



Kentucky Chamber
Uniting Business. Advancing Kentucky.

2014 Kentucky Chamber

Legislative Agenda



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The Kentucky Chamber of Commerce

Fighting to improve the business climate and protect your bottom line

[Uniting Business. Advancing Kentucky.](#) From its beginnings more than 65 years ago, the Kentucky Chamber of Commerce has evolved into the premier business association in the state. The Chamber represents the interests of more than 90,000 employers across the Commonwealth. From family-owned shops to Fortune 500 companies in virtually every industry in the state, our business community shares a vested interest in enhancing Kentucky's ability to compete on a national and global scale. Strength in numbers continues to help the Chamber influence policymakers in areas such as business taxation and fiscal policy, environmental and safety issues and workers' compensation, health care and education.

Our mission is not always easy, but the Kentucky Chamber continues to provide leadership as a catalyst, consensus-builder and advocate to unite business and advance Kentucky.

Policy Councils

As part of its advocacy mission, the Kentucky Chamber has developed five public policy councils and a small business committee composed of business leaders from around the state, each of which is responsible for developing legislative positions and priorities for their respective policy areas.

Education and Workforce Council

Kentucky's economic viability is directly linked to the education and skills of its citizens. We believe education at all levels must be responsive to the needs of employers and all students – children and adults. With a focus on lifelong learning, the education and workforce council works to ensure that Kentucky's economy benefits from a prepared, productive and diverse workforce. The council develops policies to support and improve education at all levels.



Steve Branscum
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Construction



John Harryman
Norton Healthcare

Health and Wellness Council

Rising health care costs have become a significant fiscal threat to Kentucky's businesses. As such, the health and wellness council is focused on developing comprehensive, long-term solutions to help slow the ever-increasing costs of health care in Kentucky and to promote public policies that will help improve the overall health and well-being of Kentucky's citizens.

Kentucky Competitiveness Council

By promoting business recruitment, retention and expansion, the competitiveness council seeks to increase Kentucky's competitiveness, not only with our border states, but with competitors around the world. To achieve that goal, the council is actively engaged in policy initiatives aimed at modernizing the economy, creating jobs, supporting state income and expenditure practices that promote long-term economic growth in Kentucky and improving the quality of life for all citizens.



John Chilton
Mountjoy Chilton
& Medley PLC



Rusty Ashcraft
Alliance Coal

Energy and Environmental Council

The energy and environmental council seeks to promote Kentucky as an energy leader and supports policies to achieve environmental protection without unnecessarily hindering economic development and business growth. Its members support legislative and administrative actions that are scientifically valid, technically feasible and economically rational.

Small Business Committee

Because small businesses are often disproportionately affected by challenges facing the economy, the small business committee focuses on ensuring the broad range of issues of particular importance to small business owners are adequately represented in the Chamber's policy development process.



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CHAMBER PRIORITY

Building a stronger workforce through high quality education

Education is the cornerstone of success – for individuals, communities and the state as a whole. How well Kentucky performs economically reflects the quality of the education its citizens receive and how well equipped they are to put what they know to work. The growing intensity and impact of global competition makes it more critical than ever that Kentucky be relentless in its efforts to create a truly world-class system of education. Doing less will result in an under-prepared workforce unable to meet the demands for critical thinking, problem solving and application of knowledge that are the reality of today's workplace. Kentucky's employers have a special understanding of this need and recognize the important role they have to play in helping the state reach its goals to improve the education attainment level of all citizens.

High expectations for workforce preparation mean excellence in student achievement, accountability for school performance, and ongoing progress at all levels – from early childhood through postsecondary and adult education. Challenges will always be part of Kentucky's education landscape. Meeting them is essential to ensuring a successful future for the state and its citizens.

Continue moving forward

Kentucky has made measurable progress in education and continues to improve its position on national indicators. The respected *Education Week* magazine, for example, listed Kentucky as 10th place nationally in its 2013 Quality Counts survey of the states' education performance. That represented an improvement of 24 places since 2010. The report uses several measures to rank states, including student achievement, teacher quality, funding and assessment and accountability.

Such achievement should be celebrated, but it should not distract the state from focusing on the continued progress that is critical for the future of the state and its economy.

Kentucky's adoption of more rigorous academic standards is a key component of a formula that has the potential to continue that progress. These learning guidelines, known as the Kentucky Core Academic Standards, are designed to ensure students are college and career ready when they graduate from high school. They mean harder work – for students and teachers alike – but they hold great promise for the preparation of a world-class workforce.

The Kentucky Chamber continues its strong support for the Kentucky Core Academic Standards and the efforts of the Kentucky Department of Education, the Council on Postsecondary Education and teachers across the state as they continue working to raise student achievement. The Chamber believes it is imperative Kentucky stay the course with the tougher standards and reject efforts to revert to less challenging requirements for student learning. Ensuring the successful preparation of the workforce of the future depends on the continuing successful implementation of the more rigorous standards now in place in Kentucky's classrooms.

Elementary & Secondary

Invest in early childhood education

State and national research makes it clear that investments in quality early childhood programs return strong dividends – in higher education attainment leading to higher-paying jobs; reduced costs for health care, criminal justice, social services and welfare; and other personal and societal benefits. Kentucky must invest in early childhood education and make greater investments in enhanced child-care programs for Kentucky's developing youth. Ensuring a successful beginning for Kentucky's students will require an innovative and collaborative approach to provide quality preschool to all 3- and 4-year-olds. Additionally, the Chamber supports efforts to fully fund all-day kindergarten equitably statewide.

Promote and reward high quality teaching

Quality teaching is the single most important factor in students' academic success. To ensure every Kentucky student has a high-quality teacher every year, the Chamber supports the formal review of the effectiveness of teacher preparation programs and the delivery of meaningful professional development programs to better meet the needs of classroom teachers. Policymakers must professionalize the teacher compensation system to reward excellence and provide incentives to attract educators to areas that are underserved, either geographically or by subject matter. This will allow Kentucky to recruit and retain the best and brightest professionals.

The Chamber commends the Kentucky Department of Ed-

ucation's development of the Professional Growth and Effectiveness System to improve the teacher evaluation process. Scheduled for statewide implementation in 2014-15, the new system offers great promise as a way to measure teacher effectiveness and to spur improvements in classroom teaching.

Require education accountability

The Chamber believes tenure should not be automatically awarded to teachers on the sole basis of time on the job but should be earned, based on an appropriate evaluation and subject to periodic reviews for renewal.

The Chamber further believes the current tribunal system in place to review appealed cases of misconduct and inadequate job performance of school employees is both complicated and inconsistent. Superintendents are reluctant to fire or suspend an insubordinate employee due to the cost, complexity of the process and likelihood that their decision will be overturned by a tribunal. The Kentucky Chamber advocates for a clearer, more consistent process to ensure all students have a safe and productive classroom environment. Educators who do not meet the high standards required to serve all students should be removed from the education system.

Allow public charter schools

To ensure all students receive a quality education, the Chamber supports the formation of public charter schools. Kentucky is one of only eight states that does not offer high quality public charter schools. Charter schools are independent schools designed to provide tuition-free public education choices to parents and students. Charters liberate teachers and administrators from red tape and allow more innovation in the classroom. In exchange for this flexibility, charter schools accept high accountability, knowing they can be closed if they fail to live up to their charter.

The Chamber believes all children deserve the opportunity to go to a school that challenges them and prepares them for the future. According to results from the National Assessment of Educational Progress, often called the Nations Report Card, only one in three Kentucky fourth- and eighth-graders read at or above grade level. It is time to give parents the right to make choices about the best learning environment for their child. Although the "Districts of Innovation" legislation gives select schools greater flexibility, it does not provide educational choices for parents who are unsatisfied with their child's school. The Kentucky Chamber advocates for charter school legislation that gets parents more involved, gives teachers the freedom to be even more innovative and gives students the structure they need to learn.

Limit KEES awards to students who are ready

At the high school level, financial rewards – in particular the Kentucky Educational Excellence Scholarship – should be

weighted to provide students with greater incentives to take more rigorous courses. Under current law, a student can score 15 on the ACT and still receive KEES funds. The Chamber supports raising this score to more accurately reflect the minimum score needed for admission to Kentucky's postsecondary institutions.

