



2016 minnesota BUSINESS BENCHMARKS:

Sizing up Minnesota's business and economic climate

MINNESOTA
CHAMBER *of*
COMMERCE

MINNESOTA
CHAMBER *of*
COMMERCE
FEDERATION

executive summary.

October 2016

Minnesota must be ready to compete. Ready for the future. Ready for change. Ready to grow. Our goal is for Minnesota to be among the top 10 states for economic growth – ahead of the national average for GDP growth, job creation and personal income growth. A strong business climate is a critical ingredient in the recipe for achieving that goal. Our 2,300 members representing 500,000 employees tell us this requires a balanced approach of a strong workforce, good infrastructure and a competitive cost of doing business. Minnesota's success will be achieved by building on our strengths and minimizing our weaknesses.

The Minnesota Chamber of Commerce is pleased to present our 2nd annual Minnesota Business Benchmarks, which tracks a collection of key economic indicators to measure our competitiveness, the health of our economy, and Minnesota's performance compared to other states. The report uses comprehensive, objective data to help the public and policymakers identify statewide actions that will strengthen Minnesota's position in the global economy.

Minnesota has much to be proud of with a vibrant business community, talented workforce and a high quality of life complemented with beautiful natural resources. However, we cannot ignore those areas where Minnesota lags behind other states. We cannot rest on past successes. Minnesota must continue to adapt to changing competitive pressures. We are challenged to improve those benchmarks so Minnesota is ready for the future and ready to grow.

Among the key takeaways of this second report:

- Minnesota's workforce remains our key strength – highly educated with a strong work ethic. The state's persistent achievement gap must be addressed and on-time graduation rate continues to lag the national average.
- Minnesota continues to be a net exporter in domestic migration. Since 2001, more population has moved to other states than we have gained. This trend exacerbates Minnesota's workforce shortage and is hindering growth opportunities for many companies.
- Minnesota's overall business and economic climate is mixed. We remain in top rankings for such areas as innovation, but lag the nation in other priorities such as job and personal income growth.
- Taxes and the cost of doing business remain among the highest in the nation. We continue to hear from our members that the high tax burden is undermining growth opportunities.

The Minnesota Chamber and our Chamber Federation partners are committed to strengthening the state's business environment which improves the lives of all Minnesotans. We are ready to deliver solutions; ready to help Minnesota change and grow.



