



From the classroom to the boardroom

May an important month for students, future workforce

MAY IS AN IMPORTANT MONTH for Kentucky schools, and what happens during these early spring weeks could have significant long-term implications for the state's employers.

As in many years past, May is testing season in classrooms across the Commonwealth. But something different is happening this year as Kentucky students are tested for the first time on the state's new, more challenging academic standards in math and language arts.

Kentucky was the first state in the nation to adopt these standards – now in place in most states – that set the bar of student learning much higher than in the past. The standards are benchmarked to those in other countries to improve the nation's education performance in the global arena. And they are focused on preparing students for both college and the workplace – recognizing the fact that students need a strong foundation of knowledge and skills whether they plan to go on to college or try to find a job after finishing high school.

"We're all involved in global competition," noted Chamber President and CEO Dave Adkisson. "These standards that are benchmarked to international standards, so our kids can become workers who can compete in the global marketplace, are absolutely essential for businesses in Kentucky to move forward."

What is a standard? A set of sentences explaining what a student needs to learn before the end of the school year.

Teachers have spent the past school year delivering instruction to students based on the new standards, and the tests being given this month will show how well the process is working. Education leaders expect this year's scores – scheduled for release later in the year – to be lower than those in the past.

Part of this will be the result of a change in the way the scores are measured, but lower

scores also will reflect the reality of the tougher work being required of Kentucky students.

That is where the implications for Kentucky employers come into play. There are concerns that disappointing test scores will prompt an effort to pull back from the new standards and return to the old approach and the easier work it involved. But sticking with the new standards is critical to ensuring the development of a better-educated workforce. That's why the Kentucky Chamber Foundation is spearheading an initiative to help employers understand the new standards and their impact.

"The business community has to be willing to stand with the education community and reinforce these standards, especially if there is pressure on local school boards and the legislature to back up," Adkisson said. "The business community needs to stand tall and say, 'We've got to have these standards.'"



Free Information Kit

Businesses and academic standards

THE KENTUCKY CHAMBER Foundation is developing an information kit on the new academic standards designed to help businesses and their employees understand what the standards are and why they are important.

The kit will be available online after June 1. Printed copies also will be distributed statewide. To pre-order the kit, contact Jessica Fletcher at 502-848-8731 or jfletcher@kychamber.com.

The Chamber is also working with the Prichard Committee for Academic Excellence on the ReadyKentucky campaign to build support for the new standards among parents, teachers and other involved Kentuckians. ReadyKentucky representatives will provide free presentations to organizations or groups anywhere in the state. For more information, visit readykentucky.org.

Business Summit and Annual Meeting



Paul Begala (top) and William Kristol (bottom) will appear as keynote speakers for the Kentucky Chamber's Annual Meeting on July 17.

Political pundits from opposite sides take on 2012 elections and more at Annual Meeting

PAUL BEGALA AND WILLIAM KRISTOL are opinionated political analysts on opposite sides of most issues, but there's one important issue where they both missed the mark during interviews with the Kentucky Chamber in March: Neither picked the University of Kentucky basketball team to win the NCAA Men's Basketball Tournament. Perhaps their visit to Kentucky this July to speak at the Kentucky Chamber's Annual Meeting will help them make more informed bracket choices in the future.

Begala, a populist Democrat who served as counselor to President Clinton in the White House, will sound off against Kristol on July 17 at the Louisville Marriott Downtown, where the two will discuss the presidential election race and other major national and global affairs.

We sat down with Kristol, a neoconservative Republican who served as chief of staff for then-Vice President Dan Quayle, and Begala and asked them to weigh in on everything from politics in the Commonwealth to the greatest worries for the U.S. Both Begala and Kristol say they're looking forward to sharing the stage.

"He's a fairly smart person," Begala says of Kristol. "We don't agree on much politically, but analytically we don't disagree that much. I'm a huge Bill Kristol fan, so it will be fun."

Kristol said he and Begala will debate and tease each other, but "sometimes we actually end up agreeing analytically on what's likely to happen. I always try to put it in a little bit of a historical perspective, and how do we understand this moment we're in."

Though Begala and Kristol may occasionally agree, Begala says they won't let the other one-up them: "Each of us will always want the last word, 'Oh, here's one more thing about Afghanistan!'"

Continued on page 2



Check out the Best Place to Work in Kentucky Magazine included in this mailing to learn more about the 2012 winners – including the 44 Chamber members that made the list.

Business Summit registration open

THIS YEAR will mark the seventh year of the Kentucky Chamber's Business Summit and Annual Meeting, presented by Bingham Greenebaum Doll LLP. Each year business leaders, educators and legislators gather at Kentucky's premier business event to discuss issues of importance to our state's success.

The Summit aims to tackle important issues facing Kentucky. Day one will begin on Monday, July 16, at 1 p.m. with an afternoon of sessions and will conclude at 5 p.m. with a Taste of Kentucky Reception. Day two will kick off at 8:30 a.m. with a full day of presentations and wrap up that evening with a reception at 5 p.m. and the Annual Dinner Meeting at 6:30 p.m. Register now at kychamber.com/businesssummit.

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FROM THE FRONT

Begala, Kristol weigh in on Kentucky politics, jobs and debt

ABOUT PAUL BEGALA

Texas native Paul Begala is a political strategist, author, columnist and commentator. He is an affiliated professor of Public Policy at Georgetown University with several best-selling books and columns in Newsweek and The Daily Beast and is a political analyst for CNN.

Begala partnered with James Carville, an Annual Meeting keynote speaker in 2006, on Kentucky Gov. Wallace Wilkinson's campaign and spent a great deal of time in the Commonwealth.

BEGALA ON KENTUCKY

Working on the Wallace Wilkinson campaign with Carville, Begala said he lived in Frankfort for about a year.

"I really love your state, it's just fantastic," Begala said. "I have very powerful and fond memories of the bluegrass state. It's a great place."

Begala said the people of Kentucky embody his affinities: "I think Kentuckians have two great passions, and I share them: sports and politics. Besides family and faith, those are the two great things that I love."

When it comes to election-winning strategy, Begala said he'd like to see President Obama take notes from Kentucky's latest gubernatorial campaign.