Postsecondary

Make higher education affordable

Making sure postsecondary education is affordable for Kentucky students should be a priority for the Commonwealth. The Chamber advocates simplification of the state's financial assistance process and a shared responsibility approach to distribute costs among students, families, postsecondary institutions and the government. Further, on-time degree completion is a key strategy in managing limited state and student resources. Students should be given every opportunity and encouragement to complete their degrees on time.

Base funding on performance

Timely degree completion is one example of an area where Kentucky's postsecondary institutions should improve their performance. To provide meaningful incentives that encourage and reward excellence, a significant portion of state funding for the institutions should be based on their ability, as objectively measured, to improve productivity: moving students to graduation in the most cost-effective manner. Incentive programs, while commendable, may not be sufficient to accomplish this goal; establishing a correlation between improving productivity and the institutions' base funding should be pursued.

Reinvest in "Bucks for Brains"

The Commonwealth's landmark Research Challenge Trust Fund, also known as "Bucks for Brains," has been used to attract world-class researchers and professors to Kentucky universities. The Chamber encourages lawmakers to continue the trust fund or devise a similar program that would provide matching dollars to give universities flexibility, with accountability, to ensure they can attract research faculty and provide up-to-date facilities, technology or other tools to meet the goals of the 1997 postsecondary education reforms.

Set universities free to excel

Public universities in the Commonwealth need greater operational flexibility to compete in an increasingly global marketplace. Flexibility that allows for entrepreneurial endeavors while requiring overall accountability would improve quality and better serve the institution, Commonwealth, employers and students. As an example, most states allow public universities to issue their own revenue bonds to finance building projects that generate income sufficient to cover the debt service. To

the extent that such an approach would not negatively impact the Commonwealth's state bond rating, the Chamber believes a similar approach should be implemented in Kentucky with structural safeguards and oversight that ensure projects are consistent with the state's vision for postsecondary education.

Elementary & Secondary

Aggressively train the workforce

The Chamber supports the widespread use of industry-based credentials, like the National Career Readiness Certificate, to establish uniform standards in workforce preparation. Students who pursue technical training instead of a college education should be eligible for financial awards of all types. The Chamber supports redesigning postsecondary financial aid programs to help working adults who need assistance for additional technical training and postsecondary education. The Chamber supports streamlining workforce development programs to aid employers and employees in these endeavors.

Strengthen the adult education system

The majority of Kentucky adults who receive a GED instead of a high school diploma are not prepared for postsecondary education or training, and most do not enroll in postsecondary programs. The GED Testing Service (GEDTS) is crafting its GED 21st Century Initiative, aligned to the K-12 Common Core Standards, which will reflect the expanded rigor and relevance needed to prepare learners for postsecondary education or employment. It is critical that Kentucky's adult education programs collaborate with employers, local community colleges, technical schools and other educational institutions to help ensure quality learning experiences for those working toward a GED.

The Chamber supports the expansion of a college-going culture that encourages high school dropouts to complete a GED and move on to college or career/technical education and adults who have some college credits to return to school and earn a degree and/or academic certificate. Degree and academic certificate completion should be emphasized as a workforce-development goal of postsecondary institutions.



CHAMBER PRIORITY

Creating a **competitive** business climate in the Commonwealth

The Kentucky Chamber believes promoting long-term economic development and job growth should be a top consideration when state revenue policies are adopted. It is critical that Kentucky be successful in its efforts to promote business recruitment, business creation and business expansion. To that end, the Chamber advocates public policy innovations that serve to remove the Commonwealth's most glaring competitive disadvantages. We call on state leaders to eliminate unnecessary, government-imposed costs of doing business and to enact legislation that fosters business growth and innovation.

Ensure a competitive tax climate

Tax policies must be guided by a well-researched, balanced approach that provides for necessary public investments and expenditures while avoiding policies that could serve as disincentives to private-sector employment and investment. During these tough economic times, Kentucky's lawmakers are to be commended for holding the line on new or increased taxes, which heightened the state's national profile and better positioned Kentucky and its employers for recovery. However, legislators have a number of opportunities to change our tax code in ways that will have an immediate impact on Kentucky's ability to attract and retain jobs.

Repeal or phase out the inventory tax

Property taxes on business inventory, abandoned by most states, serve as a disincentive to business growth because they tax the investment itself rather than the outcome or profit from that investment. Furthermore, some types of inventory are exempt by law or enjoy exemption because of location while other, similar inventory does not receive the same treatment.

Adopt a single sales factor apportionment formula

Although changes in 2005 and 2006 improved the competitiveness of Kentucky's business taxes, our combined state and local corporate income tax is still among the highest in the country. To become more competitive, Kentucky should join five of its neighboring states in adopting a single sales apportionment formula. Under Kentucky's current double-weighted sales factor apportionment formula, companies are penalized for creating jobs and making additional investments in the Commonwealth. By moving to a single sales factor formula, Kentucky will be viewed as a more attractive option for companies making significant capital investments and creating new jobs.

Revise the limited liability entity tax

To increase fairness, employers should have the ability to offset pass-through credits against taxes on income from other businesses and other years.

Additionally, more clarity is needed to determine what business expenses qualify as cost of goods sold in the LLET calculation to make it easier for small- and medium-sized businesses to comply.

Support local option flexibility

The Kentucky Chamber supports an amendment to the Kentucky Constitution that would allow cities and counties the choice, with voter approval, to enact a local sales tax dedicated for the funding of transformational local projects, with a sunset.

Entice business development and entrepreneurship

While not a substitute for comprehensive tax reform, the Chamber supports strategic investment in incentive programs designed to encourage the growth of high-wage jobs, long-term investment in strategically defined industry sectors and promotion of small businesses. Further, the Chamber supports the enhancement of entrepreneurial development incentives to encourage innovation and competition in the global marketplace.

To strengthen Kentucky's incentive program, lawmakers should act on initiatives to expand the Kentucky Investment Fund Act angel investor tax credit to individuals and the Kentucky Reinvestment Act to include technology and headquarters reinvestment projects. To ensure maximum effectiveness, accountability and continuity, the Chamber supports maintaining the public/private partnership board governance structure under which the Cabinet for Economic Development operates.

Comprehensive Tax Reform

In addition to these immediate changes, the Chamber urges the General Assembly to address the long-term need for comprehensive tax reform. As the Governor's Blue Ribbon Commission on Taxation considered options to improve the business tax climate in Kentucky, we urged consideration of tax changes that specifically put Kentucky on a more competitive footing with competitor states. To that end, the Kentucky Chamber produced a series of professional tax papers for the commission and legislators to consider. These detailed recommendations can be found at kychamber.com/tax. Overall, our members tell us the tax system is too complex and compliance is too costly, while numerous economic development experts say our code continues to create a competitive disadvantage because it punishes economic productivity. A shift from income-based taxes to consumption taxes can improve our competitive situation so long as these taxes are not levied on business-to-business services that would add an additional layer of costs to job creation. Since taxes significantly impact business decisions that lead to job creation and retention, the Chamber supports comprehensive tax reform in accordance with the following principles:

Support growth and competitiveness.

Kentucky's state and local tax system should support growth-oriented tax policies that improve the competitiveness of Kentucky businesses in the national and global marketplace.

Reduce the cost of capital. The tax code should encourage investment as it is the key to increased growth and productivity as well as higher wages for Kentuckians.

Simplify the tax code. The tax code should be simplified with the goal of reducing compliance costs for the private sector. Complex taxes impose costs on

businesses that either reduce the return on investment or are passed on to consumers and workers.

Promote fairness. Kentucky's tax system should promote fairness by creating a level playing field on which Kentucky businesses can compete. Double taxation, or pyramiding, should be prohibited, and tax expenditures should be carefully studied to determine effectiveness.

Revenue neutral changes. Changes in the state tax code should be revenue neutral and undertaken only to increase fairness and competitiveness

and not to simply generate additional state revenue. While tax changes cannot guarantee tax neutrality for every Kentucky business, the goal should be not to raise net taxes on the business community.

Continue to focus on spending. To keep taxes competitive, it is critical to examine expenditures and align them with economic realities. Reforming the tax code must be coupled with a continued commitment by the legislature to reform and prioritize government spending.