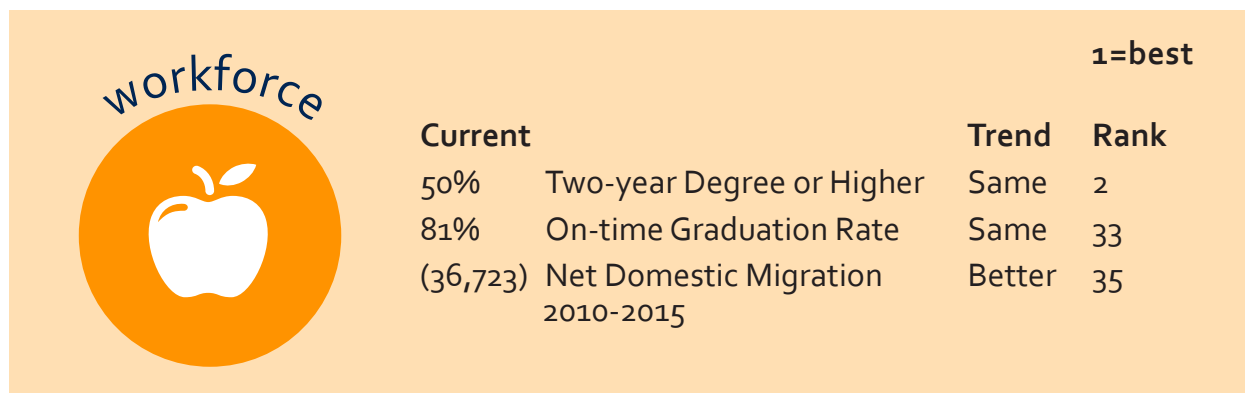
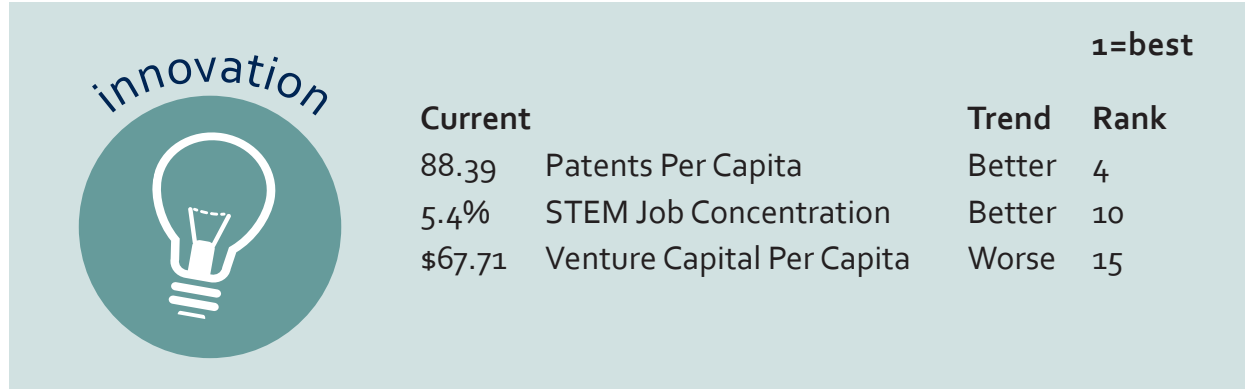
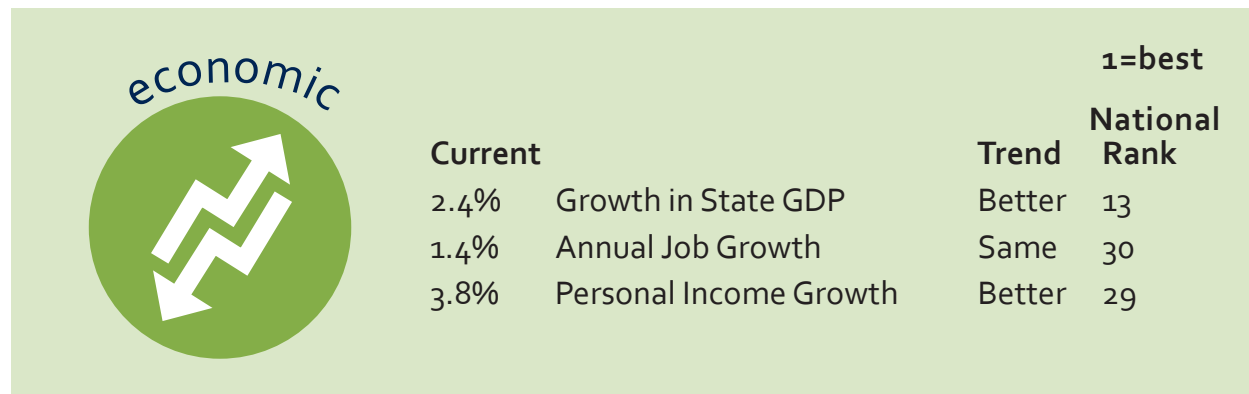
Doug Loon
President, Minnesota Chamber of Commerce

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2016 minnesota BUSINESS BENCHMARKS

SNAPSHOT



Trend shows how Minnesota compares to national rankings from previous years.

business taxes



Current

| | |
|-------|--------------------------|
| — | Small Business Tax Index |
| 9.85% | Income Tax Top Rates |
| 7.27% | Sales Tax-State & Local |

1=highest cost

| Trend | National Rank |
|-------|---------------|
| Same | 3 |
| Same | 3 |
| Same | 17 |

cost of business



Current

| | |
|-----------|------------------------|
| 7.58¢/kWh | Electricity-Industrial |
| \$5,651 | Health Insurance Cost |
| — | Cost of Labor |

1=highest cost

| Trend | Rank |
|--------|------|
| Better | 20 |
| Better | 43 |
| Same | 12 |

infrastructure



Current

| | |
|------|---------------------|
| — | Highway Performance |
| 1.7M | Total Air Flights |
| 75% | Broadband Access |

1=best

| Trend | Rank |
|--------|------|
| Better | 27 |
| Same | 10 |
| Worse | 24 |



Minnesota's economic indicators made some gains in 2015 over 2014 with improved national rankings in state GDP annual growth and income growth.

