DRIVER 2:
ATTRACTIVE BUSINESS CLIMATE

If Indiana has well-defined challenges in the area of human capital and starts from an arguably deficient position, the same cannot rightly be said of the state's overall business climate, which has improved over time and indeed accelerated in recent years. Many third-party observers rank Indiana highly when it comes to being an attractive place to invest and do business. Many of the reforms set forth in *Economic Vision 2010* that were implemented have played a significant role in this – from the adoption of daylight saving time, to elimination of the inventory and gross receipts taxes, to telecommunications reform, the state has steadily enhanced its attractiveness to investors.

Presently, Indiana is doing well, but not well enough. We must strive to maintain hard-won gains, avoid backsliding, and seek to further improve those tax and regulatory structures that limit further growth and investment. Taxes, the legal system, the state regulatory climate and the very structure (and cost) of government remain factors in Indiana's competitiveness and attractiveness to entrepreneurs and employers.

SUMMARY OF KEY GOALS:

- Adopt a right-to-work (RTW) statute.
- Enact comprehensive local 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 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 population.
- Return obesity levels to less than 20% of population.

Make Indiana a Right-to-Work State – Again!

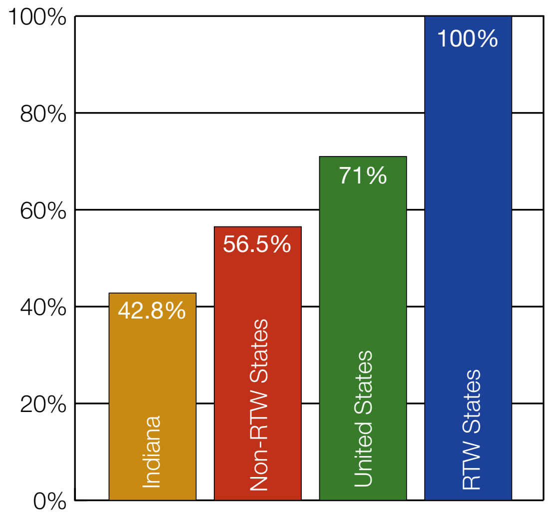
A key component of an attractive business climate is the issue of whether Indiana should be a right-to-work (RTW) state.

Prior to 1965, Indiana was a right-to-work state. In order to be as competitive as possible in the site selection process and to enhance the economic prospects of all Hoosiers, Indiana should once again adopt a right-to-work statute. Public support for the adoption of RTW is strong (even among union households) and the case for RTW's economic benefits is overwhelming: Numerous site selection consultants have testified that Indiana misses out on at least one-third of all potential relocation/expansion projects because it is a non-RTW state and numerous studies show that it can stimulate growth in jobs, wages and per capita personal income while having beneficial consequences for state tax revenues.

In 2010, the Indiana Chamber Foundation commissioned a study of the right-to-work issue entitled, *Right-to-Work and Indiana's Economic Future*. Published in January 2011, the study examined economic results from various RTW and non-RTW states and found the following conclusions:

- RTW states create more jobs than non-RTW states.
  From 2000-2009, more than 4.9 million Americans moved from non-RTW states to RTW states.

Total Employment Growth
(1977-2008)

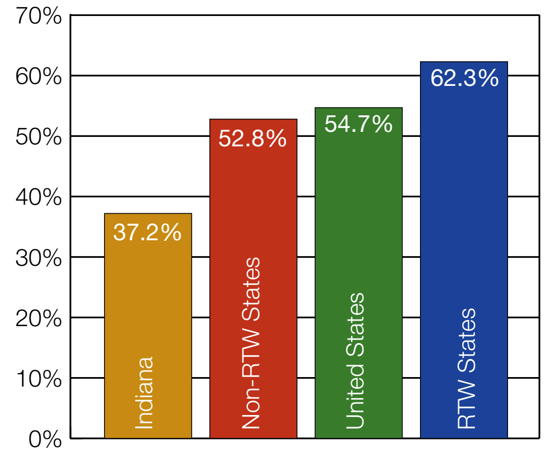


Source: Bureau of Economic Analysis, authors' calculations

- RTW states have faster growth in per capita income than non-RTW states.
  If Indiana had had a RTW law in place since 1977, the result would have been nearly $2,925 more in per capita income. That's $11,700 more each year for a Hoosier family of four. If Indiana had enacted a RTW statute in 2011, estimated per capita income in 2021 would be $968 higher – or $3,872 higher for a family of four.

