

TAXING WISCONSIN OUT OF BUSINESS

MARK L. KASS

There has been talk for many years from business executives about how Wisconsin has some of the highest taxes in the United States.

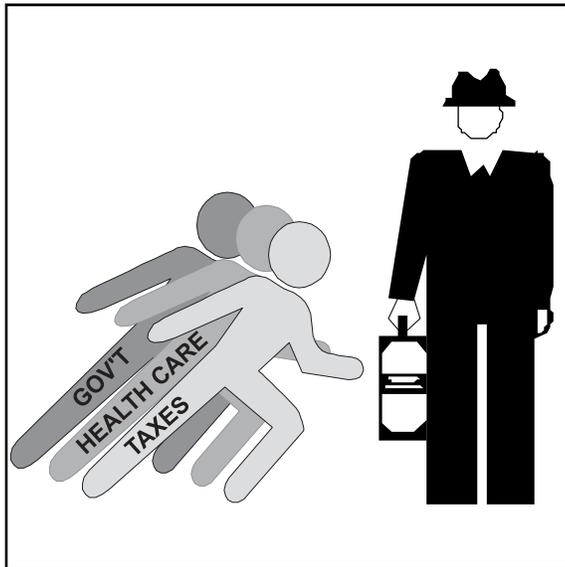
But a revelation this past spring that a prominent Waukesha technology software company was considering moving out of the state, in part because of the high taxes, shows the damages Wisconsin's current tax status can potentially have on the state's business climate.

And as a result business executives are increasing pressure on politicians to do something about the tax load or risk losing businesses to other states.

"High taxes are the 3,000-pound elephant in the room of most growth discussions throughout the state," said a Milwaukee business executive.

You have to come to grips with the impact it has on your bottom line and then make the necessary adjustments in other expenses. But it's tough. You have to really want to be here to stay in Wisconsin.

Jim Haney, president of Wisconsin Manufacturers & Commerce, the state's largest business lobbying group said Wisconsin has



the sixth highest state and local taxes in the nation, according to a recent analysis of census data. He said cutting taxes has been the business group's top public policy issue for several years.

"That burden is a significant drain on the economy and makes our goods and services more expensive," he said in a statement in reaction to the technology company's

threat.

There have been modest victories over the past 20 years in the struggle to lower our tax burden. Small victories, but we are losing the war.

A recent survey of the group's board of directors, which includes many of the top chief executive officers in the state, found concerns about the state's high taxes and aggressive regulatory climate

Only 29.4% of respondents said the business climate is somewhat pro-business, down from 54% last year. CEOs said they continue to be troubled by taxes, regulation, labor supply, and health care costs. Some 46.7% said

Mark L. Kass is Editor of The Business Journal Serving Greater Milwaukee.

Wisconsin's going in the right direction, and 53.3% said the state is on the wrong track.

Some 35.5% said they will expand in Wisconsin in the next two years, and 66.7% said they will expand in another state or country.

"Wisconsin is a great state, but we could make it even better by cutting taxes and red tape for businesses so they can expand even more and create more jobs," Haney said.

Not frugal

In Wisconsin, a previous WMC survey found 84% of Wisconsin residents say "officials are not as frugal with our tax dollars as Wisconsin families are with their own money."

"It's the frugal factor," said James A. Buchen, vice president of government relations for WMC.

Citizens see the elaborate copper roofs on government buildings, parking ticket officers riding around in brand new four-wheel drive vehicles, and they know there is extravagance in government that drives our high taxes in Wisconsin.

As further evidence of the state's tax problems, the August 16 issue of *Forbes Magazine* ranked Wisconsin among the bottom third of *Forbes* first-ever list of the Best States for Business.

Wisconsin ranked 39th in the list, which ranked all 50 states on 30 metrics in six main categories: business costs, economic climate, growth prospects, labor, quality of life, and regulatory environment.

Wisconsin ranked poorly in regulatory environment (42nd), which measures regulatory and tort climate, incentives, transportation and bond ratings. Only eight states fare worse than Wisconsin in that category.

In the *Forbes* list, the state also fared poorly in economic climate (38th), a measure of job, income and gross state product growth, and growth prospects (39th), which reflect projected job and income growth.

"This listing confirms once more what most Wisconsinites have known for a long

time - that our high taxes and excessive regulation are standing in the way of a brighter future for our state," said U.S. Representative Mark Green, a Green Bay Republican who is challenging Governor Jim Doyle.

And while state politicians try to say the right thing when talking about controlling taxes, their actions say otherwise. The infamous "Taxpayers amendment," which would have constitutionally limited increases in state and local taxes, was not approved by the state legislature in its last session.