Grow Kentucky's exports

As 95% of today's market opportunities are located outside the United States, Kentucky must recognize and capitalize on its export advantage in international trade. Its geographic location in the United States, its status as the operational headquarters for an international logistics provider (UPS) and its trained and growing transportation workforce positions Kentucky to be a leader in the export of Made-in-America products. In fact, Kentucky exported more than \$19.3 billion of goods in 2010, ranking 19th among the 50 states in total exports.

The Chamber has partnered with the Kentucky World Trade Center and encourages and supports all efforts by state leaders to provide export training and promote the benefits of global trade to our business community. The Chamber supports free trade agreements that open markets to Kentucky companies and urges state policies that encourage worldwide

exports of Kentucky products to the world. Exporting products from Kentucky will retain and create jobs, grow our businesses and strengthen our state's bottom line.

Protect intellectual property

When manufacturers use stolen intellectual property (IP) to cut their business costs, they gain an unfair competitive advantage that results in reduced revenues and job growth for responsible Kentucky and U.S. manufacturers. IP theft is a particularly serious problem in emerging export markets with a weak rule of law that encourages illegal and unethical business practices. The Chamber encourages federal and state policymakers to enact policies that will improve business competitiveness by promoting and defending robust intellectual property rules globally, while strengthening enforcement efforts in the United States and abroad.

Develop pro-business energy strategies

Kentucky is well known for its abundant coal resources, and the state's low energy costs are among our most compelling competitive advantages when recruiting new businesses. Low utility rates attract jobs and investment to the Commonwealth and help offset our less competitive business elements. In 2007, Kentucky took a bold step by providing incentives to develop new energy sources that utilize our resources in a clean and efficient manner. To sustain, stabilize and improve our favorable energy climate, the Chamber encourages policymakers to continue to maximize opportunities for long-term growth and development while preserving Kentucky's low energy costs through continued support of Kentucky's coal and natural gas industries.

Expand gaming to support equine industry

Kentucky's equine industry is world renowned, with an impact of more than \$4 billion to Kentucky's economy and more than 80,000-100,000 full-time equivalent jobs. Kentucky is struggling, however, to retain its status as the "Horse Capital of the World" due to its inability to compete with other racing states that use alternative gaming revenues to increase purses and breeding incentives. Because of their pro-gaming, equine-friendly policies, states like Pennsylvania, Louisiana, Indiana and West Virginia have been successful in attracting Kentucky horse owners and breeders and industry-related jobs. The Chamber strongly encourages the General Assembly to authorize alternative gaming options to provide a much-needed boost to the state's equine industry as well as to recoup the hundreds of millions of tax dollars being lost annually to casino gaming in neighboring states. The Chamber also supports programs and initiatives to protect and enhance the future growth of the equine industry including innovative tax approaches, purse increases, increased funding for breeder incentive programs, and other assistance to allow our signature equine industry to remain competitive.

Protect Kentucky's distilling industry

Kentucky's legendary distilling industry has a significant impact on the state's economy, producing 95% of the world's bourbon and contributing \$2 billion in gross state product while generating \$126 million a year in tax revenue. The Chamber strongly supports initiatives to protect and grow the iconic industry and is concerned that Kentucky has the third highest distilled spirits taxes of any open-market state in the country, behind only Alaska and Illinois. For Kentucky to maintain its dominance in the distilling industry, the General Assembly must revise burdensome tax policies that threaten to force distilling operations to move out of state and create an equitable business environment to attract the flourishing craft distilling industry to the Commonwealth.

Enhance workforce flexibility for employers

State policymakers must support employers as they invest in the Commonwealth's workforce. To enhance workforce flexibility, the Kentucky Chamber opposes state and local wage mandates, safety regulations and additional standards that exceed federal requirements. When state or local governments enact regulations and mandates beyond what are necessary to provide proven, uniform protections, the added cost of doing business decreases Kentucky's overall competitiveness, particularly with our border and peer states. State government should closely scrutinize regulations already on the books to ensure effectiveness and provide consistent enforcement so businesses can operate in a predictable climate.

Monitor unemployment insurance legislation

A positive development for the Kentucky business community was the General Assembly's 2010 passage of landmark unemployment insurance reform and 2012 legislation to ensure the system does not default on the federal loans. The legislation updates the unemployment insurance system in Kentucky, revives the depleted unemployment insurance trust fund, prevents further borrowing from the federal government and keeps Kentucky competitive with other states. The Chamber supports continued efforts to monitor the implementation of the legislation and future revisions to ensure the integrity of the system.

Enact right-to-work legislation

The Chamber strongly supports legislation to prohibit requiring any worker to join a union as a condition of employment. We believe that union membership should be a matter of personal choice, and the freedom not to affiliate with a labor union is no less deserving of protection than the freedom to affiliate. States with right-to-work laws report faster per capita income growth, faster growth in manufacturing and nonagricultural jobs, greater capital expenditures, lower unemployment and fewer work stoppages. As Kentucky struggles to recruit new business and to retain existing and expanding businesses, Kentucky's failure to enact right-to-work legislation has allowed the Commonwealth to cede competitive ground to other states. In fact, Kentucky is the only southern state not to have enacted right-to-work legislation, and, with Indiana and Michigan's new right-to-work laws, stands as a conspicuous outlier in this much-needed area of reform.

Oppose the Employee Free Choice Act

Over the past three years, the Chamber has successfully opposed the Employee Free Choice Act (EFCA) in Congress. EFCA would radically restructure 60 years of carefully crafted labor law balances that have served both unions and employers well. EFCA consists of three main provisions, each of which is unacceptable to business: elimination of the secret ballot and a move toward the card check process, government-imposed arbitration, and unreasonable, one-sided penalty expansion directed

at employers. As public and congressional support for EFCA has diminished, the National Labor Relations Board and U.S. Department of Labor have been attempting to impose EFCA through regulation. Over the past few years, these agencies have issued proposed rules that will make it easier for unions to organize, including mandated labor postings, reducing the length of union election campaigns and expanding reporting and disclosure requirements for employers. The Chamber will continue to voice its strong opposition to EFCA, any efforts to impose EFCA through administrative actions and other proposals that upend decades of settled labor law at the expense of both employees and employers.

Support paycheck protection

Although requiring employers to deduct taxes from an employee's pay is a common and accepted practice, forcing businesses to administer payroll deductions to support the political activities of unions without compensation is a significant and unjustified intrusion into the administrative affairs of a company. The Chamber supports legislation that repeals the employer mandate to withhold union dues from an employee's salary.

Revise Kentucky's prevailing wage laws

With pressing budget issues on the horizon in 2014, it is time lawmakers get serious about examining Kentucky's prevailing wage law. While total repeal of the state prevailing wage law has long been and remains a goal advocated by the Chamber, we support a series of steps that would make Kentucky's economic and infrastructure development more competitive in the near term:

- Kentucky's prevailing wage laws must be made more representative of local wages by utilizing more effective methods of data collection than the current hearings process.
- The definition of localities should be replaced with one that would reduce the number of unrelated counties grouped together.
- If no changes are made to make the wage determination process more representative of local wages, then federal prevailing wages should be adopted wherever they exist.
- Kentucky should reinstate a prevailing wage exemption on education projects. By once again allowing an exemption for these projects, greater investments can be made in technology, improved facilities and in the classroom.

Workers' Compensation: Improve system & revise subrogation laws

The Chamber believes Kentucky's workers' compensation system should be fair to the employee and employer and designed to return the employee to work as soon as medically appropriate. To that end, the Chamber supports legislation and policies that ensure a balanced and equitable system of handling claims for workers who are injured while working, require

objective medical findings, protect the exclusive remedy doctrine and minimize litigation. Moreover, the Chamber supports legislative and regulatory efforts to control rising medical and prescription drug costs and eradicate prescription drug abuse related to workers' compensation claims.

Kentucky must enact workers' compensation subrogation legislation that protects Kentucky employers from being penalized for the negligent acts of third parties who injure their employees, allows Kentucky businesses to remain competitive with businesses from other states and brings Kentucky workers' compensation subrogation laws in line with every other state in the country.

Revise Kentucky's statute of limitations laws

Kentucky should review and revise the statute of limitations laws to ensure they do not place an inordinate burden on employers or create an uneven playing field to encourage frivolous litigation, are consistent with surrounding states and allow Kentucky to remain competitive in attracting and retaining businesses. Specifically, the Chamber supports reducing the statute of limitations for wrongful termination or discrimination arising out of the employment relationship to two years and reducing the statute of limitations for written contracts to five years.

