

A blue-tinted photograph of the Kentucky State Capitol building, showing its classical architecture with columns and a dome. The image is partially obscured by a white text box and a dark blue vertical bar on the right.

Bold Steps to Advance Kentucky

2009 KENTUCKY BUSINESS AGENDA



Kentucky Chamber

Uniting Business. Advancing Kentucky.

INSIDE

- 2 Economic Development
- 6 Education
- 11 Environment
- 14 Fiscal Policy
- 17 Health Care
- 21 Human Resources & Labor
- 24 Public Affairs Committee Chairs
- 24 Staff Contacts

THANK YOU

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2009 KENTUCKY CHAMBER TOP PRIORITIES

Each year the Chamber's six policy committees meet over the summer to research and analyze issues important to the business community. From this exercise comes our Kentucky Business Agenda, "Bold Steps." This detailed policy document guides our lobbying efforts in Frankfort and Washington, D.C.

The Kentucky Chamber government affairs team's primary focus will be on the five goals to transform Kentucky. They are:

1 Improve the educational attainment level of Kentuckians.

- Promote Guaranteed Affordability Program (GAP) for college students.
- Develop and reward effective teachers.
- Improve academic achievement and performance.
- Improve adult education in Kentucky.
- Enhance workforce preparation.

2 Modernize government at all levels.

- Promote streamlining of government services.
- Advocate responsible state personnel policies.
- Support sustainable state debt levels.
- Create a culture of accountability.

3 Promote wellness and healthy Kentuckians.

- Promote wellness and education to improve overall health.
- Reduce smoking and other poor health choices.
- Reduce obesity, particularly among children.
- Increase the number of health professionals to improve access.

4 Prepare Kentucky to successfully compete in the global marketplace.

- Increase number of science, technology, engineering, and math (STEM) graduates.
- Promote a competitive tax code that encourages investment.
- Promote equitable civil justice system.
- Develop and maintain infrastructure.
- Defend employers against government-imposed costs.

5 Expand Kentucky's role as an energy leader.

- Utilize Kentucky coal as key source of energy.
- Promote conservation and efficiency measures.
- Support biomass initiatives and alternative energy.
- Invest in clean technologies.



Remove Kentucky's Competitive Disadvantages

The fundamental cornerstones in our quest for higher wage jobs and economic expansion rest primarily in two areas: 1) improving education and workforce development, and 2) ensuring Kentucky's laws and regulations are in step with our competitor states.

It is critical that Kentucky successfully recruit new businesses, as well as retain and expand our existing businesses. To that end, the Kentucky Chamber will advocate for public policy innovations 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.**

Promote Education and Workforce Development

Kentucky's economic well-being is inextricably linked to the education and skills of its citizens. With competition coming from nations on the other side of the world, not just from our neighboring states, the relationship between educational excellence and economic growth is more critical today than it has ever been.

Kentucky must be focused and relentless in its work to create a system of education that is truly world class. All Kentuckians have a role to play in this, none more important than the state's business community. The state's employers face the competition every day and understand the limitations created by an undereducated workforce. They must become more involved, both at the school level and in policy deliberations.

The Chamber supports streamlining workforce development programs to aid employers in this endeavor.

Entice Business Development

The Kentucky Chamber supports:

- incentive programs designed to encourage the growth of high-wage jobs
- long-term investment in strategically defined industry sectors aimed at achieving those gains
- enhancement of entrepreneurial development incentives

Incentives should demonstrate a positive return on investment to taxpayers, and recipients should be held accountable for promised results. **We encourage the development of new incentives to help Kentucky small businesses grow and prosper as well as new strategies to continue to increase jobs by attracting companies to Kentucky.** To ensure maximum effectiveness, accountability

and continuity, the Chamber supports maintaining the public/private partnership board governance structure under which the Cabinet operates, and encourages the use of performance-based criteria for all incentive programs to ensure these programs produce long-term investments with high-wage jobs.

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 hurt not only businesses and their employees, but also consumers, as they are passed on in the form of higher prices and fewer choices.

Kentucky is not immune to these problems and must turn back the clock on expansion of employer civil liability. To stem the costly tide of an increasingly and unnecessarily litigious environment, the Kentucky 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 of the business. These needed reforms will have a stabilizing influence on our tort

system, making the state far more attractive to current employers and potential employers alike.

Enact Employee Choice

The Kentucky Chamber believes every worker is entitled to make his or her own determination regarding dues payments to unions. While every worker in Kentucky is guaranteed the right to join and pay dues to a union, in many situations, the same is not true for workers who want to exercise the right not to participate. 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. 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 stands with West Virginia as the only two southern states that have not enacted right-to-work legislation. We strongly support legislation to prohibit requiring any worker to join a union as a condition of employment.

Let Kentucky Vote on Expanded Gaming

The Kentucky Chamber believes that expanded gaming is a reasonable and appropriate policy measure to recoup the hundreds of millions of tax dollars being lost annually to casino gaming in neighboring states. Such a move would

Kentucky’s population is projected to increase by 160,700, or 4%, from 2006 to 2016.

Southern Regional Education Board

87% of business leaders say that the legal climate in Kentucky imposes costs on businesses that hurt job growth.

AJP/Kentucky Chamber Legal Survey, May 2007



Median household income in Kentucky in 2007 was \$40,267. The U.S. median income was \$50,233.

2007 American Community Survey, US Census Bureau

More than 75% of the nearly 3,200 Kentucky businesses that sell their products overseas are small- and medium-size companies.