In addition, a RTW statute would lead to a faster growing economy and substantially higher tax revenues. For the 1977-2008 period, that would have resulted in a $22.6 billion increase in gross state product. The higher per capita income levels would have generated an addition $1.2 billion in income and sales taxes in 2010 alone.

Growth in Real Per Capita Income (1977-2008)



Source: Bureau of Economic Analysis, authors' calculations

Several additional studies over the past decade confirm what we know from Economics 101: Free markets are the most efficient way to maximize economic returns and labor markets are no exception.

- From 1991 until 2001, the last 10 years prior to the approval of its RTW law, Oklahoma residents' real personal income grew by 4% less than the national average. Between 2003 and 2006, real personal income in Oklahoma grew by 13.6% – more than 50% higher than the national average and more than twice as fast as the overall average in the 28 non-RTW states.
- In Idaho, which adopted its right-to-work law in 1986, the subsequent decade saw significant increases over the prior decade in manufacturing employment (0.76% in 1975-1986; 3.71% in 1987-96) and manufacturing establishments (1.27% in 1975-1986; 3.99% in 1987-1996).
- From 1970-2000, RTW states created 1.43 million manufacturing jobs. In the same time period, non-RTW states lost 2.18 million manufacturing jobs.
- From 1970-2000, construction employment grew an average of 50% faster each year in RTW states than in non-RTW states.

Public support for enactment of a RTW statute in Indiana is also evident. Hoosiers pride themselves on their good common sense and it shows in surveys on the RTW issue. According to a statewide voter poll conducted in December 2010, 68 percent of Hoosiers favor RTW (41% strongly favor) and only 23 percent oppose it. The support cuts across all demographics (Republicans (80% support, 13% oppose); Democrats (53%-37%); and Independents (74%-13%). Even 44 percent of union member households are RTW supporters.

Efficient State and Local Government

Prudent business investment seeks the lowest amount of acceptable risk for the greatest possible reward or return on investment. Therefore, it is understandable that Indiana's recent economic development efforts have been predicated upon strong fiscal stewardship in which the state's budget is balanced and the likelihood of tax increases (or other "revenue enhancements") that would change underlying business cost structures is minimized. This is a prudent, strategic course for the future as well.

Achieve a more efficient, effective and transparent government for Indiana citizens

Local governmental entities in Indiana appropriated more than $6.1 billion in 2011 to deliver services to their constituents. Those constituents pay for these services through taxes and other fees and they deserve the most effective and efficient services for their money.

Local Government Units
(2007 Census data)

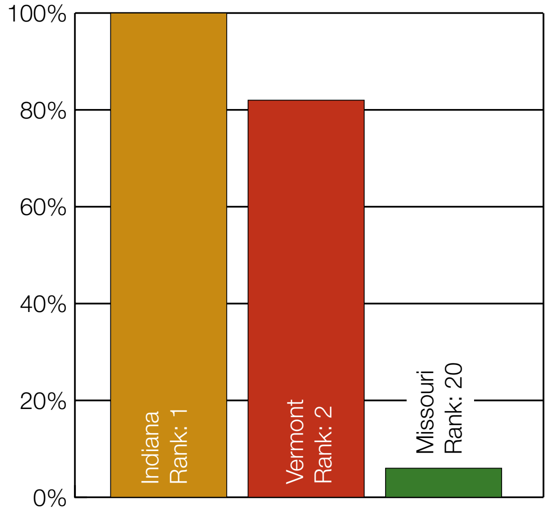
State	Units	Rank
Illinois	6,994	1
Indiana	3,231	10
Florida	1,623	20
North Carolina	963	30
Arizona	645	40

Indiana's 19th century local government structure pre-dates the invention of the telephone, the automobile, air travel and the Internet. Few changes to the basic structure of local government have occurred, despite these modern technologies, management advancements and repeated calls for reform. With more than 3,000 independent units of local government, Indiana's complex system of political boundaries, officeholders and taxing authorities is neither sustainable nor appropriate.