Stop expansion of public employee collective bargaining

The Chamber is firmly opposed to any local or statewide expansion of public employee collective bargaining. The expansion of public employee collective bargaining can lead to inefficient administration of public duties, increased costs to taxpayers and an increased likelihood of interruptions of essential government services to the detriment of all Kentuckians.

Develop and maintain infrastructure

Kentucky must realize our global competitors are building infrastructure at an impressive rate. To take full advantage of Kentucky's favorable geographic location and improve the ability of Kentucky companies to compete, we must place a great emphasis on building and maintaining our state's infrastructure. Our focus must include energy, water, sewer, broadband and transportation systems.

Release the pressure on foreclosure crisis through non-judicial foreclosure

Currently, Kentucky allows mortgage foreclosures exclusively through a judicial process, which proves time consuming and costly to the lender, the borrower and the local community. In addition, a judicial process often results in vacant and abandoned buildings for an extended period of time, which burdens citizens and communities with such problems as declining value for surrounding properties, resulting in decreasing tax revenues, and increased criminal activities in and around vacant

properties. More than 30 states offer some form of non-judicial foreclosure, which allows lenders and borrowers to voluntarily resolve the foreclosure process through private transactions, as specified by statute. The Kentucky Chamber supports the state allowing this “Deed of Trust” method which will expedite the foreclosure process to get homes rehabilitated and back on the market as soon as possible.

Expand wireless and broadband infrastructure

Further development of the telecommunications infrastructure is essential in the new economy, particularly to support competitive widespread access to wireless and broadband services. Kentucky should update its laws and regulations to reflect the demands of a 21st century communications-based economy. Just as a number of surrounding states have done, Kentucky should modernize its telecommunications laws and eliminate unnecessary and outdated retail-based regulatory burdens that serve only to stifle investment.

Construct and maintain transportation investments

A dependable transportation network is necessary for the safe and efficient movement of individuals and freight statewide. It is a key factor in business location because good transportation infrastructure provides companies a means to move goods and provide services in a cost-effective manner. The Chamber supports the efforts of the Kentucky General Assembly to work toward developing and maintaining a statewide

transportation system adequate for the current and future needs of the Commonwealth. To achieve this goal, we believe policymakers must protect the integrity of the dedicated Road Fund by refusing to divert road funds to pay for what should be General Fund obligations.

Promote an equitable civil justice system

The increasing cost of civil litigation, whether through legal fees, higher liability insurance premiums, defensive business practices or simply reduced investment opportunities, is a significant burden for Kentucky’s employers. These costs are not only hurting businesses and their employees, but also consumers as they are passed on in the form of higher prices and fewer choices. Kentucky must turn back the clock on expansion of employer civil liability. The number of suits filed in Kentucky’s circuit courts jumped 60% from 2002 to 2009 and, according to the Institute for Legal Reform, the state’s legal climate ranking fell from 29th in 2008 to 40th in 2010. To stem the costly tide of an increasingly and unnecessarily litigious environment, the Chamber supports reasonable limitations on civil liability and a constitutional change that would allow the General Assembly to enact caps on awards for non-economic damages. Additionally, Kentucky businesses should be permitted to challenge state statutes or appeal the actions of a state agency by filing suit in the circuit court in the county where the business is located. These needed reforms will have a stabilizing influence on our tort system, making the state far more attractive to employers and potential employers alike.



CHAMBER PRIORITY

Encouraging **responsible** government spending

Kentucky's poor financial footing continues to be a cause for concern. Kentucky, like most states, suffered from the downturn in the international economy with lower tax receipts and increased demand for public services. Barron's magazine, in its recent State of the States report, ranked Kentucky 47th in overall financial health, a sobering reminder that our unsustainable spending practices must be addressed. Barron's noted the Commonwealth's significantly high unfunded pension liability as well as its general debt to GDP ratio as the main causes of Kentucky's fiscal problems.

Continue to fix the "Leaky Bucket"

In 2011, the Kentucky Chamber issued its "Building a Stronger Bucket" report, a follow-up to its 2009 "Leaky Bucket" report highlighting the fact that Kentucky's budget priorities continue to shift away from investments in education toward providing more money for jails, public employee health benefits and Medicaid. In 2012, the Chamber updated the information in its "Ready for Jobs Report" which examined Kentucky's business climate compared to the rest of the nation. These reports reached a number of key conclusions:

1. The size of state government relative to the state's economy has remained consistent over the years (between 5% and 6% of the Gross State Product).
2. Corrections spending is growing about 50% faster than the overall budget (65.5% vs. 49.8%) from 2000 to 2014.
3. From 2000 to 2014, Medicaid spending grew three times faster than the overall budget (123% vs. 49.8%)
4. Public employee health insurance costs are growing 4½ times faster than the overall budget (202% vs. 49.8%) for the same period.

Spending growth in these three areas is unsustainable and is draining resources from education, the Chamber's number one policy priority. The Chamber's efforts to raise awareness of these facts among Kentucky's lawmakers resulted in some significant changes in recent legislative sessions. These included cutting the annual growth in state employee health insurance costs in half, moving to Medicaid managed care statewide, suspending the cost-of-living increase (COLA) for state employees and a comprehensive study of the state's corrections system, which resulted in major legislative reforms. The Chamber supported the passage of HB 463, the Penal Code and Controlled Substances Act, during the 2011 session, which is estimated to bring in \$30 million in savings annually to the state's General Fund. Despite these important gains, the state must continue to act deliberately to institute management strategies that work.

The Kentucky Chamber offers the following suggestions to

help Kentucky deal with these tough economic times – and to ensure our policymakers do what most Kentucky families and business leaders have done over the past few years – establish spending priorities, make tough decisions and fix the leaks that take funds away from the priority of improving education. Actions to address this unsustainable spending must occur before the discussion of additional revenue opportunities should begin.

Adhere to state spending principles

If Kentucky is to keep its financial house in order it must establish a set of disciplined guidelines that will set our state on a road to prosperity. We encourage Kentucky's lawmakers to adopt the following guidelines for state spending:

1. Limit spending to 6% of the state economy.
2. Limit borrowing costs to 6% of the state budget.
3. Eliminate the structural deficit by adopting a five-year plan to spend only recurring revenues for recurring obligations.
4. Prioritize spending on areas that invest in the future, such as education and economic development.
5. Eliminate the practice of appropriating all anticipated revenue and ensure the state's "rainy day fund" has adequate resources to cover the state's emergency needs.

Prioritize government spending

Kentucky's General Fund increased almost 50% from FY 2000 to FY 2014 (\$6.5 billion to \$9.7 billion). More important, Kentucky's spending priorities have shifted. During the same period, spending growth in Medicaid, corrections and public employee benefit costs diminished increases in education funding. While K-12 funding grew by 33% during the period, and postsecondary education by 6.7%, Medicaid spending grew by 123% from \$659.8 million in FY 2000 to \$1.47 billion in FY 2014. A 202% increase took appropriations for public employee health insurance from \$477 million to \$1.44 billion. And corrections spending grew by 65.5%, up from \$273.9 million to \$453.3 million.

Consideration of new or increased taxes or fees should occur only after exhausting all reasonable opportunities to reduce spending and increase efficiency. Streamlining services, consolidating departments, eliminating ineffective programs, initiating responsible personnel compensation and benefit policies and other efforts to maximize the performance of public funds are examples of such fiscally responsible public operations.

The Kentucky Chamber believes achieving a fiscally responsible state budget that promotes economic development will require a significant review of current spending trends and a shift in funding to our priorities of education and economic development. To this end, we support a research-based top-to-bottom review of government expenditures to improve efficiencies within state government, much like a private-sector company would pursue. If not, we will continue to bear the high costs through unsustainable increases to treat poverty, crime and poor health. Programs that contribute to unsustainable growth in General Fund obligations should not be permitted to unduly consume tax dollars that could otherwise be invested in the public priorities of education and economic development.

Enact enabling legislation for Public-Private Partnerships

Kentucky is once again at a competitive disadvantage when it comes to other states because we lack enabling legislation allowing the use of public-private partnerships (P3s) for transportation projects and encouraging the use of P3s for education construction, water and sewer lines and even the management of state parks. The use of P3s in other states has led to significant cost savings for taxpayers, as well as improved expertise and efficiency on state projects.