U.S. Chamber of Commerce

also help ensure the economic competitiveness of Kentucky's signature equine industry and provide additional revenue for high-yield public investments like education.

In order to let Kentuckians decide whether to allow expanded gaming in the Commonwealth, the General Assembly should put a constitutional amendment on the ballot. Such an amendment should authorize the General Assembly to establish the structure under which casinos would be operated by the state's racetracks along with a limited number of licenses allocated to ensure an effective geographical and market-based distribution.

Develop Employment Opportunities

As the Commonwealth debates policies designed to address the needs of the working poor, the Chamber supports innovative approaches that create individual and employer-based incentives that encourage and reward work for low-income individuals, while providing support to employers willing to take risks when hiring those with limited basic job skills or other disadvantages that serve to make them difficult to employ. Only by investigating the impact of these innovations through a combined approach can we hope to achieve our goals of more Kentuckians working and higher productivity for Kentucky employers.

DEVELOP AND MAINTAIN INFRASTRUCTURE

Kentucky must realize that our global competitors are building infrastructure at an impressive rate. To take advantage of global business opportunities and improve the ability of Kentucky companies to compete, we must place a great emphasis on building and maintaining our state's infrastructure and develop innovative ways to leverage local, state and federal dollars to achieve these goals. Our focus needs to include energy, water, sewer, broadband and transportation systems.

Develop Pro-Business Energy Strategies

Kentucky's low energy costs are among our most compelling competitive advantages. 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 build new energy sources that utilize our resources in a clean and efficient manner. To sustain, stabilize and improve upon our favorable energy climate, the Kentucky Chamber encourages policymakers to continue to maximize our state's opportunities for long-term growth and development while preserving Kentucky's low energy costs.

Between 1993 and 2003, real personal income in right-to-work states increased by 38.8%, compared to increases of just 28% in Kentucky and 27.6% in non-right-to-work states as a group. *U.S. Bureau of Labor Statistics*

Expand Telecommunications and Broadband Infrastructure

The Internet is now one of the most important components of the modern economy. In today's globally competitive environment, the Internet allows businesses to improve their productivity by communicating through e-mail, promoting their products online and more efficiently ordering supplies, taking orders, billing customers and receiving payments.

While the State of Kentucky has made great strides in advancing broadband deployment for its citizens and businesses through public/private partnerships, the Chamber recognizes that the costs associated with deploying broadband in less populated areas create both a disincentive for companies to locate in underserved areas and an uneven playing field for existing businesses. The Chamber also recognizes that adoption of broadband by new and existing business is a critical component to economic development in Kentucky. To that end, the Kentucky Chamber supports the continued efforts of the General Assembly to encourage broadband expansion and service adoption.

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 services in a cost-effective manner. The Kentucky 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 that policy-makers 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 KENTUCKY'S EQUINE INDUSTRY

Kentucky's equine industry is world-renowned, with more than a \$3.5 billion impact to Kentucky's economy, and is responsible for more than 50,000 full-time equivalent jobs in our state.¹ Because of the substantial economic impact the industry has, the Kentucky Chamber supports programs that will encourage and enhance the future growth of Kentucky's signature industry. These include innovative tax approaches, additional gaming options at racetracks, purse increases and other initiatives that help maintain our competitive advantage.

In Kentucky, firms with employees numbered 84,988 in 2005, of which an estimated 97%, or 82,438, were small businesses (fewer than 500 employees).

U.S. Small Business Administration, Office of Advocacy

Kentucky is ranked 6th in the nation in the number of jobs created by new establishments for firms with fewer than 500 employees.

2006 Report Card on the States, Corporation for Enterprise Development

¹ *American Horse Council*

Invest in Kentucky's Future

The Commonwealth must recognize that the relationship between workforce capability and economic growth is fundamental and critical – particularly as Kentucky and the nation face increasing competition from around the world.

Kentucky's economic viability is directly linked to the education and skills of its citizens. The Kentucky Chamber of Commerce believes that education at all levels must be responsive to the needs of employers and all students – children and adults.

The Commonwealth must reinforce the relationship between funding, expectations for high student achievement and accountability at all levels of education – from early childhood through postsecondary and adult.

Accountability is the foundation for Kentucky's system of education. The state must continually measure its progress toward specific goals to ensure a successful future for Kentucky and its citizens and accountability for taxpayers.

POSTSECONDARY

The Kentucky Chamber's postsecondary education task force report underpins an aggressive, ongoing policy agenda. It is time to build on the structural changes and goals embodied in the 1997 Higher Education Reforms and create a new commitment that funds enhanced accountability and supports a seamless, efficient system of learning and teaching.

Make Higher Education Affordable

Making sure that postsecondary education is affordable for Kentucky students should be a priority for the Commonwealth. The Chamber advocates a shared responsibility model, the Guaranteed Affordability Program (GAP), which would simplify the state's financial assistance process. Under the GAP approach, the cost of postsecondary education would be shared among students, families, postsecondary institutions and the government.

Create a Seamless Education Experience

A student's progress through the education system depends on how well he or she is prepared at each level to succeed at the next. Too often, a lack of communication, collaboration and coordination among the levels of education creates obstacles for students. The Chamber supports a review of

Kentucky's education system that would create a seamless education experience for students, beginning with preschool and continuing through postsecondary graduation and/or workforce preparation.