“Our goal is economic opportunity and growth for all Minnesotans. Let’s work together to identify those statewide actions to build on our state’s strengths and minimize our weaknesses.”

JILL RENSLOW, Minnesota Chamber Board Chair, Senior Vice President, Business Development and Marketing, Mall of America, Bloomington

The biggest improvement was in GDP growth as Minnesota's rankings improved from 27th to 13th nationally due to a very strong first quarter of growth in 2015. However, in the last three quarters of 2015, Minnesota trailed the nation in GDP growth and continues to lag the nation in annual job and personal income growth. Exports declined by 7% and our export ranking slipped to 29th.

#1 is best

GROWTH IN STATE GDP

MN 2015
Ranked 13th:
2.4% growth

At U.S. growth of 2.4%

Better
14 spots
from 2014

ANNUAL EXPORTS

MN 2015
Ranked 29th:
-6.6%

Above U.S. average of -7.2%

Worse
4 spots
from 2014

ANNUAL JOB GROWTH

MN 2016
Ranked 30th:
1.4%

Below U.S. average of 1.7%

Same ranking
in 2015

PERSONAL INCOME GROWTH (Annual Percent Change)

MN 2015
Ranked 29th:
3.8% growth

Below U.S. average of 4.4%

Better
5 spots
from 2014

OUTPUT PER WORKING ADULT

MN 2015
Ranked 11th:
\$84,424

Above U.S. average of \$77,334

Better
3 spots
from 2014

UNEMPLOYMENT RATE

MN 2016
Ranked 13th:
4.0%

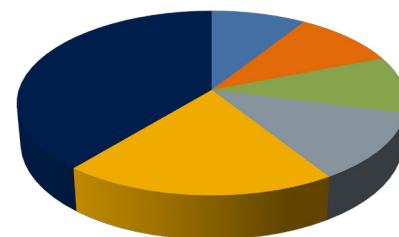
Better than U.S. rate of 4.9%

Worse
6 spots
from 2015

Minnesota
3rd
HIGHEST
number of Fortune 500
companies per capita

Minnesota has a diverse economy that has allowed us to weather economic cycles better than many states.

TOP FIVE STATE INDUSTRIES AS A
PERCENT OF TOTAL GDP



- Durable goods manufacturing 9%
- Government 10%
- Educational services, health care, and social assistance 10%
- Professional and business services 12%
- Finance, insurance, real estate, rental and leasing 20%
- All others 39%

Source: Federal Bureau
of Economic Analysis
BEARFACTS



innovation

Innovation and entrepreneurship are keys to our past and future economic success. Our culture of innovation continues as Minnesota ranks fourth highest in number of patents per capita and is strong in STEM job concentration.

“Every successful economy in the world is changing to be more competitive. Our job is to help policymakers create a business climate that encourages and advances private-sector risk-taking, investment and innovation.”

DOUG LOON, Minnesota Chamber President

However, the level of start-up and entrepreneurship activity is a big concern as the number of new businesses ranks among the worst in the nation.