"If I were Barack Obama, I'd be studying real hard how Steve Beshear did it," Begala said. "Usually an incumbent's re-election is a referendum on the incumbent, and I think Steve [Beshear] would have won with that, but he didn't want to take any risks. He made it a referendum on the challenger, and I think that's what Obama needs to do."

BEGALA ON THE PRESIDENTIAL RACE

Begala said President Obama has a good record that's defensible, but that this election will be a toss-up.

"Too many Democrats have irrational exuberance right now," said Begala. "I've heard more Democrats tell me [Obama's re-election] is in the bag, which I think is crazy. No president has run for re-election with unemployment this high in 70 years."

But, Begala said, Romney is a weak challenger and



The last time the Kentucky Chamber hosted two keynote speakers at its Annual Dinner was 2008 with Donna Brazile and Tucker Carlson.

this race will be down to the wire: "Every time I look at the economy, I think Obama can't win, and every time I look at the Republicans, I think Obama can't lose."

ABOUT WILLIAM KRISTOL

Founder and editor of political magazine The Weekly Standard, William Kristol also frequently appears on FOX News and is an advocate for strong U.S. foreign policy. He is an author, professor and columnist, and served under President Reagan's secretary of education, William Bennett.

Kristol worked with Kentucky's former Secretary of State Trey Grayson in his current position at Harvard.

KRISTOL ON KENTUCKY

Kristol said Kentucky is an interesting state politically because it's not an "automatic" win for either Republicans or Democrats. Like Begala, Kristol finds Kentucky's presence in the U.S. Senate fascinating.

"You've got Mitch McConnell, the minority leader, and Rand Paul, a kind of rebel in dissonance, and I think that's an interesting aspect of Kentucky," says Kristol. "For a medium-size state, you've got two pretty important senators."

"I don't agree with Paul, especially on foreign policy, but analytically I think he's actually done

quite well and has impressed a lot of people," Kristal said. "McConnell's obviously an extremely canny and savvy politician, and so Kentucky, you're actually punching above your weight in terms of senators' influence, I think."

KRISTOL ON THE PRESIDENTIAL RACE

Kristol discussed the Tea Party movement, and contends despite differences of opinion among its members, the Republican Party will be united.

"On the whole, the energy and the broadening of the base [by the Tea Party] in the Republican Party was important," said Kristol. "From a political point of view, it's been a plus for the Republican Party."

As far as the political environment in Washington, D.C., Kristol maintains that partisanship is no worse than it's ever been, and that people can expect some important bipartisan deals in 2013, regardless of the outcome of the presidential race.

"We are in a time of great volatility and fluidity, and of great unpredictability in our politics," Kristol said. "One of the very few predictable things, I guess, was Kentucky's extremely boring victory in the NCAA [Championship]."

Editor's Note: See what Kristol and Begala have to say about business issues and the country's future challenges in an extended version of this story online at kychamber.com/begalakristol.

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2012 Kentucky General Assembly

Results for Business

What passed. What didn't. And what it means to your bottom line.

The Kentucky Chamber Public Affairs Team. From left, Charles George, President and CEO Dave Adkisson, Allyson Hamilton-McIntire, Chad Harpole and Bryan Sunderland.

Progress slow and difficult in Frankfort

THE 2012 REGULAR SESSION of the Kentucky General Assembly and the subsequent special session illustrate that progress and compromise on key issues remain difficult to achieve. After spending much of the first half of session trying to craft new legislative districts, the legislature made substantial progress on many key issues; however, a number of priorities fell short.

The good news is the legislature passed a two-year budget on time that was, by nearly all accounts, a fiscally responsible plan to fund government services without higher taxes. The legislature implemented a number of Chamber recommendations by reducing the state's level of debt and eliminating a substantial portion of the structural imbalance by relying on fewer accounting gimmicks and the use of one-time monies for recurring expenses – a practice common in recent sessions.

SUCCESSES DURING REGULAR SESSION

Perhaps the greatest relief for business was legislation that addressed the interest on the debt the state owes to the federal government for unemployment insurance. Without a mechanism to repay this interest, Kentucky employers would have faced a disastrous \$420-per-employee tax penalty for a total cost to business of more than \$600 million. Working with the Gov. Steve Beshear's administration and business groups, legislators addressed this problem in a bipartisan way that provides for both the interest payment and opportunities for future tax relief. Ultimately, this critical legislation passed the House and Senate unanimously.

Legislators also passed a career-based education initiative, and legislation to simplify local business tax filings. Limited progress was also made on addressing concerns with the public pension system. Lawmakers crafted incentives for auto manufacturing lobs, and a law to improve the regulatory process. They were also able to pass a reasonable compromise that addresses the proliferation of meth labs.

In the waning hours of the regular session, an impasse over road funding and road projects turned what would have been a successful conclusion into a disappointing end that resulted in a contentious blame game and a special session. The transportation budget and a compromise to address prescription drug abuse failed to pass in the regular session, so Gov. Beshear called lawmakers back immediately to address these issues. Both items passed in the five-day special session, but a number of other issues will have to wait until next year.

In addition to bills that are enacted, another way to measure the success or failure of any legislative session is to note whether any anti-job business legislation is passed. Fortunately, a number of such measures that were opposed by the Kentucky Chamber were defeated. Legislation that would have increased health and legal costs for businesses was defeated. The defeat of these measures was a positive development for the 2012 session, but business that remained unfinished overshadowed these victories.

UNFINISHED BUSINESS

A number of successes for the business community were achieved in a difficult political environment; however unfinished business remains. Several key education issues were unaddressed during the 2012 session. Despite the introduction of many compromise proposals, lawmakers left town without coming together on legislation to prevent 16-year-old students from dropping out of high school. They failed to enact charter school legislation to address persistently low-performing schools. They also failed to pass several Senate measures to improve the quality of teachers in the classroom.



Kentucky Chamber President and CEO Dave Adkisson (center) along with Tyler Campbell (left) of Commerce Lexington and Ron Wolf of Associated General Contractors testified in support of prescription drug legislation during the Special Session of the Kentucky General Assembly.

Lawmakers also did not address one of the most persistent problems faced by our signature thoroughbred industry. For years, other states have been out-competing Kentucky and threatening our position as Horse Capital of the World. The availability of expanded gaming in nearly every other horse-racing state has resulted in a significant job loss for Kentucky – a trend that studies indicate will continue as long as the industry here is denied a level playing field. Unfortunately, despite a strong coalition of supporters, lawmakers failed to advance a proposal to allow the people of Kentucky an opportunity to vote on the issue of expanded gaming.