The Kentucky Chamber encourages lawmakers to pass comprehensive P3 enabling legislation in the 2014 session that:

- encourages the creation of public-private partnerships for a wide range of infrastructure projects at all levels of state and local governments
- allows the use of public-private partnerships for transportation infrastructure
- creates a state P3 office or unit to foster the development of public-private partnerships
- creates a Kentucky Competitive Government Council to perform the following duties:
 - conduct an ongoing analysis of state government activities to identify opportunities in state government for private partners
 - prepare an independent cost-benefit analysis of proposals submitted to ensure services will be delivered at a lower cost
 - monitor the implementation of larger contracts/partnerships to ensure goals are being met
 - promote transparency by developing a website that enables the public to access key data about the process

- prepare an annual report that documents results in active public-private partnership projects in Kentucky and recommends changes in state law/policies to facilitate public private partnerships

Sustainable public employee benefits

The Kentucky General Assembly made significant changes in the 2013 session to address the nearly \$40 billion in unfunded liabilities in the state's pension system and create a hybrid pension plan for new employees that is more reflective of the private sector.

As the General Assembly works to meet the obligations made to public employees, it will become clear that additional changes to health benefits will be needed. In FY 2010, state government paid an estimated \$1.2 billion a year for health insurance for public employees, and these costs have been growing at a higher rate than inflation. Additional money appropriated for K-12 education is largely being consumed by the increased costs of health insurance and retirement.

The Chamber recommends the General Assembly continue to focus on reducing health care costs in the 2014 session. We will also be monitoring the Kentucky Retirement System's implementation of the 2013 pension reforms and will work to ensure the General Assembly meets its actuarial required contribution to the pension system.

Maintain sustainable debt levels

The future of Kentucky's finances depends in large measure on its ability to manage debt in a way that is disciplined and effective. Borrowing for long-term capital projects of broadly recognized economic and social value is an appropriate use of public debt. However, debt must be limited to a level that is sustainable and does not adversely impact the overall credit rating of the Commonwealth.

Moody's Investors Service reports Kentucky was in the top 10 states (8th) in 2010 with state debt measured as a share of personal income. Kentucky also ranked 6th in the country in net tax-supported debt as a percent of the gross state domestic product and 15th in the total amount of net tax-supported debt. In 2011, both Moody's Investor Service and Fitch Ratings downgraded Kentucky's bond ratings, due in part to pension liabilities and use of nonrecurring revenue to balance the state budget.

In recent years, Kentucky has turned increasingly to issuing bonds to sustain the growth in government spending. Total state and local debt in Kentucky measures more than \$7,770 for each of the state's 4.2 million people. This is more than \$400 above the national average and places Kentucky 14th in government debt per capita. The Chamber believes the level of state debt should be closely monitored. Projects that have a related revenue stream or can create budgetary savings should receive priority consideration, and every project considered for financing should have a defined, supportable plan for repaying the debt service.

Modernizing Medicaid

Kentucky's Medicaid budget has been growing at a rate that is more than double that of total state government spending since 2000. Currently, there are more than 800,000 low-income and disabled Kentuckians on Medicaid, a number that is climbing with the expansion of the Medicaid system. This rapid growth in Medicaid is pulling funds away from education, further compounding the problem because, as research shows, better education is linked to better health. The key challenge is finding a way to slow unsustainable Medicaid spending increases without inflicting harm on Medicaid recipients and health care providers. The Kentucky Chamber supported the statewide expansion of statewide Medicaid managed care. Though the implementation has not been seamless, studies suggest Medicaid managed care contracts are saving the state money over the traditional fee-for-service model. In addition to continuing to monitor the implementation and oversight of the managed care approach, we recommend some additional concepts to make the Medicaid program more closely resemble a private insurance model.

Wellness Activities: A best practice identified by the National Governor's Association Center for Best Practices is for states to incorporate more wellness activities into Medicaid programs. The Kentucky Chamber supports offering financial incentives to Medicaid recipients who maintain healthy behaviors.

Program Review: The Chamber encourages a top-to-bottom, data-driven review of the Medicaid program conducted by a nationally recognized consulting firm with expertise on Medicaid. The review should focus on an evaluation of the scope of services covered by Medicaid compared with other states as well as outcomes for Medicaid patients.

Program Administration: The Chamber believes additional areas that should be explored for possible savings include:

- improving the "error rate" – reducing overpayments to providers and ensuring the correct determination of recipient eligibility
- ensuring that child support orders require non-custodial parents with access to health insurance to provide coverage for their children (as permitted by Kentucky law)
- increasing the use of generic drugs by Medicaid recipients
- revisiting the use of significant co-pays for recipients at higher income levels

Modernize Kentucky's juvenile justice code

Kentucky made important progress with the enactment of reforms in 2011 to protect public safety while establishing a system to control spiraling corrections costs. While those reforms focused on adult offenders, a legislative task force is now conducting a review of the state's out-of-date Unified Juvenile Code. Among other things, the task force is reviewing the way Kentucky treats youths who commit status offenses — nonviolent acts such as running away or buying alcohol with fake identification — and also hopes to find ways to cut costs. The Kentucky Chamber, a strong supporter of the 2011 legislation, extends that support to the work of the 2013 Task Force on the Unified Juvenile Code in anticipation of recommendations that will help youthful offenders redirect their lives while ensuring public safety and a more efficient use of state resources.



CHAMBER PRIORITY

Improving the **health & wellness** of Kentucky citizens

A growing sense of crisis continues in the business community about the unsustainable increases in health care costs, particularly for small businesses. Over the past decade, employers have been forced to consider such undesirable cost-containment strategies as reducing employee benefits, shifting more costs to employees, dropping coverage altogether or raising the price of their products to consumers to recoup their health insurance costs. The Kentucky Chamber encourages state and federal lawmakers to focus on policies that improve the health of our citizens through cost-effective, evidence-based care along with wellness programs and other prevention measures.

Monitor implementation of the ACA

The Patient Protection and Affordable Care Act (ACA), passed three years ago, represents a wholesale change to our nation's health care system. The Chamber is concerned employers and employees may face significant premium increases, and businesses with more than 50 employees that have been providing voluntary health insurance will now be faced with mandated coverage, new structures on benefit design and increased taxes or penalties. The effect on employers will not be fully realized until the employer mandate goes into effect in 2015. Kentucky officials and policymakers are acting to develop and implement changes in our state's health care programs and systems to comply with the law. The Chamber is monitoring these regulations and has provided input to federal and state agencies as well as the National Association of Insurance Commissioners. The Chamber will continue to look for opportunities to ensure that employers in Kentucky can provide affordable, accessible health care to their employees and not be burdened by overreaching regulations and penalties under the federal law.

Ensure workable Kentucky-based health insurance exchange

The ACA required that each state establish a "Health Benefit Exchange" for individuals and "Small Business Health Options Programs" (or SHOP) Exchanges for small employer groups, both aimed at creating a robust health insurance marketplace by January 2014. As of open enrollment on October 1, 2013, individuals and small businesses are able to shop for qualified health plans online, allowing them to compare coverage, provider networks and cost. Each state was required by January 2013 to show the federal government it had the capability to operate an exchange. In states that failed to act, their citizens are eligible to participate in an exchange operated by the federal government.

The Governor established the Kentucky Health Benefit Exchange by executive order in July 2012 but questions remain among lawmakers concerning funding and oversight. Despite the Chamber's serious concerns about the ACA's impact on busi-

ness, we do support the Kentucky based Exchange (Kynect) and do not believe the Commonwealth should cede power to Washington, but chart its own course in health care reform, one that is beneficial to both the citizens and businesses of Commonwealth. State policymakers must understand that supporting a state-based exchange is not an endorsement of the law itself.

Promote wellness for all Kentucky citizens

Collectively, Kentucky has one of the nation's unhealthiest populations. The Commonwealth consistently ranks at or near the top of the list in smoking rates, obesity levels and a host of other poor health indicators. In addition to being a quality-of-life issue, the state's health status has a significant impact on the business community, increasing employers' health care costs and hindering their ability to hire a healthy and productive workforce. Poor health is also a drain on the state's resources through increased use of health services by Medicaid recipients and state employees.