Reduce Time to Degree

The Kentucky Chamber supports efforts among policymakers and postsecondary education institutions to shorten the time required to obtain an associate and bachelor's degree, while maintaining academically rigorous and focused programs. Kentuckians need efficient and affordable postsecondary education, while employers need qualified applicants. Both should have their needs met in a timely manner. The Chamber supports programs that reduce the need for remediation for students entering postsecondary education institutions, improve credit

transfer policies and provide incentives for students to graduate on time.

Reinvest in the Research Challenge Trust Fund

The Commonwealth's landmark Research Challenge Trust Fund ("Bucks for Brains") has been used in recent years to attract world-class researchers and professors to Kentucky universities. The Kentucky Chamber encourages lawmakers to continue the trust fund or to devise a similar program that would provide matching dollars to give universities flexibility, with accountability. This will ensure that they can attract research faculty, and provide up-to-date facilities, technology or other tools they need to succeed in meeting the expectations of our 1997 postsecondary education reforms.

17.1% of Kentucky residents have a bachelor's degree or higher, compared to 24.4% nationwide.

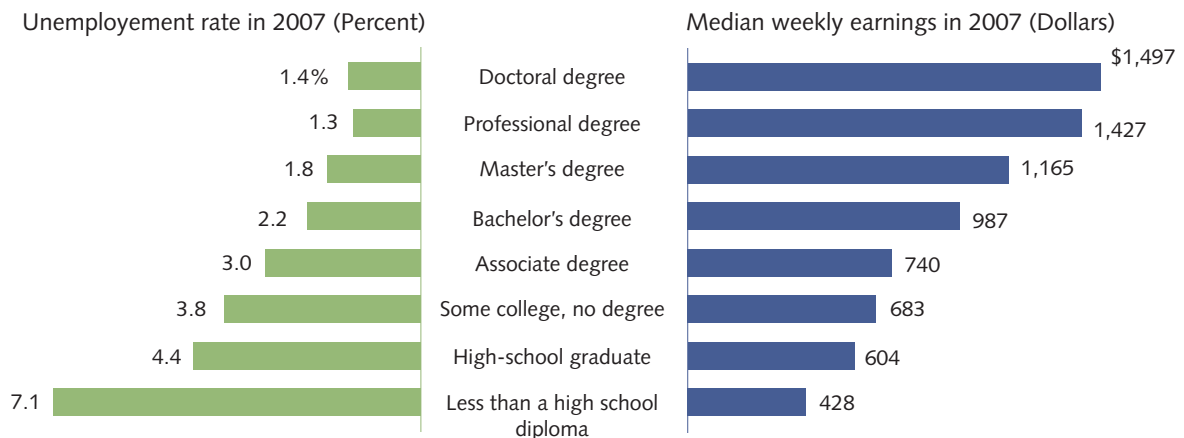
Kentucky Postsecondary Education Profile 2008-10, Council on Postsecondary Education

46% of college freshmen who enrolled in 1999 graduated with a bachelor's degree within 6 years.

The U.S. average was 54%.

Southern Regional Education Board

Education Pays



Bureau of Labor Statistics, Current Population Survey



For every 100 Kentucky 9th Graders:

- 62 graduate from high school
- 38 enter college
- 25 are still enrolled in their sophomore year
- 15 graduate with a 4-year degree within 6 years

KCTCS Report "In the Eye of the Storm," July 2007

54% of students entering Kentucky's postsecondary education institutions were underprepared in at least one subject.

Council on Postsecondary Education, August 2007

Grant Universities Bonding Authority

Currently, 43 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 Kentucky 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.

ACCOUNTABILITY & ACHIEVEMENT

Require Education Accountability

Individuals and institutions should be held accountable for student achievement through a series of performance measures that will help gauge teacher, student and administrator performance. The Chamber further believes that efforts to build stronger schools should include end-of-course examinations for students, holding educators accountable for student success, and holding postsecondary institutions accountable for the preparation of high-quality teachers.

Improve Academic Achievement and Performance

Students at all levels should be challenged and provided the environment and instruction they need to succeed.

Improving academic achievement of all students by encouraging rigorous courses, tying student grades to their progress on state standards, and regularly assessing performance is critical for continuous improvement.

Critical to Kentucky's ability to compete in the global economy is a commitment to increasing the number of graduates in science, technology, engineering and mathematics (STEM). The Kentucky Chamber supports legislative efforts to increase graduates in these disciplines.

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 a 15 on the ACT and still receive KEES Scholarship funds. The Chamber supports raising this score to more accurately reflect the minimum score needed for admission to Kentucky's postsecondary institutions.

Additionally, the Chamber believes that policymakers should support a range of strategies to improve student transfer of course credits among Kentucky's postsecondary institutions including expanded financial aid opportunities for adult and part-time learners, better outreach and improved advising services, more flexible course delivery targeted to adult learners, better pathways between technical and



applied four-year programs, and performance-based institutional rewards for improved transfer rates and reducing the incidence of remediation.

EARLY CHILDHOOD EDUCATION

Invest in Early Childhood Education

Kentucky must invest in early childhood education and development. Ensuring a successful beginning for Kentucky's students will require an innovative, increased investment in preschool and efforts to fully fund all-day kindergarten equitably statewide. In addition, the Chamber supports greater investment in health screenings and enhanced child care programs for Kentucky's developing youth.

ELEMENTARY & SECONDARY

Develop and Reward Effective Educators

Quality teaching is the single most important factor in students' academic success. To ensure that every Kentucky student has a high-quality teacher every year, the Kentucky Chamber believes the state should undertake a formal statewide policy review of the effectiveness of teacher preparation programs and require providers to redesign 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 underserved areas (both geographic and subject matter).