The General Assembly also missed opportunities to improve the health of Kentuckians. A measure to limit smoking in public places, a proposal to provide incentives for wellness plans in the workplace and a measure to limit frivolous lawsuits that raise health care costs all fell short.

CHALLENGES REMAIN

Kentucky faces persistent challenges that demand our attention. The public pension and Medicaid systems pose the greatest fiscal challenges to our prosperity. Our tax code, which is being evaluated by a gubernatorial commission right now, needs reform to make Kentucky more competitive. We must also ensure our labor policies are not a hindrance to job growth as we see neighboring right-to-work states out-compete us. Finally, we must reform our legal climate to slow the increasing costs of civil litigation on Kentucky employers.

The legislative process is designed to be deliberate; however, these and many other issues will require swift action to create a competitive workforce and foster job creation and prosperity in Kentucky. We appreciate the support of our members and your willingness to be engaged in the legislative process to help us make a difference.

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

464 Chenault Road, Frankfort, KY 40601 | 502-695-4700 | kychamber.com | twitter.com/kychamber



PRO-BUSINESS LEGISLATION

PASSED

Unemployment Insurance

HB 495 prevents a \$609 million tax increase on Kentucky employers by creating a permanent mechanism to pay back the interest the state owes to the federal government for unemployment insurance. The bill requires the governor to seek a cap on federal taxes and provides additional tax relief in future years.

Prescription Drug Abuse

HB 1 (Extraordinary Session) addresses the prescription drug epidemic by strengthening the state's KASPER system and cracking down on pain clinics. Prescription drug abuse is not only a social issue; it is a business issue. From a loss of productivity to creating serious workplace safety concerns to increasing Kentucky's workers' compensation premiums, prescription drug abuse is having a negative impact on jobs.

Tax Simplification

HB 277 streamlines state business tax filings by creating a one-stop portal for local tax forms on the Secretary of State's website, and requires the establishment of a standard tax form to be accepted by all local jurisdictions by 2017.

Retirement Reform

HB 300 modernizes the boards of Kentucky's various retirement systems and requires investment placement agents to register as executive branch lobbyists.

Pension Study

House Joint Resolution 162 creates a task force to study the state's various pension systems. The task force must submit a report to the legislature by December 2012.

Regulatory Reform

SB 157 requires state agencies to use a uniform method of drafting administrative regulations and makes publishing information online, instead of printing, the preferred method of notice.

Automotive Incentives

HB 400 amends the Kentucky Jobs Retention Act (KJRA) by allowing companies with projects related to automobile and parts manufacturing to seek economic development incentives regardless of their location in Kentucky. To qualify, proposed projects must have at least 1,000 full-time employees and an investment of at least \$100 million.



Gov. Steve Beshear signs HB 495 into law. The legislation prevents a \$609 million tax increase on Kentucky employers by creating a permanent mechanism to pay back the interest owed to the federal government for unemployment insurance.

Pseudoephedrine

Unlike the prescription mandate opposed by the Chamber, SB 3, as enacted, further limits the over-the-counter purchase of cold and allergy medication containing pseudoephedrine to 7.2 grams monthly and 24 grams annually. This legislation is a reasonable compromise to the effort over the past two years to mandate a prescription, which would have unnecessarily increased employer health care costs and employee absenteeism.

Career-based Education

SB 38 offers career-based programs of study with enriched career counseling for high school students, designed to keep more students engaged in school.

Student Achievement

HB 37 targets improving student achievement by allowing schools to be exempt from certain administrative regulations and to use innovative approaches.

Redevelopment

HB 465 provides incentives to businesses to restore blighted properties, encouraging economic growth, increasing surrounding property values and revitalizing communities. The bill extends non-liability protections to property owners seeking to redevelop a site where a release of petroleum, pollutants or contaminants has occurred.

State Employee Wellness

HB 225 creates a pilot worksite wellness program for state employees aimed at reducing state health care costs over the long term.

Protecting Energy Jobs

HB 559 encourages job retention and expansion by endorsing the recycling of uranium tails and spent nuclear fuels at the Paducah Gaseous Diffusion Plant. It would also encourage the production of coal to gas liquefaction at the Paducah plant.

Protecting Business Records

HB 496 protects private companies that compete for state contracts from being forced to disclose all of their records under the state Open Records Act.

Responsible State Budget

HB 365 is a fiscally responsible plan budget that funds government services without higher taxes. The plan reduces the state's level of debt and the structural imbalance by relying on fewer accounting gimmicks and the use of one-time monies for recurring expenses – a practice that had become common in recent sessions.

Copper Theft

HB 390 addresses the issue of copper theft – one that has been plaguing a number of businesses – by changing the process by which scrap metal is purchased and sold in the Commonwealth.



ANTI-BUSINESS LEGISLATION

DEFEATED

Chiropractic Mandate

HB 202 would have increased health care costs, particularly on small business owners, by mandating a minimum reimbursement rate and co-pays for chiropractic services. This would have created a slippery slope enabling other providers to demand similar privileges from the legislature. Passed the House, defeated in the Senate.

Anti-Arbitration

HB 88 would have severely undermined the arbitration process in Kentucky, forcing employers to litigate before they arbitrate and further increasing legal fees. Passed the House; defeated in the Senate.

