

Indiana Vision 2025

Heating Up the State's Business Climate

By Tom Schuman

Yes, we are operating in a global business environment that will likely never retreat in scope. But it's the story of the competition between Indiana and a neighboring state that illustrates the importance of a strong commitment to economic development.

Larry Gigerich, managing director of Indianapolis-based Ginovus (a site selection and economic development consulting firm), notes that Michigan was viewed as a "ripe place to pick companies from" 20 years ago. Former Gov. John Engler put together a strong team, however, and Indiana's northern neighbor became a viable competitor.

When Engler left office a decade ago and economic times were good, Michigan "took its foot off the gas pedal," according to Gigerich. Now, Gov. Rick Snyder, the former head of a venture capital firm, is changing the mindset again with a more determined approach to business development.

Bottom line: Indiana needs to build on its current successes.

"I've seen the change, in the last five years in particular," offers Gigerich, who has more than 20 years of experience in the industry and whose company has placed projects in 25 states in the past 10 years. "Indiana has a brand of being a good place to do business, a place where reforms are taking place. The state has been managed very well fiscally, and the state has taken a very aggressive posture in economic development. Because of those things, Indiana is now looked at as a good place to do business and one that has momentum."

A state (just like any business) can only be successful, however, if it has a strong product to sell. That's why "Attractive Business Climate" is one of the four drivers of the Indiana Chamber's *Indiana Vision 2025* plan. The state has several advantages and it has momentum, but few would question that improvement can – and must – be made and that the accelerator must continue to be pushed.

Attractive Business Climate: Key Goals

- Adopt a right-to-work statute.
- Enact comprehensive government reform at the state and local levels to increase efficiency and effectiveness in delivery of services.
- Reform public pension systems to achieve fairness and cost-containment.
- Preserve and enhance a "Top 5" ranking among all states for Indiana's legal environment.
- Attain a "Top 5" ranking among all states for Indiana's business regulatory environment.
- Eliminate the business personal property tax.
- Eliminate the state inheritance tax.
- Promote the enactment of a federal solution to the Internet sales/use tax dilemma.
- Streamline and make consistent the administration of the state's tax code.
- Establish government funding mechanisms to more closely approximate "user fee" model.
- Contain health care costs through patient-directed access and outcomes-based incentives.
- Reduce smoking levels to less than 15% of the population.
- Return obesity levels to less than 20% of the population.

Good beginnings

The *Indiana Vision 2025* task force lists 13 diverse goals (see sidebar box) under the business climate driver. Two – adopting a right-to-work (RTW) law and eliminating the state inheritance tax – were accomplished in the 2012 legislative session after many years of effort. Others are quite complex, ranging from changes in various tax policies and improved health care to the regulatory, legal and local government structures.