Require Collaboration on Principal Hiring

Because superintendents are held accountable for the performance of individual schools and entire districts, they must have the authority to make or participate in critical personnel decisions. The Chamber supports measures that would allow the superintendent to remove the leadership of a consistently low-performing school. Similarly, school councils have an appropriate role to play in the hiring of school principals. To achieve both these goals, the Kentucky Chamber supports requiring school councils and superintendents to collaborate on the hiring of principals.

Improve School Safety

The Kentucky Chamber supports measures to improve school safety through more effective employee screening and other measures to protect and safeguard school buildings and offices.

Free Preschool was provided to over 21,000 children in the 2007-2008 school year, up from 15,550 in the 1997-1998 school year.

Kentucky Department of Education

41% of Kentucky's 3- and 4-year-olds were enrolled in preschool in 2006, compared to 56% nationally in 2006.

U.S. Census Bureau

Corporation for Enterprise
Development

Enhance Workforce Preparation

The Commonwealth must expand employer and community involvement through efforts that help Kentuckians understand the need to improve schools, develop strategies for enhanced parent involvement in schools, and engage business representatives in a regular review of state academic standards. The Chamber encourages the General Assembly to create incentives for Kentucky's employers to support and encourage involvement in all facets of the ongoing task of improving public education in Kentucky.

Improve Kentucky's Adult Education System

Fully 80% of Kentucky's adults who receive a GED instead of a high school diploma are not prepared for postsecondary education or training. Kentucky must develop new standards and expectations in line with the GED 2012 National Test that will reflect the expanded rigor and relevance that is expected in a high school diploma. It is critical that Kentucky's Adult Education programs collaborate with employers, local community colleges and technical schools to help ensure high-quality learning experiences for those working toward a GED. Additionally, there should be improved and expanded financial aid opportunities for working adults who need assistance for additional technical training and postsecondary education.

Percent of population 18 and older
without a high school diploma or GED



Achieve Rational Regulatory Objectives

The Kentucky Chamber of Commerce believes economic growth, energy independence and environmental protection are compatible and complementary goals.

The Chamber recognizes that legitimate uses of the environment should be protected and that business activities may affect environmental quality. To achieve rational regulatory objectives, we encourage legislative and administrative actions that satisfy the following criteria:

Scientific Validity: 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 result in the avoidance of environmental harms or the creation of environmental benefits.

Technical Feasibility: To achieve the true objective of environmental regulation, information on technologies for compliance must be made readily available to those required to take action well within the time provided by government mandates.

Economic Rationality: Government action and requirements for compliance should consider 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 balance the ratepayers' needs for competitive rates, create incentives for energy production innovations and clean coal technologies, encourage energy efficiency opportunities and avoid unique mandates that would drive up the cost of energy in the Commonwealth.

Strive for Energy Independence and Pro-Energy Economic Policy

The Kentucky Chamber is encouraged by the General Assembly's recent efforts to foster Kentucky's energy independence. We recognize energy conservation and efficiency as high-priority energy strategies, and strongly support incentives for businesses that go above and beyond

existing environmental standards and for those who are working to achieve higher levels of energy efficiency. State government must join with business to find creative solutions to help reduce the upfront costs of implementing conservation and efficiency measures. The Kentucky Chamber also supports using Kentucky's abundant coal resources to provide much needed



Kentucky ranks third in the nation in coal production. It accounts for about one-tenth of U.S. coal production and approximately one-fourth of U.S. production east of the Mississippi River. Nearly one-third of all the coal mines in the nation are found in Kentucky.

*State Energy Profiles,
Energy Information
Administration, August 2008*

electricity. We also support biomass initiatives, the development of alternative energy sources, and capital investment to improve Kentucky's energy infrastructure. With new pollution control technologies and other innovations, more energy development is possible while protecting Kentucky's environment.

Promote Sensible State and Local Environmental Regulation

The Kentucky Chamber believes federal standards provide appropriate protection for human health and the environment. We oppose adopting more stringent state and local programs. When state and local governments engage in significant revisions of their environmental regulations, we strongly encourage the use of a stakeholder process to develop 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 consideration of disputed issues prior to civil court action.

Maintain the Reductions in Permit Backlogs

The Kentucky Chamber supports innovative approaches to reduce permitting backlogs and further improve the permitting process. In today's rapidly changing business environment, quick action on permit applications is critical to keeping Kentucky business competitive. Access to permit review staff for meetings and assistance is especially important for project planning purposes but is difficult to obtain when staff are overburdened reviewing pending applications. Backlogs have been reduced over the last two years, and the Chamber urges continued vigilance to maintain these improvements as well as measures to further shorten the turnaround time for issuance of permits. The Chamber encourages creative solutions to increase staffing (including use of consultants).

Expand Recycling Incentives and Opportunities

The Kentucky Chamber fully supports expanding voluntary recycling initiatives as a way for businesses to help the environment. In contrast to other states, many areas of Kentucky lack the facilities and equipment to recycle materials from local businesses. Encouraging and supporting public-private partnerships could increase recycling opportunities statewide. We believe that expanded recycling opportunities and incentives are not only good for Kentucky's environment — they can be good for business.

Kentucky is the fifth largest hydroelectric power producer east of the Mississippi River.