With the constitutional property tax caps, local governments will no longer have a bottomless bucket of resources. As a result, communities must engage in a thoughtful deliberation of their priorities to judiciously utilize those resources. This points to some suggested policy outcomes:

- Reduce the 3,086 separate administrative units of local government in Indiana by one-half to achieve greater efficiency in the delivery of services. This includes counties, townships, cities and towns, libraries, school districts and special districts. For example, there are 239 separate library districts in Indiana and there should be no more than 92 (or one per county, if you accept the premise that Indiana needs 92 counties).
- Move all Indiana county administration to a single-executive form of government from the "horizontal-no-one-in-charge" structure we presently have in most Indiana counties with a management panel of three county commissioners and separate legislative county councils.
- Develop and implement programs to apply private-sector business process tools (such as Six Sigma, LEAN, integrated processes) to improve public-sector efficiency.
- Consolidate state and local boards and commissions to achieve greater public accountability and enhanced oversight by elected officials.
- Provide useful information annually to the General Assembly and the public on how their tax dollars are used to enhance civic engagement. Use technology and social media to encourage greater citizen participation.
- Simplify and incentivize local government reorganization with legislation to ease procedural steps required to reorganize; provide technical assistance and financial incentives.
- Encourage regional cooperation by creating a fund to support local reorganization and changes in service delivery at the county and regional level.
- Facilitate networking and collaboration within and across levels of government as well as the not-for-profit and private sectors of the economy. Once the need for a service is identified, the goal should be to find the best provider of those services.

Percentage of State Population Governed by Townships*
(Census of Governments)



*Thirty states have no township government

Contain costs of government wage and benefit programs

Public-sector employee compensation is becoming a high-profile public policy issue around the nation and in Indiana. While private-sector wages and benefits have stagnated during recent times, many governments continue to increase compensation and benefits for public-sector workers at a growing cost to taxpayers.

In 2011, it is estimated that the overall compensation premium for Indiana public employees versus similar private-sector employees is between 5 and 10 percent. This includes salary, benefits and job security. In Indiana, union membership for all workers is 10.9%. However, union membership is 26.8% of all public sector workers compared to 8.2% for the private sector.

In addition, there are growing concerns about huge unfunded liabilities in public-sector retirement plans. Indiana has funded only 70 percent of its total pension bill, well below the 80 percent benchmark that the U.S. Government Accountability Office says is prudent (Indiana's total unfunded pension liability is around $10.5 billion). The Indiana State Teachers' Retirement Fund is responsible for much of the state's funding shortfall, covering only 48 percent of its $18.75 billion obligation. This leads to the following next steps:

- Conduct further study on the private- and public-sector compensation differences to define policy recommendations.
- Realign public-sector compensation at the state and local levels to create a greater premium for private-sector employment.
- Implement reforms to Indiana's public pension systems to meet national industry standards and benchmarks for unfunded pension liabilities.

Legal Climate, Regulatory Environment and Taxes

As stated earlier, Indiana performs well on several measures used to gauge the business-friendliness of a state. Policies enacted years ago - such as limitations on medical malpractice liability or Indiana's efficient, low cost worker's compensation system, to more recent changes to the state's unemployment insurance system - have led to high marks for the Hoosier state by site selectors, business magazines and trade publications .

Indiana's regulatory framework must be the minimum necessary to enforce public policy. Regulatory agencies must be consistent in their application of the law, responsive to public input and remonstration, and always move toward decisions in a timely manner. Their administrators must be cognizant at all times of the impact they can have on private-sector investment decisions, economic growth and job creation. Indiana's investment and jobs-friendly legal environment must be maintained, while working to ensure that the state's tax code matches up to the competition in all areas.

Tax rates for Indiana employers for both unemployment insurance and worker's compensation are among the lowest in the United States. According to the U.S. Chamber Institute for Legal Reform, Indiana ranked as the fourth best state in the *2010 State Liability Systems Ranking Study*. The top ranked states are shown to the right:

2010 State Liability Systems Ranking Study

Rank	State	Score
1.	Delaware	77.2
2.	North Dakota	71.1
3.	Nebraska	69.7
4.	Indiana	69.6
5.	Iowa	69.4
6.	Virginia	68.1
7.	Utah	67.8
8.	Colorado	65.8
9.	Massachusetts	65.6
10.	South Dakota	65.6

Indiana Rankings
2008: 4
2007: 8
2006: 11

It will be extremely important for Indiana to maintain or improve upon this ranking in order to help facilitate further economic development in Indiana.