UNFINISHED BUSINESS

CHAMBER-SUPPORTED LEGISLATION

Charter Schools

HB 77 would have authorized charter schools, which are independent schools designed to provide tuition-free public education choices to parents and students. Charter schools could help areas with consistently low-performing schools. **Not considered by the House.**

Teacher Workforce

SB 122 and SB 132 would have made great strides in correcting two antiquated personnel policies that can make it difficult to remove poor performing teachers from the classroom: automatic tenure and the termination and suspension appeals process. These measures would have helped ensure we have qualified teachers in every classroom, increasing the quality of education for our future workforce. **SB 122 not considered by the Senate. SB 132 passed the Senate; not considered by the House.**

Early Graduation

SB 86 would have allowed students who meet specific academic criteria to graduate high school early and attend a public two-year or four-year postsecondary institution. The bill was amended to include a requirement to raise the dropout age to 18. **Passed the Senate prior to amendment; passed the House as amended; not reconsidered in the Senate as amended.**

Raising the Dropout Age

HB 216 would have phased in a process to raise the mandatory school attendance age to 18, keeping students in school and working toward a diploma. SB 109 would have made raising the dropout age to 18 optional for local districts. As amended in the House, the bill would have phased in the age requirement after the initial optional period for school districts expired. Attempts to compromise were unsuccessful. **HB 216 passed the House; not considered by the Senate. SB 109 passed the Senate prior to amendment; passed the House as amended; not reconsidered by the Senate as amended.**

Investing in Great Teachers

SB 11 would have provided financial rewards for teachers and students of Advanced Placement courses in science, technology, engineering and math, with a goal of encouraging students to pursue STEM careers. **Passed the Senate; not considered in the House.**



Kentucky Chamber Board Member and Health and Wellness Council Chair John Harryman spoke in support of HB 289 at a news conference in the Capitol. Rep. Susan Westrom introduced HB 289, a statewide smoke-free law that would have prohibited smoking in indoor public places.

Smoke-free

HB 289 would have created a statewide smoke-free policy that prohibits smoking in indoor public places. Smoking is not only killing us, it is bankrupting us through higher productivity costs, insurance premiums and tax bills. **Not considered by the House.**

Expanded Gaming

SB 151 would have given Kentuckians the opportunity to vote on a constitutional amendment to expand gaming as a way to help stem the loss of jobs in the Commonwealth's signature equine industry. **Failed in the Senate.**

Medical Review Panels

HB 361 would have established an independent medical review panel process for lawsuits against long-term care facilities, providing a screen for frivolous lawsuits without limiting access to the courts. Rising costs associated with medical malpractice liability continue to take a significant financial toll on Kentucky's health care industry, resulting in increased costs for businesses and consumers. **Not considered by the House.**

Worksite Wellness Program

HB 549 would have helped address high employer health care costs by giving companies a nonrefundable tax credit equal to 50% of the cost of offering a wellness program to employees. **Not considered by the House.**

Angel Investment

HB 113 would have extended tax credits to individual investors who further the establishment or expansion of small businesses, create additional jobs and foster the development of new products and technologies. **Not considered by the House.**

Employee Misclassification

SB 77 would have clarified the definition of an independent contractor, creating a fair, straightforward procedure that streamlines compliance and ensures a level playing field for employers. **Passed the Senate; not considered by the House.**

Limiting Debt

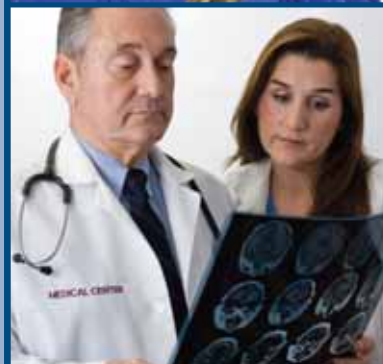
SB 1 would have capped the state debt limit at 6% of General Fund revenues. Although SB 1 did not become law, the biennial budget passed by the General Assembly significantly reduces debt levels. **Passed the Senate; not considered by the House.**

Alternative Fuel Incentives

HB 246 would have created incentives for the construction of components used in alternative energy production and energy efficiency projects. **Passed the House; not considered by the Senate.**

Regulatory Reform

HB 450 would have provided that administrative regulations declared by the executive branch would not impose undue costs and fees on Kentucky businesses. **Not considered by the House.**



False Claims

HB 401 would have created lucrative financial incentives for employees to become "whistleblowers" to allege fraud and would have encouraged frivolous lawsuits against employers who do business with the state. **Passed the House; defeated in the Senate.**

E-Verify

HB 5 would have created a more onerous requirement in Kentucky than other states by requiring any company doing business with a public agency – including any state or local government, school board, university or publicly created board – to use the federal E-Verify system. **Passed the House; defeated in the Senate.**

Utility Rate Increases

HB 41 would have driven up the cost of residential and business utilities by removing franchise fee agreements between local municipalities and utilities and spreading the costs of those agreements among the utilities' entire rate base. **Defeated in the House.**

Energy Cost Increases

HB 404 would have driven up electric rates by treating coal ash that comes from the generation of electricity at power plants as a hazardous waste. **Defeated in the House.**

HOUSE BILLS

[illegible]

Online resources

DURING THE LEGISLATIVE SESSION, the Kentucky Chamber helps guide legislation to improve our members’ bottom lines. Through newsletters and e-communications, we keep our membership up to date on initiatives that impact the business community. Here are some additional resources:

[kychamberblog.com](#)
Visit the official public affairs blog of the Kentucky Chamber throughout the year to receive timely updates on legislation and issues affecting your business.