State Energy Profile, Energy Information Administration, August 2008

Promote Brownfield Redevelopment

The Kentucky Chamber strongly supports efforts among policymakers, business leaders and local communities to encourage redevelopment of the state's many brownfield sites. The Voluntary Environmental Remediation Program (VERP) represents an environmentally sound approach to bring these sites back into productive use. We also believe the transfer of the program to the Division of Compliance Assistance furthers the goals of brownfield legislation. Recent regulatory progress notwithstanding, cost continues to be a considerable obstacle to urban renewal and infill development. The Chamber supports legislation that provides tax incentives, low-interest loans or grants, and opportunities for federal matching funds for those willing to invest in returning Kentucky's brownfields to productive use.

Improve the Environmental Leadership Program

The Kentucky Chamber supports the continued development of KY EXCEL, the environmental leadership program for Kentucky industry. A program that rewards companies for environmental leadership in pollution prevention, emissions reductions, and environmental management systems is of great benefit to Kentucky's business community and citizens. To be successful, the program needs improvements

in tangible benefits for environmental leaders. Improvements would include providing tax incentives, giving leaders priority in permit application processing, reducing the frequency of inspections, and allowing them greater flexibility in addressing any noncompliance issues that may arise.

Promote Uniform Enforcement

The Kentucky Chamber supports efforts by the 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.

Reform Notice of Violation (NOV) Procedures

Current administrative enforcement procedures allow little flexibility or discretion on the part of inspectors. Generally, any and all violations of regulations and requirements result immediately in 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, as well as for a waiver of 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.

Coal was the primary fuel for 92.3% of all the electricity produced in Kentucky.

The Facts, American Coalition for Clean Coal Electricity, www.cleancoalusa.org

Through April 2008, Kentucky's electricity rates were the fourth lowest in the country at 5.72 cents per kilowatt-hour.

State Energy Profiles, Energy Information Administration, August 2008



Ensure a Competitive Tax Climate

Promoting long-term economic development and job growth should be a top consideration when state tax policies are adopted.

Kentucky should seek to maximize its competitiveness in the global marketplace. 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. **Taxes levied on the business community should, at a minimum, incorporate the principles of fairness, competitiveness and simplicity.**

Taxpayers deserve a culture of accountability within state government ensuring that the expenditure of public funds is administered as efficiently and effectively as possible. The Kentucky Chamber believes effective, efficient operation of state government is necessary to maintain an attractive business climate. Sound fiscal management, including measurable performance standards, fiscally responsible personnel policies, and a streamlined, responsive structure, must be components of efficient public operations.

Develop Sustainable Public Employee Benefits

As public retirement and health care costs escalate, they are draining money away from such vital programs as education, and their continued increases puts essential services at both the state

and local level at risk. Between 1996 and 2008, health insurance and retirement took 50 percent of all new money appropriated for education. Between 1990 and 2005 health insurance and retirement, as a share of the education budget, jumped from 15 percent to 25 percent, where it remains. From 1999 to 2005, increases in health insurance and retirement costs consumed all the other increases in education; total state education spending increased by \$78 million, while there were new costs of \$119 million, adjusted for inflation, for health insurance and \$63 million for retirement.

The Kentucky Chamber commends the efforts of the governor and the legislature to address this issue and strongly supported the outcome of the 2008 Extraordinary Session of the General

Assembly. As the General Assembly works to meet the obligations made to public employees, it will become clear that additional changes to health and retirement benefits will be needed. Additional meaningful reform must take into consideration issues that private employers have addressed, including changes to eligibility requirements, pension benefits and health care benefits.

Eliminate the Inventory Tax

Personal property taxes on inventory are a disincentive to business growth because they tax the investment itself rather than the outcome or profit from that investment. Additionally, some types of inventory are exempt by law or because of location, while other similar business inventory is not. Though taxing products as they are sold is a widely accepted form of state revenue generation, taxing products in inventory is simply counterproductive, especially when unequal tax treatment exists.

To bring Kentucky into alignment with most other states, the Kentucky Chamber supports repealing or phasing out the remaining property tax on business inventory.

Continue Efforts Toward Competitive Business Taxes

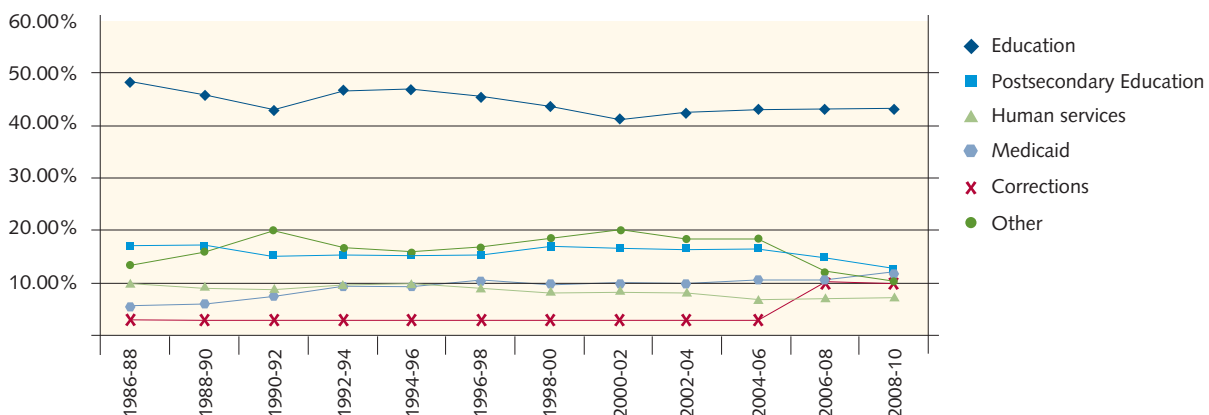
The Kentucky General Assembly has made great strides in the last few years to improve the overall tax code in the Commonwealth, particularly making business taxes more competitive. The Chamber supports continued efforts to closely monitor the impact of Kentucky's tax code on business and industry and to take action when necessary to ensure Kentucky remains competitive with our surrounding states. Specifically, the Chamber is concerned about the effects of the Limited Liability Entity Tax (LLET) and the lack of ability to offset pass-through credits against taxes on income from other businesses and other years and about the impact

If Kentucky were to repeal the inventory tax for finished goods, it would save Kentucky businesses \$6.5 million annually.

