, South Dakota and Iowa. "Why?" Blazar asked. "One plant manager said, 'The University of Minnesota is a great engineering school. It's great at training engineers who design things that can't be built. We struggle to find practical engineers. When we find them, they tend not to be from the U of M. We do need more of them.'"

We should be tracking how what the state does for a living has changed and will continue to change. An interviewer commented that we're missing an accurate general picture of what Minnesota does for a living now and asked who keeps track of this today.

In response, Blazar said he doesn't think anybody keeps track. "If we wanted to have a discussion about competitiveness," he said, "the first thing we should do is to have a discussion about how what we do for a living has changed over time and how it will keep changing. That's why the first strategy (raising taxes to improve services) is really a high-risk strategy."

"Tracking that and how it changes would make for a very different policy discussion, he said. "Now it's the flavor of the month or of the day. If you start identifying how the economy is changing, you're more likely to hit on key policies that will facilitate that change or capitalize on that change." The Minnesota Chamber's analysis of how the economy is changing led it to support the Mayo expansion. "Our analysis showed Mayo was a good investment long term," he said.

Responding to a question, Blazar proposed that over the last 50 years, no matter how much the state's economy has changed, its outstanding characteristic has been its diversity. "Diversity is worth preserving if you can," he said. "It gives you protection against wild swings in the economy, if you run a good state at a competitive price."

Minneapolis and St. Paul have decided light rail transit (LRT) is part of the infrastructure we need to be a world-class region. In response to a question about LRT, Blazar said that Minneapolis and St. Paul argue that having LRT is a great way to attract bright young people. The cities have been thinking strategically about what kind of infrastructure we need to be a world-class region and they've reached the conclusion that LRT is one of those characteristics. The cities might be wrong about LRT, but they're doing the right kind of analysis and thinking.

An interviewer commented that John Cowles, Jr., CEO of Cowles Media Company, the parent company of the StarTribune until 1998, once said that LRT is economically irrational, but civically necessary. The interviewer said that one of the state's major strategies for economic development has been to concentrate resources to generate an urban region big enough to be one of the top 15 in the country.

In the next 10 to 20 years, Minnesota should focus on the quality of the workforce and the cost and reliability of energy and electricity. An interviewer asked where Minnesota should focus for the next 10 to 20 years. Blazar said we should focus on the workforce. "We should make sure it's as renowned in the next 50 years as it was in the last 50 years," he said. "Minnesota companies think that's what they're buying. We must have a great workforce at a competitive price." He said the redesign strategy could deliver that.

He said we must also focus on the cost of energy and electricity and the reliability of the grid. "Electricity is a much bigger cost of doing business than any of us would think," Blazar said. "Thirty years ago, we used to be able to say we had among the lowest rates in the country." He said that claim is now at risk.

The Department of Employment and Economic Development should focus more on what kinds of strategic investments we should make, rather than oiling squeaky wheels. An interviewer asked about the objectives and activities of the Minnesota Department of Employment and Economic Development. Blazar commented that he would have the department do more strategic thinking: to work more on understanding where our economy is headed and what kinds of strategic investments we need to make to help the economy change and grow. "Instead," he said, "the economic development portion of the department is basically oiling squeaky wheels."

He said Minnesota's problem is that we'll never have as many or as generous incentive programs to oil squeaky business wheels as most other states have. "We're trying to fight in an arena where we can't win," he said. "If we could focus on how the economy is changing and what kind of strategic investments we could make, we'd be taking a different path and one where we could win."