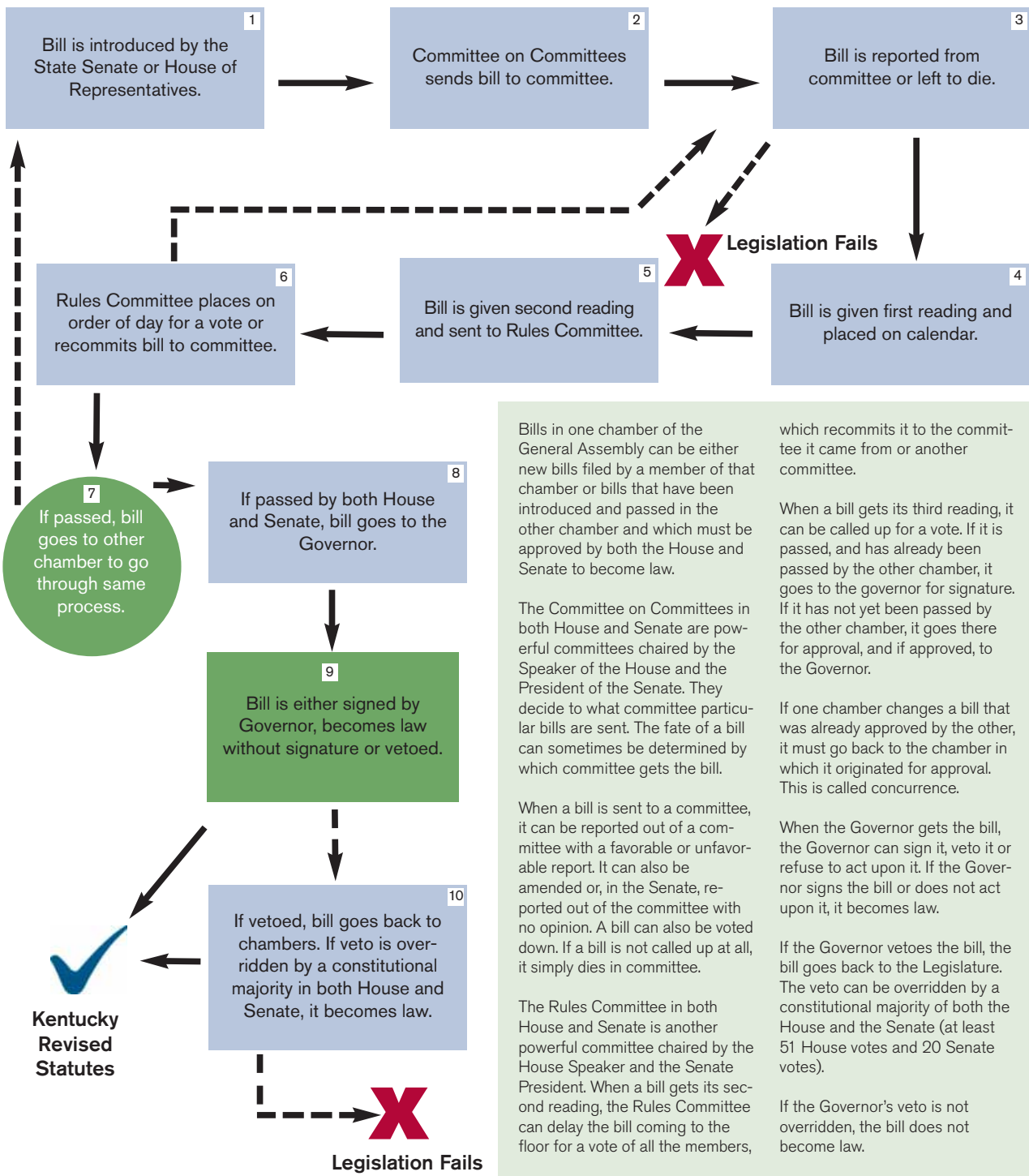
[kentucky.gov](#)
The state of Kentucky’s official website is a resource for Kentucky government as well as education and doing business in the state.

[governor.ky.gov](#)
The Governor’s website provides constituents with up-to-date news, issues and cabinet information.

[thinkkentucky.com](#)
The website for the Cabinet for Economic Development is an indispensable source for programs and services available to businesses, including existing businesses, newly locating companies, start-ups, and small and minority businesses.

[lrc.ky.gov](#)
The Legislative Research Commission (LRC) is the Kentucky legislature’s home page. It provides contact information for your legislators, the current legislative calendar and the legislative record for current and past sessions.

How a bill becomes a law



Bills in one chamber of the General Assembly can be either new bills filed by a member of that chamber or bills that have been introduced and passed in the other chamber and which must be approved by both the House and Senate to become law.

The Committee on Committees in both House and Senate are powerful committees chaired by the Speaker of the House and the President of the Senate. They decide to what committee particular bills are sent. The fate of a bill can sometimes be determined by which committee gets the bill.

When a bill is sent to a committee, it can be reported out of a committee with a favorable or unfavorable report. It can also be amended or, in the Senate, reported out of the committee with no opinion. A bill can also be voted down. If a bill is not called up at all, it simply dies in committee.

The Rules Committee in both House and Senate is another powerful committee chaired by the House Speaker and the Senate President. When a bill gets its second reading, the Rules Committee can delay the bill coming to the floor for a vote of all the members,

which recommits it to the committee it came from or another committee.

When a bill gets its third reading, it can be called up for a vote. If it is passed, and has already been passed by the other chamber, it goes to the governor for signature. If it has not yet been passed by the other chamber, it goes there for approval, and if approved, to the Governor.

If one chamber changes a bill that was already approved by the other, it must go back to the chamber in which it originated for approval. This is called concurrence.

When the Governor gets the bill, the Governor can sign it, veto it or refuse to act upon it. If the Governor signs the bill or does not act upon it, it becomes law.

If the Governor vetoes the bill, the bill goes back to the Legislature. The veto can be overridden by a constitutional majority of both the House and the Senate (at least 51 House votes and 20 Senate votes).

If the Governor's veto is not overridden, the bill does not become law.

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TAX TALK

Kentucky Chamber proposes tax changes to support economic growth

WITH THE CLOSE of the 2012 General Assembly, an issue of particular significance for Kentucky’s business community is expected to get more attention in the coming months: taxes. The governor’s Blue Ribbon Commission on Tax Reform has started meeting with a goal of developing recommendations to reform the state’s tax code by late this year.

The Kentucky Chamber is monitoring the process and has developed the following statement reflecting its position on the fundamental issue of tax reform.

A CLOSER LOOK

Kentucky has an opportunity to take a close look at the realities of state taxes and spending, and develop a system that will help ensure the long-term sustainability of needed government programs while building taxpayers’ confidence in how their money is being spent.

There are several basic points that should be kept in mind during this process:

- We’ve just experienced the worst economy in more than 75 years, resulting in revenue shortages for Kentucky and most other states.
- Kentucky’s competitiveness is key.
- We can’t just look at taxes; we have to look just as hard at state spending. State spending has grown faster, on average than the state’s economy over the past 20 years.

The economic growth necessary to produce more tax revenue cannot happen if Kentucky’s employers are put at a disadvantage through tax changes that hamper their ability to expand and create or retain jobs. And both employers and individual Kentuckians would face enormous tax increases – between 12% and 25% (that is, \$1 billion to \$2.3 billion) under a proposal already put forward by one statewide organization. That proposal is based on the notion that state taxes as a percent of the economy should be what they were in 1991 – the highest level recorded in 21 years.

A frequently quoted report was prepared 10 years ago for the General Assembly by University of Tennessee economist William F. Fox. Although Fox recommended some tax increases, he noted that, “tax burdens should be kept relatively low to increase the chance that business can be successful in Kentucky and so that the taxes do not inhibit the location or expansion of economic activity in Kentucky.”