Office of Kentucky State Budget Director

Percent of General Fund Expenditures by Major Program Area

FY 1986-88 to FY 2008-10



on economic development due to the trend in other states to move to a single sales factor apportionment formula. Ten states have adopted this in the past five years. The Chamber supports additional efforts to adjust our tax code to encourage economic development and entrepreneurial investment in Kentucky.

Enact a Fiscally Responsible State Budget

The Kentucky Chamber believes that achieving a fiscally responsible state budget that also promotes economic development and job growth in Kentucky should be an ongoing consideration of those involved in the budget-making process. Consideration of new or increased taxes or fees should only occur after exhausting all reasonable opportunities to reduce spending and increase efficiency. Examples of such fiscally responsible public operations include:

- streamlining services
- consolidating departments
- eliminating ineffective programs
- initiating responsible personnel compensation and benefit policies
- other efforts to maximize the performance of public funds.

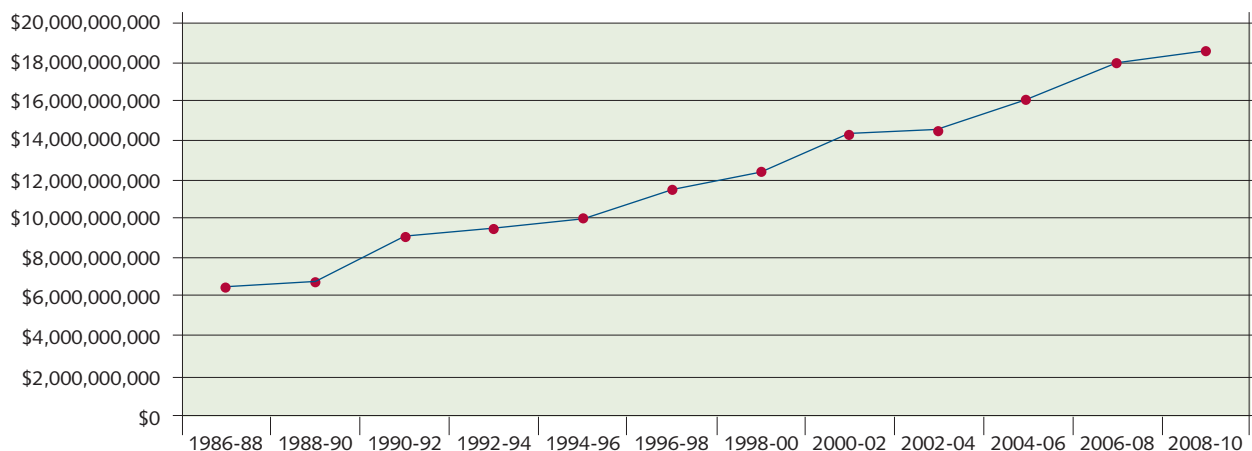
In addition to ensuring sustainability of public employee benefits, the Chamber also believes lawmakers should review the unemployment insurance trust fund and the Kentucky Medicaid program to ensure long-term sustainability. Programs that contribute to unsustainable growth in General Fund obligations should not be permitted to unduly consume tax dollars that could otherwise be invested in basic public priorities such as education and economic development.

Ensure Sustainable Debt Levels

The future of Kentucky's finances largely depends 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.

The Chamber believes that 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.

Kentucky General Fund Expenditures FY 1986-88 to FY 2008-10





Develop a Manageable Health Care System

The Kentucky Chamber believes dramatic change in the delivery and utilization of health care is essential to our economic future and strongly supports initiatives that educate Kentuckians and encourage healthy lifestyles.

There is a growing sense of crisis in the business community about the unsustainable upward trend of health care costs. If the present course of the health care system remains unchanged, employers will be increasingly forced to consider undesirable cost-containment strategies such as reducing employee benefits, shifting more and more costs to employees, dropping coverage altogether, or increasing consumer prices to recoup their higher costs.

The impact of health costs on Kentucky's economic competitiveness is of great concern. Though these systemic issues are not unique to the Commonwealth, negative national trends are made worse in Kentucky by our behavior as a population. The poor overall health of Kentuckians, the high number of individuals who are uninsured, limited access to care in many regions of the state, and the lack of high-quality preventive medical care for many all contribute to higher health costs in the Commonwealth. A recent study by the Kentucky Institute of Medicine reinforces the need to address these critical health issues to improve the overall economy in Kentucky.

State policymakers should endeavor to seek out health care and insurance policy innovations, basing their analysis, in part,

on whether such plans will encourage market-driven solutions for controlling costs and fostering competition. The Chamber is committed to building coalitions as well as advocating for change in Frankfort to achieve the goal of a healthier and wealthier Kentucky.