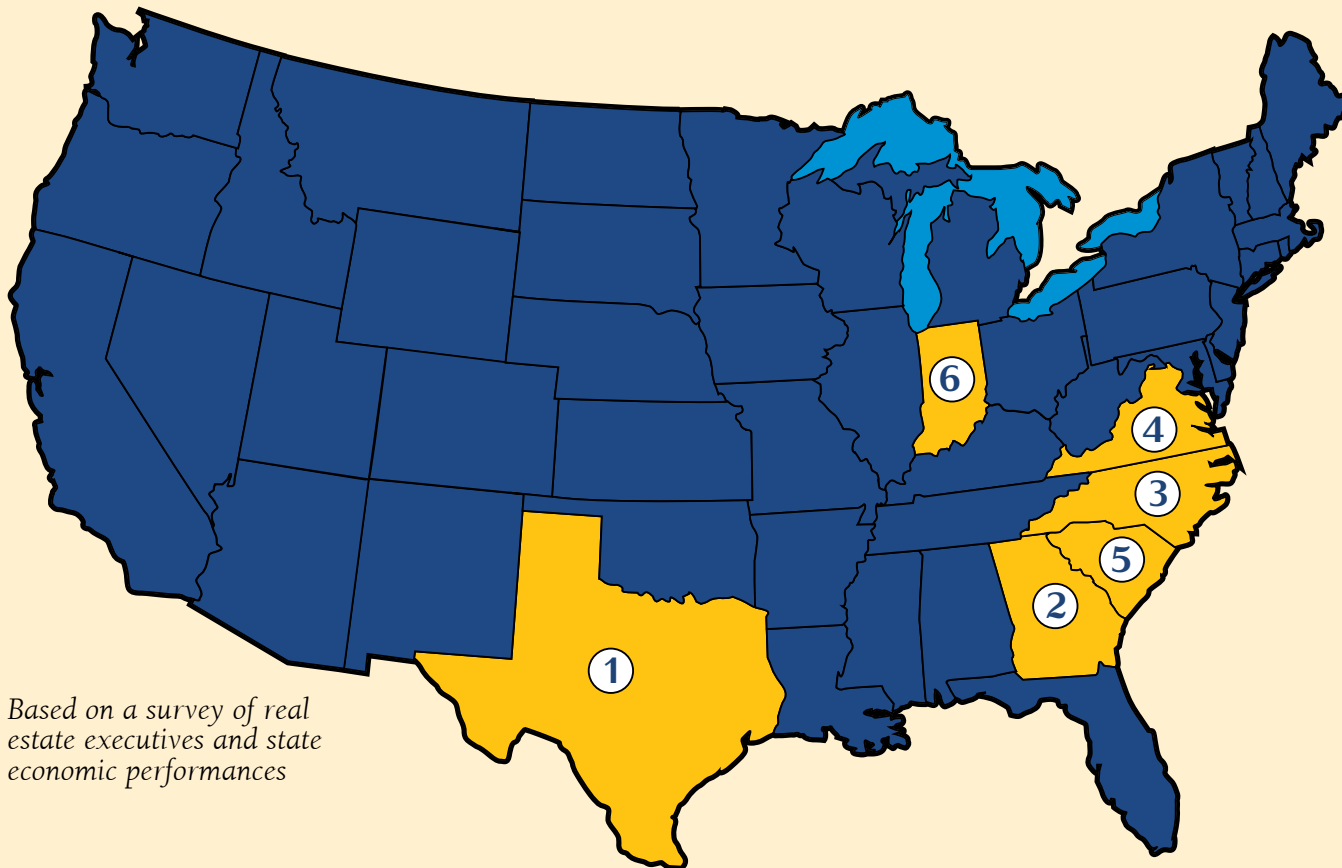
The initial accomplishments, particularly RTW, were encouraging. "As we put right-to-work on top, I don't think we did it because we thought it had the nearest-term resolution," states Mike Rechin, president and CEO of First Merchants Corporation in Muncie. "I think we put it on top because it was the most substantive. Right-to-work gives us the highest probability of having a net positive inflow – and the resources I'm referring to here are jobs, whether at the employer or individual level."

Gigerich and Rechin, like the other three contributing to this story (Wally Brant, president and CEO, Indiana Oxygen Company; Mark Richards, partner, Ice Miller; and David Wulf, vice president, Templeton Coal Company), all served on the 24-member task force that developed *Indiana Vision 2025*.

Brant expects strong results from the right-to-work law and that employers hold the key to their workplace environment – union or not. "I've been running Indiana Oxygen for 33 years. I'll put my

What Others Have to Say

Site Selection magazine Business Climate Rankings



Based on a survey of real estate executives and state economic performances

Area Development magazine's best states for business: Indiana 5th

(site selection consultant rankings)

1. Texas
2. Georgia
3. Alabama
4. South Carolina
5. Indiana*

*Indiana best for rail and highway accessibility; second for leading in the economic recovery

Chief Executive magazine's Best and Worst States for Business: Indiana 6th

(survey of more than 500 chief executives)

1. Texas
2. North Carolina
3. Florida
4. Tennessee
5. Georgia
6. Indiana

Tax Foundation's State Business Tax Climate Index: Indiana 11th (first in Midwest)

Top 10: Wyoming, South Dakota, Nevada, Alaska, Florida, New Hampshire, Washington, Montana, Texas, Utah

Mercatus Center (George Mason University) ranking of free economies: Indiana 3rd

1. New Hampshire
2. South Dakota
3. Indiana

Only nine states have triple-A credit ratings from all three agencies

Delaware, Georgia, Indiana, Iowa, Maryland, Missouri, North Carolina, Utah and Virginia

State Budget Solutions ranking of lowest debt per capita: Indiana 3rd

1. Nebraska
2. Wyoming
3. Indiana

scorecard up against any businessman in the state as far as fair treatment of employees who are not in a union,” he offers. “I have unions in certain positions in Indianapolis, and we have nine other locations outside Indianapolis that are not union.