Several of the recommendations of the Fox report were enacted by the 2005 General Assembly as part of a significant overhaul (the most recent major reform) of the state tax system. These included the tax treatment of limited liability corporations and changing the way companies were classified for paying corporate and sales taxes. In many circumstances these changes resulted in higher taxes for businesses, though some relief was provided for small businesses the following year.

Now, because state revenue growth has slowed, some argue that Kentucky’s business taxes should be increased. But one point that can get lost in these discussions is that the slowing revenue growth in the past few years has been the result of the worst economic downturn the nation has experienced in more than five decades. It is doubtful that any state could create a system that would protect it from the impact of such a recession.

Much of the early rhetoric surrounding the tax commission’s deliberations speaks of “tax reform” – a phrase that is heard by many to mean “tax increase.” But as a practical matter, and as Kentuckians have seen in the past, any benefits resulting from tax reform are likely to dissipate into thin air unless close and serious attention is paid to state spending.

THE LEAKY BUCKET

The Kentucky Chamber’s review of state spending, which began in 2009 with the *Leaky Bucket* report and continued in 2011 with *Building a Stronger Bucket*, has documented a shift in state spending priorities away from



In 2009, the Kentucky Chamber, led by President and CEO Dave Adkisson (pictured above), released a review of state spending called the *Leaky Bucket* report, which documented a shift in state spending priorities away from investments in education. The report was followed up last year with *Building a Stronger Bucket*.

investments in education and toward programs that, in several cases, represent what happens when you fall short on education attainment.

The numbers:

- Between FY 1986-88 and 2012-14, K-12 education’s share of General Fund appropriations declined from 48.2% to 43.7%.
- Over the same period, postsecondary education’s share declined from 16.9% to 12.2%.

A 2008 study by the University of Kentucky Center for Business and Economic Research, “Economic Growth in Kentucky: Why Does Kentucky Lag Behind the Rest of the South?” concluded:

“The empirical analysis contained in this report, our comparison of Kentucky with other states and our conversations with site consultants all lead to the same conclusion – the primary limitation to economic growth in Kentucky is the low skills of workers in Kentucky. Until this problem is addressed all other efforts at economic development will be unsuccessful.”

The biggest examples of unsustainable spending patterns can be found in the state Medicaid and corrections programs and in public employee health insurance and pension costs. And, while progress has been made in reining in the increases, spending in these areas continues to outpace the growth in the overall state budget.

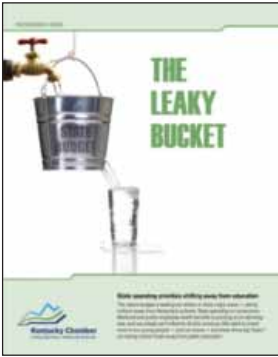
It should be noted that Kentucky ranks 30th in the nation in the amount of its residents’ personal income that goes to government

spending, but Kentuckians earn less than the residents of 43 other states. State government has grown beyond the capacity of citizens and businesses to support it.

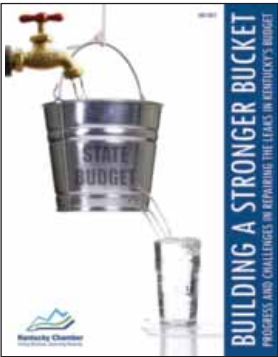
The bottom line: unless this spending is brought under control, it really doesn’t matter how much tax revenue is raised. The “leaks” in the spending bucket will ensure that no amount is enough.

The Chamber supports the long-term need for comprehensive tax reform. Our members tell us the tax system is too complex and compliance is too costly, while economic development experts say our code puts us at a competitive disadvantage because it punishes economic productivity. For example, local occupational taxes are putting Kentucky’s major metropolitan areas at a competitive disadvantage with their peer cities in the South.

The most sensible and stable way to increase revenue is by attracting new businesses and growing existing ones. To overcome our competitors, the totality of the current tax burden on Kentuckians – including state and local taxes – must be scrutinized.



The Kentucky Chamber’s review of state spending, which began in 2009 with the *Leaky Bucket* report and continued in 2011 with *Building a Stronger Bucket*, has documented a shift in state spending priorities away from investments in education and toward programs that, in several cases, represent what happens when you fall short on education attainment.



KENTUCKY CHAMBER TAX PRINCIPLES

Since taxes significantly impact business decisions that lead to job creation and retention, the Kentucky 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 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.

SUPPORT 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.

Chamber's efforts result in significant cost savings to Kentucky businesses

Nearly \$20,000 saved per business

THE KENTUCKY CHAMBER'S advocacy during the 2012 Session of the Kentucky General Assembly saved the Kentucky business community an estimated \$704.1 million per year – an average of \$19,790 per year for a Kentucky business with 50 employees, and **\$395 per employee**. Here's a breakdown of how the Chamber's work generated real savings for the business community.

UNEMPLOYMENT INSURANCE TAX AVOIDED

HB 495 prevents a \$609 million tax increase on Kentucky employers by creating a permanent mechanism to pay back the interest the state owes to the federal government for unemployment insurance. The bill requires the governor to seek a cap on federal taxes and provides additional tax relief in future years. If the bill had not passed and Kentucky did not repay the interest owed to the federal government, an additional federal UI tax of \$357 per employee would have been imposed on Kentucky employers – this translates to \$17,850 per year in additional taxes for an employer with 50 employees.

HEALTH INSURANCE MANDATE DEFEATED

HB 202 would have increased health care costs, particularly on small business owners, by mandating a minimum reimbursement rate and co-pays for chiropractic services. The actuary for the Kentucky Department of insurance estimated that this mandate would increase health insurance premiums by \$10.77 to \$19.92 per person per year, meaning a business with 50 employees would have to pay up to \$996 per year in additional health insurance costs.

EXPANDED SALES TAX AVERTED

HB 127: This bill would have made a number of substantial changes in Kentucky's tax code. In addition to increasing individual income tax rates for higher incomes and phasing out the tax exemption (up to \$41,110) for public and private pensions, the

BY THE NUMBERS

Legislation	Annual Savings to Ky. Business Community	Average Annual Savings per Kentucky Business
Unemployment insurance tax avoided (HB 495)	\$609 million	\$17,850*
Health insurance mandate defeated (HB 202)	\$3.1 to \$7.2 million	\$996*
Expanded sales tax defeated (HB 127)	\$57.5 million	\$618
Spending reductions in state budget advocated by Chamber (HB 265)	\$30.4 million	\$326
TOTAL SAVINGS	\$704.1 Million	\$19,790

*Savings estimated for a business with 50 employees.