To improve the health of Kentuckians and to promote an under-used cost control measure, the Chamber supports legislation to provide tax and other incentives for the creation of wellness programs enabling businesses to educate and encourage their employees to engage in healthy lifestyles and obtain preventive care. The Chamber is encouraged that the ACA broadens wellness initiatives by providing grants to certain small employers and increasing incentive limits and encourages the full funding of this provision. The Chamber supports government programs and policies that help provide education and assistance for companies, organizations and individuals to promote health and wellness throughout Kentucky. These efforts should focus on encouraging a level of personal responsibility for one's health, as well as organizational health promotion policies and environments. A balanced approach that educates children in schools and parents in workplaces about practicing healthy lifestyles to avoid the long-term consequences of childhood obesity is necessary. Being overweight as a child can often lead to health problems that were once confined to adults, such as high blood pressure and high cholesterol.

Intensify efforts to control drug abuse

The Chamber is concerned about the state's rising drug abuse problem and its negative effect on Kentucky's workforce and health care costs. The Chamber commends the Kentucky General Assembly for taking important steps to close pill mills and end illegal prescribing practices that have exacerbated the illegal drug problems in Kentucky. As lawmakers consider options to implement these important changes, we encourage a thoughtful approach that will not back away from efforts to punish bad actors, but will prevent added costs and ensure appropriate access to medical care. Continuing policies to develop workable statewide and interstate compacts as well as the adoption of nationally recognized pain management guidelines will help limit drug abuse that has a negative impact on employers and employees.

While recognizing the severity of methamphetamine abuse in Kentucky, the Chamber opposes the scheduling of pseudoephedrine, an ingredient often found in common cold medications and a main ingredient in the illegal production of meth. The Chamber commends the General Assembly for thoughtfully addressing this issue in 2012 and encourages the further development of Kentucky's "Meth Check" system to prohibit those who have been convicted of meth-related crimes from purchasing any products that contain ephedrine and/or pseudoephedrine. By establishing guidelines to increase information sharing among Kentucky law enforcement officials and prosecutors, Kentucky can continue to address this important issue without unintentionally adding costs to employers and citizens.

Enact statewide smoke-free law

According to the U.S. Centers for Disease Control and Prevention, Kentucky is second in the nation in the number of adult smokers, with 29% of the population. The situation is not improving with our youth – Kentucky is first in the nation in smoking prevalence among both middle and high school students. Smoking-attributable health expenditures are estimated at more than \$1.5 billion annually in Kentucky, and smoking-attributable economic productivity loss is estimated at more than \$2.3 billion each year in the state.

The business community believes Kentucky should build on recent legislative advances, such as the funding of a smoking cessation program under Medicaid, to improve the state's public policies with regard to smoking. The Chamber supports enacting a comprehensive statewide smoking law that prohibits smoking in indoor workplaces and public places, including restaurants, bars and hotels. While the Chamber is not typically supportive of policies that focus on a particular business or industry disproportionately, the body of evidence on smoking and its negative impact on public health and the economy is too significant to ignore. A recent survey of Chamber members found 83% in favor of a statewide law prohibiting smoking in public places. Already, at least 23 Kentucky communities (cov-

ering more than 34% of Kentucky's population) and 24 states have passed comprehensive smoking laws, which have proven to curb smoking rates and lower health care costs without negatively impacting business.

Increase the number of health care professionals

Many areas of Kentucky are underserved by health care professionals, contributing to poor access and higher medical costs for Kentucky's citizens. More than two-thirds of Kentucky's 120 counties have been officially designated as health professional shortage areas for primary care by the Health Resources and Services Administration. In addition, Kentucky lacks sufficient numbers of physician specialists, nurses, physician assistants, pharmacists, dentists, mental health professionals and allied health personnel. This lack of skilled professionals contributes to fewer regular check-ups, poorer health and higher costs to the medical system over the long term.

Kentucky's aging population makes this a particularly critical issue. To help reverse this disturbing trend, the Chamber supports a comprehensive state strategy to increase the number of health care professionals trained in Kentucky as well as innovative approaches to encourage them to practice here. This strategy should ensure that postsecondary education institutions, which provide medical training, are adequately funded and held accountable for increasing enrollment. These institutions should be encouraged to explore the development of economic incentives as well as expanded tuition assistance and loan repayment programs that include a requirement to practice in Kentucky for a set period of time.

Additional incentives should be available for underserved counties and regions based on the particular need of each area. As is the case for higher education, lack of affordable training should not deter talented students from entering the health care field. With the implementation of the ACA and the expansion of Medicaid eligibility, the need for health care professionals will be even greater. The Chamber encourages state officials to use provisions contained in the law aimed at increasing workforce supply and training programs.

Improve Kentucky's medical liability climate

The rising costs associated with medical malpractice liability are taking a significant financial toll on the health care industry, resulting in increased costs for consumers and a continued inability to attract and retain sufficient numbers of physicians in all regions of the Commonwealth. The high price of liability insurance and the lack of reasonable tort limitations in Kentucky have contributed to the shortage of medical professionals. To curb this trend, the Chamber supports allowing voters to consider a constitutional amendment that would permit the legislature to consider comprehensive tort reform. State and federal lawmakers should pass reasonable limits on damages and require alternative dispute resolution to help reduce escalating

malpractice insurance premiums and the resulting burden passed on to consumers in the form of higher prices, fewer health care providers and fewer choices. Since 2000, numerous states have passed ballot initiatives to amend their constitutions, and 16 states have passed a cap on non-economic damages.

Promote informed health care consumerism

Consumers need access to information about the cost of health care and the quality of services provided to make informed and cost conscious choices when selecting a health care provider. The General Assembly made great strides in 2008 by passing the Chamber-led transparency initiative, which required the Cabinet for Health and Family Services to make permanent the reporting to consumers of health care costs, quality indicators and results. Without this effort, such information is almost entirely absent from today's health care marketplace, preventing Kentuckians from making informed choices when they purchase health care services.

The Chamber encourages the Cabinet to make this comprehensive information easily available to consumers, which may serve to contain increases in health care spending by government, businesses and individuals. Only when consumers know the price and value of health care services will they be empowered to make the best possible choices for themselves and their families.

Expand mandate-free health insurance

Because health care mandates and unnecessary regulations can add to the already high cost that consumers and employers pay for health insurance, the Chamber opposes any mandated coverage requirements that exceed the current federal requirements. With the cost of health insurance already creating a competitive disadvantage for many small businesses, extending these mandate-free policies will allow more employers to provide health benefits to their employees.

Promote competition in the health insurance market

Attracting more insurers to Kentucky is a practical and realistic means of controlling escalating costs and providing greater access to health insurance. The Chamber calls on state government to enhance competition in the health insurance market through further deregulation of the insurance industry or any other reasonable means.

Oppose Any Willing Provider

The Kentucky Chamber opposes Any Willing Provider provisions and supports the right of health insurance companies to negotiate exclusive contracts with health care service and product providers that offer discounted costs to consumers.

Promote eHealth policies in the Commonwealth

A number of preventable medical errors and duplication of services could be reduced significantly with the implementation of policies that encourage the use of secure electronic medical records that can be accessed by all of an individual's health care providers. This, along with electronic prescribing, can reduce duplication, improve delivery of services and save lives. The Chamber supports the Kentucky Health Information Exchange (KHIE), the electronic information system that supports statewide exchange of health information among health care providers and organizations. KHIE has led to improvements in quality of care, reduction of medical errors and a more efficient use of health care dollars.

Improve long term care

With the significant aging of the population, it is increasingly important for policymakers to adopt strategies to meet the medical needs of these individuals. The Chamber supports initiatives that provide greater incentives for individuals and/or employers to purchase long-term care insurance policies. Additionally, the Chamber encourages policymakers to concentrate elder care resources on case management to ensure people's needs are matched with the most appropriate care. The Chamber also believes artificial barriers to home and community-based services should be eliminated to prevent premature institutional care.



CHAMBER PRIORITY

Expanding Kentucky's role as an **energy** leader

The Kentucky Chamber of Commerce believes economic growth, energy independence and environmental protection are compatible and complementary goals. We recognize that legitimate uses of the environment should be protected and business activities may affect environmental quality. To achieve rational regulatory objectives, the Chamber encourages legislative and administrative actions that satisfy the following criteria: scientific validity, technical feasibility and economic rationality.