Promote Wellness for all Kentucky Citizens

Collectively, Kentucky is one of the nation's most unhealthy 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. Naturally, the costs of treating disease and illness in Kentucky have also risen to meet the higher demand for health care services in our state. To reverse the culture of poor health in Kentucky and promote an underutilized



The average debt of a medical school graduate is over \$100,000 in Kentucky. Absent scholarship assistance, the prospect of mounting six-figure debt seems most likely to deter applicants from rural, minority, and otherwise underrepresented populations.

Kentucky Institute of Medicine

Smoking-attributable health expenditures are estimated at over \$1.1 billion annually in Kentucky, and the smoking-attributable economic productivity loss in Kentucky is estimated at over \$2 billion each year.

U.S. Centers for Disease Control

health care cost control measure, the Kentucky Chamber supports legislation that provides incentives for creating wellness programs, whereby businesses educate their employees about the importance of healthy lifestyles and other preventive care measures.

The Chamber also 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 a balanced approach that educates children in schools about healthy eating habits and physical activity as a way to avoid the disastrous consequences of childhood obesity. Childhood obesity is particularly troubling because the extra pounds often start kids on the path to health problems that were once confined to adults, such as diabetes, high blood pressure, and high cholesterol.

Reduce Smoking in the Commonwealth

According to the U.S. Center for Disease Control, Kentucky leads the nation in the number of adult smokers, with 28.6% of the adult population. The situation is not improving with our youth – Kentucky is second in the nation in smoking prevalence among both middle and high school students. Smoking-attributable health expenditures are estimated at more than \$1.1 billion annually in Kentucky, and the smoking-attributable economic

productivity loss in Kentucky is estimated at more than \$2 billion each year. 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 are too significant to ignore.

The business community believes it's time for our leaders to change Kentucky's public policies with regard to smoking. First, the General Assembly should amend the law that treats smoking as a protected civil right. This law applies to private employers, although state government is exempt from the law. Employers should have the right to assess higher premiums for smokers, and insurers should have the ability to rate the health care for smokers differently from non-smokers based on actuarial data. We need to recognize that smoking is a choice and encourage employers to offer tools to help employees quit. Currently, the law provides a significant disincentive for employers to provide this help for fear of litigation.

Second, the General Assembly should increase Kentucky's excise tax on cigarettes to a level competitive with our surrounding states as a meaningful step to improve the overall public health of Kentucky's citizens.

Finally, the Chamber supports educating children and the public on the health



hazards of smoking and second-hand smoke and is supportive of policies that discourage smoking.

Increase the Number of Health Care Professionals in Kentucky

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 (HPSA) for primary care by the Health Resources and Services Administration (HRSA). In addition, Kentucky lacks sufficient numbers of physician specialists, nurses, 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 Kentucky Chamber supports a comprehensive state strategy to increase the number of medical professionals trained in Kentucky as well as innovative approaches to encourage them to practice here. This strategy should ensure that our postsecondary education institutions are adequately funded, held accountable for increasing enrollment and encouraged to explore the development of economic incentives as well as expanded tuition

assistance and loan repayment programs that would 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 be a deterrent for talented students to enter the medical profession.

Promote Informed Health Care Consumerism

To make informed and cost-conscious choices when selecting a health care provider, consumers need access to information about the cost of health care and the quality of services provided. The Kentucky General Assembly made great strides in 2008 by passing the Chamber-led transparency initiative. House Bill 44 requires the Cabinet for Health and Family Services to launch a transparency initiative that makes permanent the reporting to consumers of health care costs, quality indicators and results. Examples of the kind of information that could be provided to consumers include hospital and surgical mortality and morbidity rates, physician compliance with chronic disease management, and provider charges and reimbursements. This concept, also known as health care transparency or consumerism, should involve the use of standardized performance measures and outcome reports that are easy to understand.

Chronic diseases, which account for 70% of Kentucky’s total mortality and are among the most prevalent and costly of all health problems, are highly preventable through improvements in personal behaviors and regular primary health care.

U.S. Centers for Disease Control

Without this effort, such information is almost entirely absent from today's health care marketplace, which prevents Kentuckians from making informed choices when they purchase health care services. Over time, making this comprehensive information easily available to consumers 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.

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 disturbing trend, the Kentucky Chamber supports allowing voters to consider a constitutional amendment that would permit the legislature to consider comprehensive tort reform. Reasonable limits on damages and mandatory alternative dispute resolution could then be considered by future legislatures 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.

Promote e-Health Policies in the Commonwealth

A number of preventable medical errors and duplicated services could be reduced significantly by implementing policies to 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.

Expand Mandate-Free Health Insurance

Kentucky has made great progress in recent years toward reversing the trend of costly health care mandates. The Chamber supports continued efforts to eliminate those mandates that serve to increase overall costs to the health care delivery system. The Small Business Health Insurance Relief Act, 2005 House Bill 278, authorized health insurers to offer basic health benefit plans in the association, small group (50 or fewer employees) and individual markets. Appropriately, basic benefit plans are exempt from state coverage mandates except for diabetes, hospice and chiropractor coverage.

Because health care mandates and unnecessary regulations can add to the already high cost that consumers and employers pay for health insurance, the Kentucky Chamber supports legislation that repeals coverage requirements, beyond those the federal government has implemented, for all employers, not just those with 50 or fewer employees. With the cost of health insurance already creating a competitive disadvantage for many 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 Kentucky 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 (AWP)

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.



Support Employers to Enhance Kentucky's Competitiveness

Businesses must have the flexibility to manage their workforce needs within the confines of a job market that rewards higher skills and high levels of dedication and commitment.