STATE BUDGET COST SAVINGS

Program Area	Average Annual Savings	Business Share (40%)	Avg. Annual Savings to Ky. Business**
Corrections	\$16 Million	\$6.4 Million	\$68.81
Public Employee Health Insurance	\$60 Million*	\$24 Million	\$258.06
TOTAL SAVINGS	\$76 Million	\$30.4 Million	\$326.87 per business

*Growth in \$1.4 billion public employee health insurance plan reduced from 7.5% per year to 2% per year.
** Based on 93,000 businesses

HB 495 prevents an \$609 million tax increase on Kentucky employers by creating a permanent mechanism to pay back the interest the state owes the federal government for unemployment insurance.

- key provision impacting Kentucky business would have imposed the sales tax on the following services to generate an estimated \$115 million per year in additional state revenue:
- Golf course greens fees and membership fees in private golf clubs and private country clubs
 - Janitorial services, including carpet, upholstery and window cleaning
 - Garment alteration and garment repair services
 - Non-coin operated laundry and dry-cleaning services
 - Armored car services

- Security services
- Exterminating and pest-control services
- Chartered air flight services if a pilot is furnished, including hot air balloon flights
- Landscaping services, excluding lawn-care services
- Non-coin operated automotive washing services and waxing services
- Commercial linen services, excluding uniform services and linen services to hospitals and nursing homes
- Limousine services if a driver is included

These new sales taxes are of particular concern to business because economists at the University of Kentucky estimate that 50% of the sales taxes collected in Kentucky are paid by business.

That means the estimated \$115 million in new sales taxes imposed by HB 127 would have cost the Kentucky business community over \$57.5 million per year in additional taxes. With approximately 93,000 businesses in Kentucky (according to the U.S. Census Bureau), the Chamber's successful opposition to HB 127 saved each business in Kentucky an average of \$618 per year in sales tax. (\$57.5 million divided by 93,000 businesses.)

The Chamber was also successful in supporting HB 1 (passed during the special session of the General Assembly). HB 1 addresses the prescription drug epidemic that drives up medical costs for employers and creates serious workplace safety issues. Although not included in the above calculations, the business community will also see savings thanks to the passage of this legislation.

SPENDING REDUCTIONS IN STATE BUDGET

In its 2009 Leaky Bucket report, the Chamber pointed out that half of all growth in Kentucky's state budget since 2000 has been in three areas: corrections, Medicaid and public employee health insurance.

The Chamber advocated a number of common sense solutions for curbing this growth, and the 2010 General Assembly responded and enacted spending reductions in each of these three areas over the 2011-12 biennium. These actions were continued in the 2013-14 biennial budget with continued savings in corrections and the rate of growth in public employee health insurance reduced to 2% per year (down from 7.5% per year in the previous budget).

Based on data compiled by Ernst and Young, Kentucky businesses contribute 40% of all Kentucky tax revenue, meaning this \$76 million per year in spending reductions will save Kentucky businesses \$30.4 million per year, or an average of \$860 per business per year (\$30.4 million divided by 93,000 businesses in Kentucky).

We make it our business to protect yours.



The Kentucky Chamber of Commerce is the only business association in the state advocating for companies of all sizes and industries across the Commonwealth, offering our members:

- ACCESS** to fellow business leaders, lawmakers, business education and savings programs.
- INFLUENCE** through member businesses and our leadership to advance pro-business legislation and shape the dialogue at the Capitol.
- PROTECTION** from legislation that stifles growth and hurts your bottom line.



Each year, our advocacy efforts help save Kentucky companies millions of dollars. Get involved in helping us create a better climate for business, and get real results! Visit kychamber.com to learn more.

Looking for help with your small business?

Get exclusive savings with one of the Chamber's many programs

Paychex

The Paychex suite of HR and payroll solutions is perfect for helping smaller companies manage needs across the board. Each business can work with its own dedicated customer service and sales representatives to determine which of Paychex's products and services are best for its needs.

Kentucky Chamber members receive a discount of at least 25%. Offerings include:

- Payroll services and tax services
- 401(k) and employee benefits
- HR administration and compliance
- Time and labor solutions

Paychex also helps educate users through its resource website, white papers and webinars as well as boasting an industry-leading service model with on-site training and support. Visit smallbusiness.paychex.com to learn more.

UPS Freight

UPS Freight now offers Kentucky Chamber members discounts starting at 70% on LTL (Less-Than-Truckload) services. The Kentucky Chamber/UPS Freight program offers free

enrollment for all members, with no fees or minimum shipping requirement. This program provides significant savings for most companies using commercial freight carriers. Existing UPS Freight clients can call 866-443-9303, ext. 4082 to see if additional discounts are available through the Chamber.

Office Depot

Any size business is going to need some office basics on its path to success. Our Office Depot program saves you on the products you use the most, in addition to special monthly offers. As an added benefit, your employees get these discounts for their home office or student needs as well.

Plus, you'll save time with four convenient ways to place orders: fax, phone, Internet and on-site at retail locations with a Store Purchasing Card.

Certificates of Origin

The Chamber is pleased to offer its members who export internationally a reliable source for obtaining certificates of origin (a trade document required by some customs authorities). With very few exceptions, chambers of commerce are the

only institutions granted the authority to issue certificates of origin. The Kentucky Chamber is an accredited state chamber under the U.S. Chamber of Commerce and works in cooperation with the World Trade Center of Kentucky.

Certificates of origin are discounted to \$25 per shipment for Kentucky Chamber members. Future members pay \$55 per shipment.

ChamberAdvantage

The Chamber's partnership with Anthem was created specifically for small businesses. The ChamberAdvantage provides small-group (2-99) health, dental, life, vision and disability plans to Chamber members.

Participants in ChamberAdvantage receive:

- 2% discount on medical, dental and vision coverage
- 8.5% discount on life, dependent life and short-term disability coverage
- 3.5% discount on long-term disability

Anthem's 360° Health wellness program is included with all health plans. Contact your broker for a quote.