The need for government action should be established on the basis of objective information on which meaningful consensus can be achieved. Such information should demonstrate that any proposed action would cost effectively result in the avoidance of environmental harms or the creation of environmental benefits.

To achieve the true objective of environmental regulation, government must consider technical feasibility in setting standards. In addition, government should be a conduit for information on available control technologies for businesses but not control the supply/demand of the marketplace.

Government action and requirements for compliance should reflect a proper balance of the benefits provided by a standard and the cost to society of achieving it. In setting standards, an agency should consider their impact on jobs and low income groups and the ability of business to operate profitably within the confines of any legal framework. Also, state government, utilities and businesses should work hand-in-hand to maintain a process to balance the ratepayers' desires for competitive rates through the least-cost option with incentives for energy production innovations, clean coal technologies and energy efficiency.

Strive for energy independence and a pro-energy economic policy

The Kentucky Chamber is encouraged by the General Assembly's recent efforts to foster Kentucky's energy independence. The Chamber recognizes energy conservation and efficiency as high-priority energy strategies. The Chamber also strongly supports incentives for businesses that go above and beyond existing environmental standards and for those who are pro-active in promoting conservation and efficiency. State government should join with business to find creative solutions to help reduce the up-front costs associated with implementing conservation and efficiency measures.

Encourage cooperative federalism

Cooperative federalism is when national, state and local governments interact in a cooperative manner to solve common

problems and ensure decisions and policies that are best for a state or local government are made at the appropriate level rather than a national one. The Kentucky Chamber fully supports the application of cooperative federalism principles with respect to the appropriate utilization and recognition of state and local primacy rights in the energy and environmental fields.

The Chamber fully supports the Kentucky General Assembly and Energy and Environmental Cabinet in identifying more strategic and better planned statutory/regulatory actions by the state. We fully support working with local governments to address issues and avoid imposing duplicate and conflicting requirements – or needless regulations that would not yield meaningful improvements to environmental quality while increasing burdens on the regulated community. Improved application of cooperative federalism principles can result in timely and consistent enforcement of existing regulations and assure that Kentucky's policymakers hold the key decision-making role in matters affecting our state.

Support the future of Kentucky's coal industry

Kentuckians have long benefited from low-cost utility rates thanks to the proximity of Kentucky's abundant coal resources in our Central Appalachian and Illinois Basin Coal fields. Recently, federal policies and changing energy demands have crippled the coal economy in the eastern and western Kentucky coal fields which has had a negative impact on the entire state. Since 2012, eastern Kentucky has lost nearly 7,000 direct coal mining jobs. For every one direct coal mining job lost, three other indirect jobs are also lost, which brings the total of job losses to more than 20,000. In the last year, Kentucky coal production finished at 91,407,310 tons, the lowest amount of production since 1965.

To help support the future of Kentucky's coal industry, the Chamber supports:

- the immediate need for federal agencies to process nearly 40 surface mining permits held up by the United States

Environmental Protection Agency (EPA); these coal mining permits represent the potential to produce more than 125,000,000 tons of coal over the life of the operations and the generation of more than 3,500 jobs directly or indirectly

- policies that will help Kentucky position itself as the leading exporter of coal to international markets
- research opportunities that will find alternative uses for coal beyond base load power generation

Support pro-energy infrastructure investments

Kentucky must recognize that to retain and attract new industries it must have access to energy resources that are competitive with other geographic areas of the country. The Kentucky Chamber supports the construction of new and the modernization of existing energy infrastructure. Investment in energy infrastructure is critical for continued access to growing domestic supplies of natural gas, natural gas liquids, refined products and crude oil. These infrastructure projects create new sources of tax revenue, jobs and enhanced access to competitive energy supplies.

The Chamber supports the development of an incentive package to encourage the manufacturing of renewable energy products in the state. In addition, the Commonwealth of Kentucky currently has a moratorium on the development of nuclear power plants. Lifting this moratorium would help bring cost-effective and environmentally friendly energy solutions to Kentucky while having a positive economic impact. With new pollution control technologies and other innovations, more energy development is possible while protecting Kentucky's environment.

Encourage a sensible regulatory approach

The Kentucky Chamber supports efforts by the Kentucky Energy and Environment Cabinet to ensure existing environmental laws and regulations are applied and enforced in a consistent, non-discriminatory manner at both public and private facilities. In addition, the Chamber urges the Cabinet to aggressively assert its authority as primary administrator of delegated environmental programs in cases where the EPA attempts to overstep its oversight role or demand action inconsistent with past state regulatory actions or determinations.

Currently, the EPA is issuing an unprecedented number of federal mandates that will have significant impact on the businesses and residents of Kentucky due, among other things, to the impact of those mandates on utility rates as a result of the cost of compliance and loss of existing coal-fired power supplies. Those attempts at regulation by the EPA with questionable legal authority include but are not limited to:

- greenhouse gas regulations under the Clean Air Act, including first-time monitoring requirements, permitting requirements triggering Best Available Control Technology for greenhouse gases, proposed New Source Performance

Standards for electric generating units that will prohibit the permitting of new coal-fired units and regulation of greenhouse gas emissions from existing power plants

- revisions to National Ambient Air Quality Standards for sulfur dioxide, ozone, particulate matter and nitrogen oxides (regardless of whether the updates are currently required by the Clean Air Act), as well as revisions to the implementation of the standards that will drastically increase the number of non-attainment areas and increase the difficulty of planning for attainment of the new standards
- regulation of Coal Combustion Residuals under a federal program as a hazardous waste
- first-time regulation of Hazardous Air Pollutants from coal-fired power plants through imposition of Maximum Achievable Control Technology requirements under the Mercury and Air Toxics Standards program
- changes by the EPA in water regulations and interpretations of existing rules without close examination of all costs and benefits; EPA should insure any new water regulations (such as the proposed Cooling Water Intake Structures), or changed interpretations of water quality requirements, are flexible, efficient and recognize the role of the states in addressing their own water quality issues
- continued abuse of agency authority by the EPA as the agency moves to implement new requirements by regulating through guidance without following the rulemaking process

Even though the EPA's attempt to further regulate emissions from electric generating units for sulfur dioxide and nitrogen oxides under the Cross State Air Pollution Rule has been vacated by the court, the Clean Air Interstate Rule will remain in effect pending U.S.EPA's continued work on a program to address emissions transport and impact on Regional Haze that will pass legal muster

The "shale revolution" is moving the United States closer to energy independence than we've ever been. Oil and gas is a vital industry to Kentucky's economy. Kentucky's current regulatory requirements for oil and gas strikes the proper balance between the responsible development of our state's resources and environmental protection. Kentucky should strive to maintain a favorable climate for investment in its oil and gas sector

The EPA's actions are resulting in overly stringent requirements that will significantly impact businesses, the economy and regulatory agencies in the Commonwealth. It is imperative the General Assembly and administrative offices of Kentucky weigh in on the federal rulemaking processes and use their influence to impact the outcome of these regulatory programs.

Allegations of the use of "sue and settle" tactics whereby environmental activist groups and organizations reportedly collaborate with the EPA to file suit over regulatory issues and then enter into court approved settlements to take certain actions without engaging in customary rulemaking procedures is a con-

cern to the business community and should be monitored. The General Assembly and agency representatives should continue to be vigilant to avoid similar efforts in the Commonwealth as such activities undermine confidence in the rulemaking process.

Support cost-effective renewable and alternative strategies

The Kentucky Chamber supports the development of cost-effective renewable and alternative energy sources and the promotion of energy efficiency to foster energy independence and economic growth. The Chamber does not oppose the concept of federal climate change legislation in principle but points out the importance of properly addressing regional differences in current energy supplies. The Chamber will continue to evaluate the merits of any carbon-management legislation on a case-by-case basis. However, we continue to recognize the vital importance of Kentucky's coal resources and the impact those resources have on the economy of the Commonwealth and the U.S. as a whole.

The Kentucky Chamber believes a comprehensive national energy policy should focus on investing in energy production innovations including biomass, natural gas and coal technologies and avoid arbitrary mandates and punitive policies that would serve to drive up costs and stifle innovation and place citizens and businesses of Kentucky at a distinct economic disadvantage with neighboring states. The Chamber strongly believes cleaner air should be accomplished through the use of efficiencies at our power plants and grid system as opposed to mandated equipment which makes our power plants less efficient. Climate change policies that allow technology to spur energy innovation would continue to protect the economy of the Commonwealth while securing our nation's economic and energy futures.