"Every politician in both parties talks a good game, but they don't really do anything about it," the Milwaukee business executive said. "It's a shell game and it is costing the state of Wisconsin in the growth of existing companies and potentially new businesses moving here."

Moving threat

That is the case with RedPrairie Corp., a logistics software company with 200 employees in Wisconsin, whose chief executive officer, John Jazwiec, said in published comments in June that he was considering moving his firm out of Wisconsin.

"We don't have a compelling reason to stay, and as such, we owe it to our shareholders to study where the best place to put our corporate headquarters will be," Jazwiec said in a June 17 article in the *Milwaukee Journal Sentinel*.

State taxes, income taxes, and property taxes are all problems, Jazwiec said.

The corollary to that is, not only does it become difficult for people to want to locate here, but it makes one, myself included, question where the city and the county and the state are going to find money to invest in business or provide a helpful environment when the welfare state that has been created is squeezing money out.

Politicians, led by Doyle and Milwaukee Mayor Tom Barrett were quick to defend the tax structure and claim things were not as bad as Jazwiec claimed.

In fact, Barrett quickly reached out to Jazwicz to see if he could convince him to move RedPrairie to the city of Milwaukee, saying a major metropolitan area has the young professionals that RedPrairie is seeking.

"I know RedPrairie and they want to attract that young talent," he said.

Perception

But Tim Sheehy, president of the Metropolitan Milwaukee Association Commerce (MMAC), pointed out, "perception is reality" when it came to Jazwicz's comments.

"It doesn't matter what we think, only what the business executives who are making the decision think," Sheehy said. "We have to get our tax structure under control and realize the impact it has on the everyday workings of a business operation."

Sheehy said MMAC officials also reached out to RedPrairie to see what could be done to ensure the company stays in Wisconsin.

"RedPrairie is a company that fuels the economy instead of feeding off of it," he said.

Most of their business comes from out of state, which brings in outside revenue and investments.

We'll continue to work with the rest of the (business) leadership to make sure RedPrairie sees the advantages here. We want to let them know we hear their voice and we hear their call.

Even the *Milwaukee Journal Sentinel*, considered a left-leaning newspaper, called for elected officials to listen to RedPrairie.

"Jazwicz is right about taxes," the newspaper said in a June 20 editorial.

An overhaul of the system is long overdue. He's correct that the state should be more aggressive in its use of business incentives. One need not give away the store to be competitive.

Other Concerns

Jazwicz is not the only local business executive to consider moving out of state.

Tim Sullivan, president of Bucyrus International, a South Milwaukee manufacturing firm, seriously considered moving his firm to Houston in 2005, in part due to the high taxes in the area.

"On my 10-minute drive from South Milwaukee to Milwaukee, I go through four communities," Sullivan said. "It is an inefficient way to run a community."

Bucyrus management considered relocating its plants due to high operating costs in southeastern Wisconsin, Sullivan said.

Company management began seriously considering a move in July 2004, Sullivan said. The final decision came down to whether to move to Houston or Pocatello,

Idaho, where Bucyrus formerly ran a factory, or to remain in South Milwaukee.

For months, Bucyrus' financial experts crunched numbers comparing the cost of doing business in the three cities. Costs for South Milwaukee were considerably higher, especially when compared with Houston. There, welders earn about \$15 an hour, compared with about \$22 per hour at the South Milwaukee plant, Sullivan said. Houston was also rated as less expensive than Pocatello.

When adding health care and other costs into the mix, the cost differential per employee is about \$10 more per hour in South

When adding health care and other costs into the mix, the cost differential per employee is about \$10 more per hour in South Milwaukee as compared with Houston.

Milwaukee as compared with Houston, he said.

Despite the huge cost disparity, Bucyrus management determined that production workers in Texas, where Bucyrus runs a repair facility, don't have the dedication to their jobs exhibited by the work force in South Milwaukee.

And, just as important, the company was able to secure assistance from the state, Milwaukee County and the city of South Milwaukee.

The Wisconsin Department of Commerce is providing \$2.5 million in incentives. An additional \$1 million in incentives will come from the state Department of Transportation. Milwaukee County also agreed to back bonds that the city of South Milwaukee will issue for the creation of a \$16 million tax incremental financing district.

Haney pointed out that Manitowoc County lost 300 high-paying manufacturing jobs when LoPresti Aviation, an airplane manufacturer, announced Wisconsin is out of the running for a new plant. The reason: high taxes and less-than-friendly business environment.