“I don’t need a third party looking over my shoulder just to make sure I’m treating employees ethically. I think that’s all an employee wants. If I have bad conditions, people aren’t going to work for me and the word’s going to get around. That’s why I thought right-to-work was absolutely critical.”

In official testimony and in response to all who asked, Gigerich has said that RTW is “not the silver bullet for economic development. What it will do is create a larger set of opportunities for Indiana to compete for. We’ve seen it in a few of our clients. They’re saying, ‘We really want to take a look at Indiana now.’ ”

Taxing circumstances

A full handful of the business climate key goals involve taxes. That’s a topic Richards deals with every day, as well as one that Gigerich says certainly is near the top of the list in any business location decision.

Richards cites a number of accomplishments over the last decade: 2002 reform that removed the gross income tax (that had been a “big negative for business since 1933”) and inventory tax, movement to a single sales factor for apportionment purposes, property tax reform (while the differing cap levels may be controversial, the degree of certainty for businesses is a positive, he asserts), reduction of corporate income tax and this year’s inheritance tax phase-out.

“We’ve approached restructuring Indiana’s tax climate in a responsible way,” Richards comments. “We’re very thoughtful about providing effective changes in our tax climate, but ones that still allow the state to pay its bill. There’s minimal value to a favorable tax climate if the state is drowning in red ink. For starters, you don’t know if that favorable tax climate is going to continue and if state government is going to be able to deliver essential services.”



“We’re very thoughtful about providing effective changes in our tax climate, but ones that still allow the state to pay its bill. There’s minimal value to a favorable tax climate if the state is drowning in red ink.”

Mark Richards, Ice Miller

As a banker, Rechin is quick to second the importance of certainty.

“Confidence from a business owner’s standpoint plays into so many of those (key goals),” he contends. “Am I confident my tax costs are known to me? Whether they are high or low, do I feel I know where they’re going to be ... or at least comfortable with the risks I’m taking. The heart of an entrepreneur is to take risks. They just want to know what risks they’re taking. So adding certainty around any one of those variables is critical.”

On the specific tax factors, Gigerich agrees with Richards that not only the level of corporate income taxes but how they are generated (single sales factor was a “huge positive step forward”) is important. The predictability on the property tax

side is also a positive. Individual income tax rates (for companies structured as partnerships and LLCs, as well as the impact on employees) are another consideration.

“Clearly, personal property taxes for businesses, that’s still an area that will need to be addressed. Certainly, Gov. Daniels would have liked to have tackled that, but revenues weren’t there due to the economic conditions we were in. But with Ohio phasing that out, that creates some competition.”

Inheritance and Internet

On the “I” tax front, consider it one down on the state level (inheritance) and one to go (Internet) that requires a federal solution.

Two days before the inheritance phase-out was officially adopted, Richards pointed out an interesting irony.

“We spend a lot of time, money and energy trying to develop our economy, trying to retain existing businesses, trying to attract businesses to our state. Over and above, you want to create the best jobs, the high-wage jobs,” he reasons. “What you really want is for companies to locate their headquarters here, you want the decision-makers, R&D, other complex disciplines; with those high-wage jobs comes people of some wealth.

“With our left hand, we’re trying to court those people to come here; with our right hand, we’re creating a disincentive through the inheritance tax. It not only hurts our economic development initiatives, but hurts the state in many other ways as well (with successful people who serve as patrons of the arts and supporters of a variety of philanthropic initiatives potentially driven away by the tax).”

Brant puts it bluntly: Without a vehicle to transfer shares of his company (and if the inheritance tax was kept in place),

“there is one and only one solution – and that is to sell off the company or part of it to save the remaining part. That’s not right.”

On the Internet tax side of the equation, Richards notes that much has changed over the past 10 years and there is a strong need to level the playing field for brick and

mortar stores against their online competitors. There is little that states can do on their own without significant effort and only partial results.

He points to a recent University of Alabama Birmingham study that the state lost \$1 billion in revenue over five years. It also found that for every \$1 million of untaxed online retail sales revenue, it costs the state 22.5 jobs. “When you lose jobs, you lose income tax revenue and other sources of revenue from those people as well. It’s a big problem that needs addressed. Clearly, the best solution is federal legislation.”

Unhealthy trends

Wulf has been engaged in health care advocacy and

initiatives at the local, state and federal levels. The *Indiana Vision 2025* goals of reducing smoking and obesity levels and, in turn, helping contain health care costs have been elusive.