Promote sensible state and local environmental regulation

In considering standards for the protection for human health and the environment, federal agencies undertake an exhaustive process of reviewing available data to set standards at an appropriate level. The Chamber opposes the adoption of more stringent state and local programs that would adversely affect Kentucky's ability to remain competitive in the global economy. When state and local governments engage in significant revisions of their environmental regulations, we strongly encourage the use of a stakeholder process for development of these programs. Any resulting regulatory framework must be based on sound science and be both economically rational and technically feasible to achieve the laudable objective of a cleaner environment. Uniformity between federal, state and local programs helps save businesses valuable resources in compliance procedures. The Chamber opposes local government authority to enforce federal and state environmental requirements. To the extent that regulatory programs already exist at the local level, it is incumbent upon the local agency to administer a meaningful appeals process to provide adequate considera-

tion of disputed issues prior to civil court action.

The Kentucky Chamber supports stability in regards to the makeup of Kentucky's Public Service Commission. This non-partisan group, appointed by the Governor and confirmed by the Senate, has helped establish Kentucky's low-cost utility rates for many years. The Chamber opposes any effort to politicize the membership of this commission, which will create instability and a potential increase in rates.

Reform notice of violation procedures

Current administrative enforcement procedures allow little flexibility or discretion on the part of inspectors. Generally, any and all violations of existing regulations and requirements result in the immediate issuance of a "notice of violation." With the exception of immediate threats to health, safety or the environment, inspectors should have an alternative to issuing an NOV for non-compliance and the authority to waive fines for first-time offenders. There is currently no end date for punitive administrative action stemming from an NOV. The Kentucky Chamber urges the General Assembly to place reasonable time limits on punitive action following the issuance of NOVs by state agencies.

Maintain air permitting efficiencies

The Kentucky Chamber applauds the Division for Air Quality for essentially eliminating the problems of permitting backlogs. The Chamber recently supported the Cabinet's position on the need for an increase in the Title V Permit Emission Fee so the needs of the Title V permit holders can continue to be met in a prompt and efficient manner by the Division.

As the program moves forward, it is important the Division of Air Quality maintain the level of service to the business community as air permit approvals are often a key component in implementing expansions of existing businesses and in obtaining new industrial development.

However, just as our members have to do, the Division and the Cabinet should continue to look at cost control measures and efficiencies that can be used to reduce the anticipated shortfall and create efficiencies throughout the program. Considering emission trends, the Chamber believes the Cabinet should explore with stakeholders additional funding mechanisms for the Title V Program in such areas as permit and permit renewal application fees. Potential for double counting of emission fees should be avoided.

Maintain water permitting efficiencies

It is equally important the Division of Water maintain the level of service to the business community to ensure that water permit application backlogs are reduced and do not create problems with approvals, which are often a key component in implementing expansions of existing businesses and in obtaining new industrial development. The Chamber supports methods that will allow an expedited water permitting process when warranted.

Controlling the Asian Carp population

Kentucky is blessed with an abundance of lakes, rivers and streams that help attract business and tourists from around the world. Some of Kentucky's major shipping waterways, including the Cumberland River (Lake Barkley), Tennessee River (Kentucky Lake), Ohio River and Green Rivers have seen the alarming rise of Asian Carp which is having a negative impact on tourism and could adversely affect the ease of navigation on our inland waterways. The Kentucky Chamber fully supports initiatives to help eradicate and control the movement of this invasive species, including the development of processing plants, expanded exports and increased marketing of the fish as a viable food product domestically.



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Small business priorities

Support policies that retain and expand jobs

The Kentucky Chamber supports legislative proposals that will help small businesses and the private sector retain their existing workforce and expand jobs in the state. These include measures to help control health care costs, controlling and reducing workers' compensation costs, creating a clear definition of an independent contractor, easing the regulatory requirements on small businesses and maintaining Kentucky's low utility costs.

Clearly define the Cost of Goods Sold

Adopted in 2005, Kentucky's limited liability entity tax (LLET) applies to all entities that offer limited liability to their owners (e.g. corporations, S corporations, limited partnerships, limited liability corporations, etc.). Most high-volume, low-margin businesses, such as contractors and manufacturers, benefit from the gross profits calculation. A business's gross profits are calculated by deducting cost of goods sold (i.e. business expenses) from gross receipts. Cost of goods sold (COGS) usually includes the cost of materials and labor used to create a good. It does not apply to service businesses.

Kentucky's statute begins its definition of COGS with a reference to the federal tax code, but also includes limitations not included in the federal language. Its the interpretation of these limitations, along with inconsistent enforcement, that creates confusion for business owners and tax preparers. The Kentucky Chamber supports revising the definition of COGS to make it clear, transparent and more inline with the federal language.

Enact drug-free workplaces

In recent years, Kentucky has made great strides to control prescription drug abuse in the state; however, drugs remain a major concern in the workplace and can make it difficult to find qualified workers for available jobs. The Kentucky Chamber fully supports the passage of comprehensive drug-free workplace legislation that would create a voluntary program for employers to expand drug testing and encourage safer workplaces across Kentucky.

Improve workforce preparedness

Finding and retaining a qualified workforce is critical to a business's success no matter the size. The Kentucky Chamber fully supports expanded workforce development opportunities that will help improve Kentuckians' "soft skills" (showing up to work on time, interview skills, etc.) and reduce the amount of retraining that is needed for Kentucky's workforce.

Encourage sustainable public employee benefits

The Kentucky General Assembly made significant changes in the 2013 session to address the nearly \$40 billion in unfunded pension liabilities and create a hybrid pension plan for new hires. It is imperative the state and local governments continue to modernize their pension system, and control health care costs of public employees. It is also important that Kentucky meets its actuarial required contribution (ARC) on an annual basis.



Federal priorities

Tax and entitlement reform

The Chamber urges Congress to address the serious fiscal challenges that continue to exacerbate the annual budget deficit and growing national debt. To protect the long-term fiscal health of the United States, it is imperative Congress pass tax and entitlement reforms that will fix the structural imbalance and begin to pay down the national debt. Permanent pro-growth tax reforms that will broaden the tax base and lower rates will give businesses the certainty needed to compete globally. Along with tax reforms that will grow the economy and revenue, responsible reforms to America's entitlement programs (many of which are presently unsustainable) are needed to ensure we do not continue to bury our citizens and children in more and more debt.

Immigration reform

The Chamber supports comprehensive immigration reform that creates: 1) a workable temporary worker program for high-skilled and lesser-skilled workers as well as the agriculture industry; 2) a federal employment verification system that is reasonable and workable for employers; 3) a legal status for the estimated 11 million undocumented people here, allowing them to emerge from the shadows, creating a stable workforce; 4) improving enforcement to protect our borders while facilitating the flow of trade and travel.

Energy and environmental policy

The Chamber supports the development and expansion of American energy resources to improve energy security and create jobs in the United States. Reliable and affordable

energy are essential to running a business and fueling economic growth and competitiveness. We support investments that will allow Kentucky to maintain its role as an energy leader and create further export opportunities for our coal and natural gas industries. We support policies that allow Kentucky regulators to make the decision that is best for the Commonwealth instead of outside interest groups and regulators.

Health care

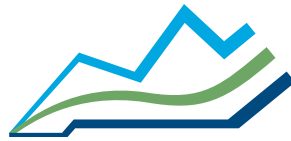
The Chamber supports strategies and solutions to encourage health care reform that lowers cost, improves quality, expands access to health care and protects American jobs and the employers who create them. As we work through implementation of the Affordable Care Act, we will advocate for needed changes to portions of the law that make health care less affordable, limit access or make employers less competitive.

International trade

The Chamber supports policies to open trade with promising markets abroad and to remove barriers that shut U.S. exports out of foreign markets. Promoting international trade for companies in Kentucky and other states will generate economic growth and job creation here.

Reliable and secure infrastructure

The Chamber supports efforts to improve the quality of America's infrastructure, including transportation, energy and waterways. Transportation and energy infrastructure directly impact our ability to compete in the global economy.



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