For Madison executive Reed Coleman, Wisconsin's high taxes are a "huge stumbling block" to attracting out-of-state executives to Coleman's company, Madison-Kipp Corp., or setting up the kind of plant expansion the die-cast auto parts maker has undertaken in Sun Prairie.

"That's like having a very large anchor to drag behind you when you go out to talk to people about how wonderful you are," Coleman, Kipp's chairman and chief executive, told the *Wisconsin State Journal*. "While I think that a constitutional referendum is an extreme action, maybe extreme situations require extreme solutions."

Small Business Concerns

Ask any small business executive in the state and you are bound to hear similar answers.

At a recent small business forum held by the MMAC, business owners were very blunt in what they thought were the continued threats to their increased prosperity—high taxes, constant political bickering in Madison, and out-of-control health care costs in Wisconsin, which are some of the highest in the nation.

"We are going to make ourselves non-competitive with other areas of the country when it comes to our business climate," said Cary Silverstein, president of Strategic Management Association L.L.C., Fox Point.

P. Michael Mahoney, chairman of Park Bank, Milwaukee, said politicians in Madison are doing everything they can to hurt the state's business climate—from high taxes to taking a long time to address the medical malpractice caps and tort reform issues that surfaced due to Wisconsin Supreme Court rulings.

"The people in Madison are doing the best they can to throw business out of Wisconsin," Mahoney said. "When you look at our business climate from 20,000 feet, the long-range picture is not a pretty one and that's what scares me."

Added Silverstein:

We've been called "Alabama of the north." It does not make for a positive climate to recruit businesses to Wisconsin.

Joe Proite, owner of Layton Fruit Market, said the price of doing business (in Milwaukee) "is so far out of hand."

"The cost of selling an orange is not out of line. But when you add in the cost of insurance, the taxes and user fees, it gets out of control," he said.

Some Successes

Doyle and other leaders say that many businesses are expanding in Wisconsin, including many of the largest firms. They point to the recent announcement of an \$80 million renovation by Miller Brewing Co. in Milwaukee that will be funded in part by \$1.25 million in state tax credits.

Doyle said,

Investment in Miller's facilities and employee training will ensure that Miller will continue to be competitive in the global marketplace and that workers in Milwaukee will continue to have access to good paying jobs.

In June, Doyle announced that Direct Supply, Inc. would receive \$6 million in enterprise development zone tax credits from the state Department of Commerce to help it expand and create up to 1,000 new jobs in Milwaukee.

Direct Supply, Inc., of Milwaukee, is planning to invest \$85 million to expand its corporate campus over several years. The company will add more than 500,000 square feet of office space.

Regional Approach

Community and business leaders in southeastern Wisconsin have tried a new regional approach in recent months as one way to address economic development.

The effort, being led by the MMAC and the Greater Milwaukee Committee, is a 5-year, \$12 million plan to bring together the leaders of Milwaukee, Waukesha, Washington, Ozaukee, Racine, Kenosha and Walworth counties to increase economic development and draw new businesses to the area.

The regional economic development is already growing as representatives from southeast Wisconsin, Dane County, northeast Wisconsin and the Chicago area recently sat down and began discussing how to work together.

The group, which is calling itself The Great Lakes Crescent, included the Capital Region Collaboration Council near Madison, the Milwaukee 7, New North and World Business Chicago. The leaders in those communities

have been working on selling their own regions to other parts of the United States and the world.

After seeing and hearing how well larger regional efforts are working in other areas of the country, the groups' leaders decided to determine whether they could work on common issues, such as marketing the region.

But some leaders, such as Milwaukee County Executive Scott Walker, believe the only way to draw in new businesses and allow existing ones to grow are to get health care, labor and government costs under control.

"You can put lipstick on a pig, but it's still a pig," Walker said of the regional economic development promotional strategy.

All of the Web sites and advertising campaigns in the world won't help attract jobs unless there is "substance to market."

What Can be Done?

Haney said the state needs to "think out of the box and take bold steps."

He said the group is pushing the state to eliminate the corporate income tax, cut individual income taxes, and eliminate the personal property tax.

"Reducing taxes makes jobs in Wisconsin more attractive to the 'creative' or 'innovative' class," he said in a statement. "Bike trails and fun entertainment are nice, but companies need to be able to provide competitive salaries and high income taxes make that difficult."

"Critics will ask how Wisconsin can 'afford' significant business tax cuts," he added. However, if Wisconsin does not respond to the clarion call of companies like RedPrairie and LoPresti, will we be prepared to watch them leave if they call our bluff?"

Reducing taxes make jobs in Wisconsin more attractive to the "creative" or "innovative" class.