Likewise, the state has made tremendous strides in making its tax code more conducive to investment and job creation. Single-factor sales apportionment, elimination of the corporate gross receipts and inventory taxes, and a newly enacted, phased-in reduction of the state's corporate income tax are good examples of sound public policy choices that have worked and will increase the wealth and economic well-being of all Hoosiers. However, some long-standing tax matters have not yet been addressed:

- Eliminate the taxation of business personal property
  The taxation of capital investment in machinery and equipment places Indiana at a competitive disadvantage with other states that do not have this tax, most notably neighboring Ohio. This deters both economic development and job creation. The property tax burden on businesses in Indiana, especially in the era of 1%-2%-3% property tax caps, is disproportionately high and eliminating the taxation of business personal property tax would have three tangible advantages: It would remove a disincentive for investment and job creation, it would simplify the state's tax code and it would create a more equitable property tax system.

- Eliminate the state inheritance tax
  This tax encourages the relocation of Indiana residents and assets when they retire, draining capital for new business investment. The state's inheritance tax also impedes the succession or transition of many small businesses and family farms. Both of these dynamics have the negative effects of draining wealth and vitality from our communities.

- Promote a federal solution to the loss of sales tax revenue due to Internet purchases
  While Indiana citizens are supposed to report and pay tax on their Internet purchases (by declaring them on their income tax returns), most do not and enforcement is simply not cost-efficient. Many large retailers that sell products through the Internet are not physically located in Indiana, so unlike a local retailer they cannot be required to collect and remit the sales tax. Consequently, the taxes owed on the bulk of Internet purchases go uncollected. This situation can be addressed effectively only through federal legislation that allows states to require collection of sales tax, regardless of whether the Internet sellers are physically located in their state.

- Examine more regional taxing districts and taxes and/or user fees
  Policymakers should examine moving toward a user-fee model of taxation in order to more directly assess the persons or

entities that benefit from particular governmental services. This would include: multi-jurisdictional taxes to pay for regional infrastructure; so-called “commuter taxes”; and police and fire protection fees for those who do not pay property taxes but receive public safety services.

- Streamline and make consistent administration of the state’s tax code
  There is a need for certainty and predictability in how the Department of Revenue makes decisions in its audits. A good start would be to assign precedential value to the department’s letters of findings. Also, making Indiana’s taxable income match federal adjusted gross income would make tax planning, preparation and compliance less burdensome to entrepreneurs. Another prime example would be eliminating the ‘throw-back’ rule that causes the taxation of income not derived in Indiana.

Contain Health Care Costs

At the time of this writing, the ultimate fate of the 2010 Patient Protection and Affordable Care Act (PPACA) in the courts has yet to be decided. Whether it is PPACA or other existing laws, federal law and policies have tremendous effects on the market for health care, but regardless of these impacts, Indiana can and should pair an emphasis on wellness with reforms to the health care delivery system across the state.

A visionary approach is required in regard to the efficient delivery of quality health care.

- Consumer-directed access
  Currently, it is difficult for patients to obtain access to information assessing the quality and costs of health care services and providers. As more employer plans have moved toward consumer-directed health plans, having access to information is vital for consumers to make wise decisions regarding their health care.

- Coherent medical record information system
  Similar to having access to information is the need for a coherent, reliable and secure means of distributing and disseminating patient/employee medical records. Communication of medical records within a medical group is becoming more commonplace. However, medical record communication between outside facilities, pharmacies and other medical services providers is not as common. Patients must also be able to access this information when needed.

- Reimbursement by outcome versus ‘fee for service’
  The current reimbursement system has, for the most part, been a “fee for service” system. This approach has caused overutilization of services to generate revenue. Patients must be viewed no longer as revenue streams, but treated with their individual outcomes foremost in mind. Changing the current incentives structure from a fee-for-service model to one that rewards efficiency and positive outcomes for patients is essential.