#1 is best

PATENTS PER CAPITA

MN 2015

Ranked 4th:
88.39

Better

1 spot
from 2014

VENTURE CAPITAL PER CAPITA

MN 2015

Ranked 15th:
\$67.71

Below U.S. average of \$182.97

Worse

3 spots
from 2014

STEM JOB CONCENTRATION

MN 2015

Ranked 10th:
5.4%

Above U.S. average of 5%

Better

1 spot
from 2014

BUSINESS FORMATION & SURVIVAL (5 years)

MN 2010-2015

Ranked 8th:
54.1%

Above U.S. average of 51.4%

Worse

3 spots
from 2010-2014

ENTREPRENEURSHIP START-UP ACTIVITY

MN 2016

Ranked 21st
(Out of 25 largest
population states)

Better

3 spots
from 2015

Minnesota is known for innovation. Innovation will be key to Minnesota's future success being ready to change, grow and compete.



workforce/education

Minnesota receives high marks for its talented workforce, but shifting demographics raise red flags for our economy. Baby boomers are retiring, and labor growth is slowing. Since 2001, Minnesota has been a net exporter for domestic migration. We must identify what's behind domestic out-migration of Minnesotans and implement public policy to counteract this trend. More and more businesses, especially in Greater Minnesota, are having difficulty finding workers at virtually all skill levels.

“As a manufacturer, we increasingly are challenged to find workers. Minnesota’s workforce has always been one of our strengths, but we now are losing our homegrown talent. More must be done so all Minnesota students graduate from high school on time, ready to succeed with skills needed for jobs in our diverse and dynamic economy.”

TRACI TAPANI, Co-President, Wyoming Machine Inc., Stacy

Most of Minnesota’s population growth is through births and international immigration. State demographer figures show 87 percent of population growth last year came from people who are African-American, Asian, American Indian or Hispanic, which is why the achievement gap becomes even more critical to address. The state’s overall on-time graduation rate ranked 33rd at 81.2%; for students of color, it was 68%.

#1 is best

POPULATION GROWTH

MN 2010-2015

Ranked 27th:
3.5% increase

Below U.S. growth of 4.1%

Better

1 spot
from 2000-2010

8TH-GRADE READING SCORES

MN 2015

Ranked 6th:
270.2 average

Above U.S. average of 264

Better

4 spots
from 2013

ON-TIME H.S. GRADUATION RATE

MN 2014

Ranked 33rd:
81.2%

Below U.S. average of 82.3%

Same ranking
in 2013

NET DOMESTIC MIGRATION

MN 2010-15

Ranked 35th:
36,723 loss

Better

2 spots
from 2005-2009

LABOR PARTICIPATION RATE

MN 2016

Ranked 6th:
69.4%

Above U.S. average of 62.8%

Worse

5 spots
from 2015

TWO-YEAR DEGREE OR HIGHER (Age 25-64)

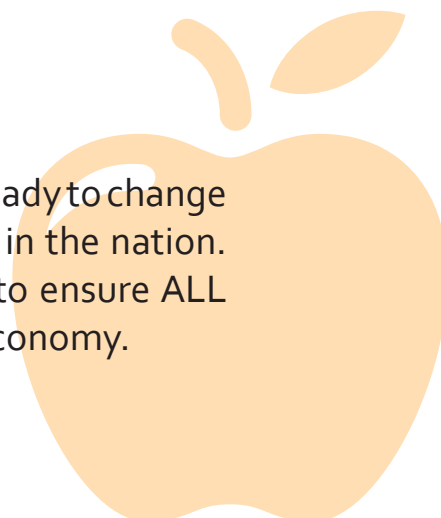
MN 2015

Ranked 2nd:
50%

Above U.S. average of 41%

Same ranking
in 2014

A skilled workforce is the cornerstone for Minnesota to be ready to change and grow. Our workforce is recognized as one of the best in the nation. Minnesota must narrow the persistent achievement gap to ensure ALL Minnesotans are job ready for the challenges of a global economy.





business taxes

Minnesota businesses drive the state's economic engine despite paying some of the nation's highest taxes. In recent years, many other states and countries have lowered taxes to be more attractive to businesses.

“Minnesota is a homegrown economy. Private-sector jobs in big and small companies alike depend on public policies that encourage businesses to start, invest and grow here.”