He provides his thoughts on several of the key elements:

Consumerism: “The information (costs and quality comparisons) is beginning to present itself, and there’s still a lot more that could be done. One of our bigger challenges at this point is that consumers aren’t using it widely because either they don’t know it’s there or they are intimidated by it. The next step is to try and educate the health care consumer on how to use the resources available to them to make better health care choices.”

Asked whether health care costs are one of the factors in business decisions, Wulf exclaims, “Absolutely. In our case, you’re talking about a 29% cost differential. The average health care cost for an Indiana employer is \$8,000 or \$9,000 per employee. (With a nearly 30% lower cost for a Templeton operation in Iowa), that’s \$2,500 per employee or you can convert that into \$1.50 an hour. I’ve seen lot of different measurers where Indiana is ranked in the highest quartile in terms of cost of health care and in the bottom quartile in results being delivered.”

Other challenges, according to Wulf: Higher population of Medicaid and underinsured than other states. Thus, providers, especially hospitals, absorb higher costs of unreimbursed care and there is more cost shifting to private payers. He admits, “I’m not quite sure what the answer to that one is.” He also says there is an “extreme amount of construction of health facilities in the state, building up all this fixed cost and bond debt they need to service.”

Reform and regulations

The business climate driver also emphasizes effective local government delivery of services, public pension system reform, and high-ranking legal and regulatory environments.

Rechin terms the pension issue critical in the state and nationally. “I think we’re just very behind the eight ball in recognizing that the employment time period versus the retirement time period has changed over time, and we haven’t been very nimble in recognizing that. So if 20- or 25-year work careers in a lot of public sector areas correlate to lifetime pensions, I think we’re just continuing to dig a deeper hole.”

On the local government issue, Rechin doesn’t believe the case for reform has been clearly communicated. “We articulate it in terms of dollars saved; we don’t articulate it in terms of the end we have in mind. We haven’t done a good job of creating a vision of the quality that comes out of it apart from a lesser cost. If part of the quality is speed, if you have less decision-makers and get to policy decisions more quickly, that is an end that has been under highlighted.”

Brant is one who has dealt with complex, long-term

regulatory disputes that involve water quality and potential tax charges on oxygen cylinder loans. He has had to fight the same costly battles over and over.

“I’ve always said if IDEM and the Department of Revenue and the union all come in at the same time and you catch me in the wrong mood, I might just throw the keys in the middle of the floor and say, ‘You guys fight it out, I’m out of here. I’m selling out to a Michigan company,’ ” he theorizes. “That’s not good for Indiana. That’s certainly not good for a 96-year-old, family-owned business.”

Looking forward

Gigerich offered his overall perspective earlier on Indiana’s business climate. Other closing thoughts:

Wulf: “Right-to-work was the No. 1 issue that would move someone away from us. I don’t know that a company would automatically exclude Indiana because of health care costs. I think we’re past the point of being automatically excluded because of one factor. I don’t think that check box exists for health care, energy or education.”

Richards: “When you look around the country and see how deeply in debt states are, that creates opportunity for the state of Indiana given how fiscally responsible we have been. We’re well positioned. We have to continue the course of remaining fiscally responsible, but continuing to leverage those positive strides we’ve made.”

Rechin: “I think we stack up very well. I’m encouraged that the momentum that was built through the (Daniels) administration has some stickiness to it. I do think the reputation we have earned will have measurable impacts.”

Brant: “We were slow to the draw to create this environment, and two, I still think we have a ways to go. I’m not saying we didn’t set our sights high enough ... but we ought to be the single stand-out state when it comes to a friendly environment and do some radical things to get businesses here. I believe very, very strongly that business is the key to everything. You get a healthy business environment and the rest takes care of itself.”



“I’ve seen the change, in the last five years in particular. ... Indiana is now looked at as a good place to do business and one that has momentum.”

Larry Gigerich, Ginovus

INFORMATION LINK

Resources: Wally Brant, Indiana Oxygen Company, at www.indianaoxygen.com

Larry Gigerich, Ginovus, at www.ginovus.com

Mike Rechin, First Merchants Corporation, at www.firstmerchants.com

Mark Richards, Ice Miller, at www.icemiller.com

David Wulf, Templeton Coal, at davidjwulf@templetoncoal.com