- Drive efficiency and quality
  Many Americans believe that more could be done regarding efficiency and quality of care. Implementing accredited efficiency and quality standard programs within the health care delivery system, similar to what manufacturing has done with ISO and lean manufacturing techniques, would serve well to help health care providers examine their processes. Accredited programs will give those in the delivery of care a way to measure and validate efficient and quality practices in the workplace.

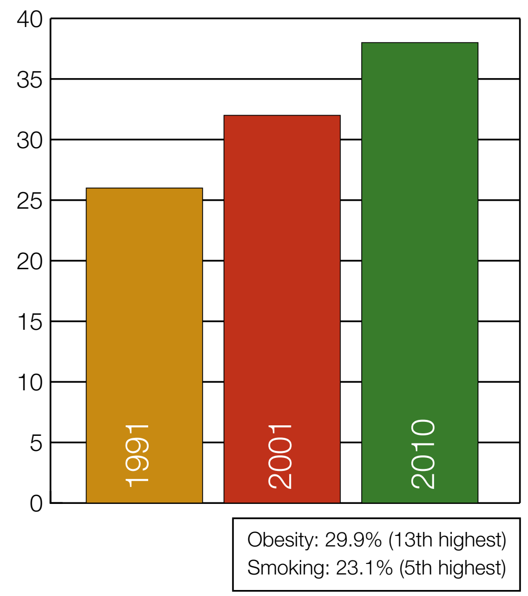
As we look forward to 2025, bold steps must be made in changing our attitudes toward health and wellness. According to America’s Health Rankings, Indiana ranked 38th in 2010 in overall health of its citizens. The two largest insurance carriers by volume in Indiana (Anthem and United Health Care) have indicated that Indiana has some of the highest health care costs in the country with some of the worst outcomes. Indiana ranks poorly in several determinants and outcomes:

Determinants
- Smoking: 23.1% of population, 5th highest.
- Obesity: 29.9% of population, 13th highest.
  - ➤ Including overweight and obese - 67% of all Indiana residents!
- High cholesterol: 39.8% of population, 18th highest.
- High blood pressure: 31.3% population, 12th highest.

• Only one in five Hoosiers consumes the recommended daily allowance of fruits and vegetables.

Outcomes
• Infant mortality: 7.8 deaths per 1,000 live births, 11th highest.
• Cancer deaths: 208.4 per 100,000 of population, 10th highest.
• Cardiovascular deaths: 300.5 per 100,000 of population, 12th highest.

America's Health Rankings
(Indiana's Position Among the 50 States)



The prevalence of smoking and second-hand smoke results in numerous adverse health risks and outcomes within our population. Obesity is known to contribute to a variety of diseases, including heart disease, diabetes and general poor health. Being overweight at younger ages causes serious health risks, including greater risk of cardiovascular disease and Type 2 diabetes. A higher obesity rate suggests that today's youth will be the first generation in the history of the United States to live shorter lives than their parents.

At a minimum are the following goals:
• Reduce smoking levels to less than 15% of population.
    ➤ Most states in the top quarter of health rankings fall near the 15% level in smoking levels.
• Reduce obesity to less than 20% of population.
    ➤ As a guideline, Colorado currently is ranked first (lowest) in obesity level at 18.9% of its state population.

Clearly, individual choices and behaviors drive the high rates of smoking and obesity among Hoosiers. The Chamber has maintained a policy that generally opposes government intrusion into the lifestyle choices that a person makes. However, when such individual choices place a substantial burden on business and our society, as well as publicly-funded programs such as Medicaid, government intervention may be warranted.

Smoking
• Pass comprehensive smoke-free workplace and public place legislation.
• Consider higher tobacco taxes.
• Promote and adequately fund anti-smoking programs to prevent children from starting to smoke.
• Promote programs to help teens and adults to quit smoking.
• Allow employers to differentiate health care co-pays between smokers and non-smokers.
• Secure insurance coverage for smoking cessation treatments.
• Further regulate the marketing and sales of tobacco products that appeal to children.

Obesity
• Promote workplace wellness through the Wellness Council of Indiana and other organizations.
• Require more physical education and exercise in K-12 schools.
• Provide healthy food options in schools and promote a balanced diet high in:
    ➤ Fresh fruits and vegetables
    ➤ Whole grains
    ➤ Low-fat items and low sugar beverages.
• Require schools to maintain healthier nutritional standards.