TODD PAULSON, Vice President and CFO, RTP Company, Winona

In contrast, Minnesota has raised taxes to some of the highest rates in the nation, negatively impacting the ability of employers to invest in their employees, companies and equipment. Lowering the cost of doing business and taxes will help us achieve the goal of being among the top 10 states for economic, job and income growth.

#1 is highest cost

| | | |
|---|---|--|
| SMALL BUSINESS & ENTREPRENEURSHIP TAX INDEX MN 2016 Ranked 3rd | PASS-THROUGH AND INDIVIDUAL INCOME TAX RATES MN 2016 Ranked 3rd: 9.85% | STATE AND LOCAL SALES TAX RATES MN 2016 Ranked 17th: 7.27% |
| Same ranking in 2015 | Same ranking in 2015 | Same ranking in 2015 |
| OVERALL STATE AND LOCAL TAXES PER CAPITA MN 2013 Ranked 10th: \$5,548 Above U.S. average of \$4,604 | CORPORATE INCOME TAX RATES MN 2016 Ranked 3rd: 9.8% | GAS TAX MN 2016 Ranked 25th: 28.6¢/gal Below state average of 29.78¢/gal |
| Same ranking in 2014 | Same ranking in 2015 | Same ranking in 2015 |

Taxes and regulatory requirements are an important component of a state's business climate. Business property taxes are among the highest in the nation: Minnesota second highest for some commercial properties in Greater Minnesota and seventh highest in the metro; and ranks 11th highest for industrial properties.





cost of doing business

It's not just taxes that take a toll on a company's bottom line and our competitiveness. The overall cost of business affects everyday decisions to grow here.

“Electricity is a significant cost for us. Minnesota used to be much more competitive on energy costs, but we are losing that advantage. Minnesota is best served by a broad portfolio of energy sources, but we must remember that some policies, though well intentioned, can have negative consequences on the ability to attract and retain businesses.”

KEITH MATZDORF, Superintendent, Sappi Cloquet LLC, Cloquet

One significant improvement in rankings was in health insurance rankings as Minnesota improved from 25th to 43rd for the average amount employers in Minnesota contribute to health insurance premiums for a single individual (includes fully insured and self-insured). Even with this improvement, the cost of health insurance continues to burden Minnesota businesses. We continue to lag behind the national average in the percentage of businesses that offer insurance to their employees (44.3% in Minnesota vs. 45.7% nationally). Minnesota has also seen steady erosion in some previous competitive advantages such as energy costs where Minnesota ranked 35th in 1990 and now ranks 20th in costs for industrial users.

#1 is highest cost

ELECTRICITY

Average price for industrial customers

MN 2016

Ranked 20th:
7.58 cents/kWh

Above U.S. average of 7.23 cents/KWH

Better

2 spots
from 2015

COST OF LABOR

Adjusted for educational attainment

MN 2015

Ranked 12th

Same ranking
in 2014

UNEMPLOYMENT TAX RANKING

MN 2016

Ranked 2nd

Worse

2 spots
from 2015

WORKERS' COMPENSATION PREMIUMS

MN 2014

Ranked 20th:
1.99 index rate

Above U.S. average rate by 7%

Better

3 spots
from 2012

INDIVIDUAL HEALTH INSURANCE PREMIUM

(Employer Sponsored)

MN 2015

Ranked 43rd:
\$5,651

Below U.S. average of \$5,963/year

Better

18 spots
from 2014

16th HIGHEST in business costs

2016 Forbes Best State for Business

2nd highest cost in Small Business Policy Index
ranking the states on policies impacting entrepreneurship and
small business growth. 2016 Small Business and Entrepreneurship Council



infrastructure

Quality infrastructure is critical to the state's business climate and quality of life. Minnesota's central location and interconnected rail, water, air and road networks are a key advantage for industries in our state.

“Minnesota must provide top-notch infrastructure and services at a much more competitive price if businesses are to compete with our peers in the global economy. That includes a comprehensive transportation system that moves people and products safely and efficiently across the entire state.”