To learn more about the member savings programs offered through the Kentucky Chamber, contact Denise Scott at 502-848-8724 or dscott@kychamber.com.

NLRB posting requirement decision delayed

THE NATIONAL LABOR RELATION BOARD'S (NLRB) posting requirement that was set to take effect April 30 has been postponed yet again. The U.S. Court of Appeals for the District of Columbia suspended the deadline following conflicting decisions by federal district courts. A final decision on the notice will be made later this year.

If you recently purchased posters from the Kentucky Chamber, they include the NLRB notice. You can continue to post as-is (all other notices on the poster are current), or you can cover the NLRB Posting – Employee Rights (located on the right side of your poster).

The Chamber will continue to follow this story and keep you informed as additional decisions are made. If you have any questions, email Sarah Cathey at scathey@kychamber.com.



The Kentucky Chamber's 2012 Executive Committee includes, bottom from left, Tierra Turner, Deb Moessner, Luther Deaton, Dave Adkisson, Jim Booth, and Mary Pat Regan. Second row, from left, Paula Hanson, Elizabeth McCoy, Chris Hermann, Dan Bork, Steve Loyal, Wil James, Julie Janson, David Gray and Lynn Parrish. Booth will serve as Chairman in 2013.

Chamber board nomination deadline nears

THE KENTUCKY CHAMBER is taking nominations for its 2013 Board of Directors. Business leaders will be considered from a cross-section of industries and regions in Kentucky. Nominations should contain name, title, organization, city and a brief statement of leadership activities. Send to Candy Keeton at ckeeton@kychamber.com or call her at 502-848-8741. Nominations are due by May 25, 2012, for board seats beginning on Oct. 1.

Ronald R. Van Stockum, Jr.
is pleased to announce the relocation of his law office to
Shelby County, Kentucky.

Mr. Van Stockum concentrates in environmental law, including that relating to air, water and waste. Mr. Van Stockum graduated from the University of Louisville Brandeis School of Law and holds the additional degrees of Master of Science and Doctor of Philosophy in Biology.



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KENTUCKY CHAMBER NEWS is published six times per year.

Publisher: Dave Adkisson
Editor/Designer: Jessica Fletcher
Advertising: Andrea Flanders
464 Chenault Rd., Frankfort, KY 40601
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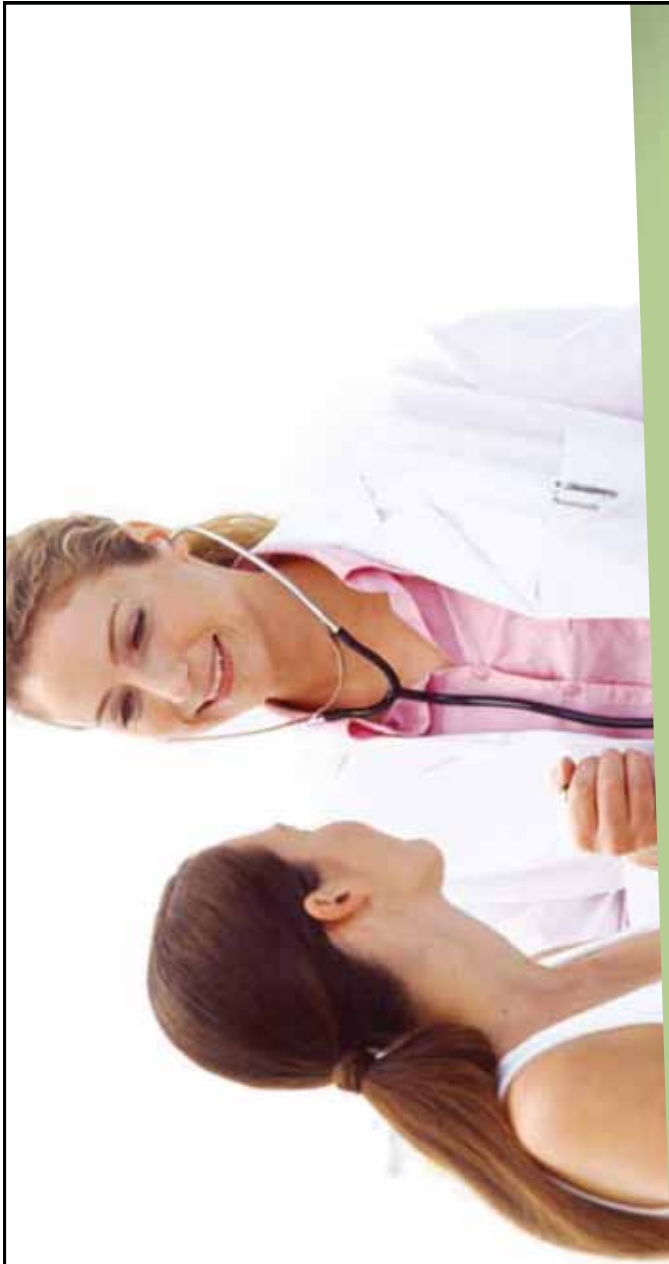
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With your Chamber membership and our large networks, you and your employees can save from day one.

As a Kentucky Chamber member, you're connected to big savings on big benefits for your small business, starting with special discounts on coverage from Anthem Blue Cross and Blue Shield.* As an employer, you can give your employees health care coverage from Anthem and they'll be connected to savings, too — thanks to our large networks. We make sure when your employees visit a network doctor their cost is lower, even before they satisfy their deductible. So your employees can get the care they need to stay healthy. And healthy employees make for a healthy business.

Talk to your broker, call the Kentucky Chamber at 800-431-6833 or visit www.anthem.com/chamberadvantage for more information.



*Discount only applies to Kentucky Chamber members who do not already have Anthem health coverage. Anthem Blue Cross and Blue Shield is the trade name of Anthem Health Plans of Kentucky, Inc. Independent licensee of the Blue Cross and Blue Shield Association. © ANTHEM is a registered trademark of Anthem Insurance Companies, Inc. The Blue Cross and Blue Shield names and symbols are registered marks of the Blue Cross and Blue Shield Association.



MAY 2012

news



2012 Kentucky General Assembly

Chamber's efforts save Kentucky businesses millions

See "Results for Business" on page 3