Today's fast-paced, highly competitive economic environment means that recruiting, training and continuously investing in employees is a top priority for most companies. Kentucky employers are meeting these challenges every day – even as it gets more and more difficult to find individuals with the right skills and right attitude. State policymakers must support employers as the employers invest in the Commonwealth's workforce.

The Kentucky Chamber opposes state and local wage mandates that go beyond federal requirements. When state or local governments attempt to mandate wage and benefit thresholds, safety regulations or additional standards that go beyond what is necessary to provide basic, uniform protections, the added cost of doing business – and the lack of focus on the real issues that could make a difference – decreases Kentucky's overall competitiveness, particularly with our border and peer states.

Improve Workers' Compensation

In 1996, the passage of the Kentucky Workers' Compensation Act brought sweeping reforms to one of the most flawed and expensive workers' claims programs in the country. For a time, the business community believed the pendulum of public policy had finally

come to rest at the center. Unfortunately, recent years have seen some elements of reform diminished or overturned by Administrative Law Judges and the courts. Additionally, higher medical costs are putting substantial strain on the workers' compensation system.

The Kentucky Chamber believes that an equitable workers' compensation program must:

- clearly define injury and disability
- require independent medical examinations and objective medical findings
- protect the integrity of exclusive remedy
- minimize litigation

The Chamber supports legislation that overturns case law that runs counter to these core principles, as well as legislative and regulatory efforts to control rising

Kentucky's workers' compensation premium rates rank the fourth highest in the country, surpassed only by Alaska, California and Delaware.

October 2006 Oregon Workers' Compensation Premium Rate Ranking Summary

medical and prescription drug costs. Enacting legislation that controls runaway medical costs generates substantial cost savings for employers and can be done while ensuring high levels of service to injured workers.

Enact a Uniform Statute of Limitations Law

Kentucky's five-year "default" statute of limitations on employee wrongful termination lawsuits places an inordinate requirement on employers. The Chamber supports changes to state statutes that would make the statute of limitations on wrongful termination uniform with those governing discrimination actions. The statute of limitations on wrongful termination or discrimination cases arising out of the employment relationship should be no more than two years after cessation of employment.

Support Safer Working Environments

While the devastating effects of drug and alcohol abuse on families and communities are well documented, the negative impact on employers is also significant. Higher absenteeism, theft, lost productivity, increased workers' compensation claims and employee replacement costs are just a few examples of the strains put upon business by substance abuse in the workplace. To counter this growing problem in Kentucky, the Chamber encourages passing legislation that

empowers employers to be effective allies in the fight against illegal drug use. The Kentucky Chamber also opposes any expansion in the current concealed/carry laws that would allow employees to bring deadly weapons into the workplace. The Chamber supports the right of employers to protect employees and promote a non-threatening workplace environment.

Support Paycheck Protection

Though 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 Kentucky Chamber supports legislation that repeals the employer mandate to withhold union dues from an employee's salary.

Stop Expansion of Public Employee Collective Bargaining

The Kentucky 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.





Revise Kentucky's Prevailing Wage Laws

While total repeal of the state prevailing wage law has long been a goal advocated by the Kentucky Chamber, the Chamber also supports a series of steps that would make Kentucky's economic and infrastructure development more competitive in the near term. They are:

- Kentucky's prevailing wage laws must be made more representative of local wages by using more effective methods of data collection than through the current hearings process. Additionally, wages paid to workers on previous prevailing wage projects must be excluded from calculations for later projects, and the use of the majority wage should be discontinued.
- The definition of localities should be replaced with definitions that would reduce the number of unrelated counties grouped together. This would particularly help Kentucky's border counties, as well as counties that are grouped with larger urban areas.
- If no changes are made to make Kentucky's prevailing wage determination process more representative of local wages, then federal prevailing wages should be adopted wherever they exist. However, if the accuracy of Kentucky's determination process is improved to more accurately reflect local wage rates, the use of federal prevailing wage rates should cease and be replaced with the improved state determinations.
- Kentucky should reinstate a prevailing wage exemption on education projects. Kentucky taxpayers' cost on new educational facilities and maintenance in primary through post-secondary education has increased substantially since the prevailing wage exemption was repealed by the General Assembly in 1996. By once again allowing an exemption for educational projects, higher investments can be made in technology, improved facilities and in the classroom.

Kentucky's Medical Average Claim Severity is the highest among neighboring states and makes up 68% of the benefit costs in Kentucky. That is higher than the national average.

NCCI Kentucky Workers' Compensation State Advisory Forum, July 2008

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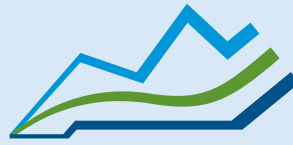
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Kentucky Chamber

Uniting Business. Advancing Kentucky.

As the state's premier business lobbying organization, the Kentucky Chamber of Commerce is a recognized and respected voice at the state Capitol. With thousands of members representing every major industry sector, the Chamber's diverse business policy initiatives converge upon one goal: a healthy, vibrant Kentucky economy. Ensuring that business has a voice in the legislative process, we work with local business leaders to identify critical trends. We work at the table as regulations are drafted and in the halls of the Capitol as bills are debated. Building on the success of more than 60 years, we remain committed to helping Kentucky's economy grow and prosper by promoting a pro-business agenda.

The Kentucky Chamber
of Commerce provides
leadership as a catalyst,
consensus-builder and
advocate to unite business
and advance Kentucky.



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