RICK TRONTVET, Vice President, Administration and Human Resources
Digi-Key Electronics, Thief River Falls

Minnesota saw a small improvement in overall highway performance, but more work remains as we currently rank 27th in the nation. Another important infrastructure component is broadband access and speed. Minnesota's access percentage increased from 72% to 75% which is good news but, our rankings fell by four spots as other states are expanding access at a faster rate.

#1 is best

OVERALL HIGHWAY
PERFORMANCE

MN 2013

Ranked 27th

Better

1 spot
from 2012TOTAL SCHEDULED
AIR FLIGHTS

MN 2015

Ranked 10th:
1,740,000 flightsSame ranking
in 2014

TOTAL RAIL MILES

MN 2012

Ranked 8th:
at 4,450 rail miles

Worse

1 spot
from 2010

COMMUTE TIMES

MN 2013

Ranked 17th:
21.9 minutes

Below U.S. median of 24.7 minutes

Worse

1 spot
from 2012ACCESS TO HIGH-
SPEED INTERNET

MN 2015

Ranked 24th:
75%

Above U.S. median of 77%

Worse

4 spots
from 2013MINNESOTA
RANKED

2nd best
in safety with
fatality rates
per 100 million
vehicle miles.

Minnesota's transportation infrastructure is mixed. We rank **1st** with the smallest percentage of deficient/obsolete bridges at 11.5%. Our road conditions rank toward the bottom. We are **39th** in percent of rural interstate mileage in poor condition at 2.89% and **39th** in percent of urban interstate in poor condition at 7.26%.



2016 FEDERATION PARTNERS

Albert Lea-Freeborn County Chamber of Commerce

Apple Valley Chamber of Commerce

Austin Area Chamber of Commerce

Belle Plaine Chamber of Commerce

Bemidji Area Chamber of Commerce

Bloomington Chamber of Commerce

Brainerd Lakes Chamber

Burnsville Chamber of Commerce

Cloquet Chamber of Commerce

Dakota County Regional Chamber of Commerce

Duluth Area Chamber of Commerce

Eden Prairie Chamber of Commerce

Elk River Area Chamber of Commerce

Faribault Area Chamber of Commerce & Tourism

Grand Rapids Area Chamber

Greater Mankato Growth Inc.

Hastings Area Chamber of Commerce & Tourism Bureau

Hibbing Area Chamber of Commerce

I94 West Chamber of Commerce

International Falls Area Chamber of Commerce

Laurentian Chamber of Commerce

Litchfield Chamber of Commerce

Marshall Area Chamber of Commerce

MetroNorth Chamber of Commerce

Minneapolis Regional Chamber of Commerce

New Ulm Area Chamber of Commerce

North Hennepin Area Chamber of Commerce

Northfield Area Chamber of Commerce

Owatonna Area Chamber of Commerce and Tourism

Redwood Area Chamber & Tourism

River Heights Chamber of Commerce

Rochester Area Chamber of Commerce

St. Cloud Area Chamber of Commerce

Shakopee Area Chamber of Commerce

SouthWest Metro Chamber of Commerce

Twin Cities North Chamber of Commerce

TwinWest Chamber of Commerce

Waconia Chamber of Commerce

Waseca Area Chamber of Commerce

White Bear Area Chamber of Commerce

Willmar Lakes Area Chamber of Commerce

Winona Area Chamber of Commerce

Worthington Area Chamber of Commerce

The Minnesota Chamber Federation unites and strengthens the voice of the business community through chambers of commerce. We speak with one voice on the priority policy issues impacting our members, and generate grassroots activity at the local level on behalf of our members' priorities. The Federation unites the Minnesota Chamber and local chambers of commerce across the state on issues of importance to our state and its economy.

SOURCES FOR ECONOMIC BENCHMARKS

Sizing Up Minnesota's Business and Economic Climate

The most recent available data was used for this report. Some data is more current such as unemployment rates while other data such as workers' compensation rates is only updated every two years.

For links to the sources used in this report go to Minnesota Chamber of Commerce website at:

<https://www.mnchamber.com/advocate/2016-business-benchmark-sources>

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