

CAT: IL Has 'Rudderless' Business Climate

David Mercer, Deanna Bellandi, Associated Press

CHICAGO (AP) — One of the largest companies in Illinois is calling the state's business climate "rudderless" and "dysfunctional" after lawmakers failed to approve a package of tax perks to help several businesses threatening to leave the financially strapped state.

Caterpillar Inc. said the vote sends a bad signal as the heavy equipment maker considers sites to build a manufacturing facility. State officials are also trying to convince Sears Holdings Corp. to stay put, but Ohio officials are now boasting about having a shot at luring the giant retailer.

"It goes to the broader issue, which is a dysfunctional, rudderless business climate," Caterpillar spokesman Jim Dugan told The Associated Press. "We're not saying anyone has been ruled in or ruled out, but if you were in the economic development business, that's not the signal you would want to send."

Still, Gov. Pat Quinn said he isn't worried that the failure of the tax package would prompt a bidding war with other states to keep Sears or other major employers happy in Illinois.

The Illinois House overwhelmingly shot down the tax package on Tuesday, thanks in part to squabbling over a tax to help low income residents insisted on by Quinn. The Senate approved the package, and legislative leaders said they were optimistic they could negotiate a deal.

The tax incentives and other breaks were aimed primarily at Sears and a pair of companies that own financial exchanges in Chicago, though the package also provided a research-and-development tax credit backed by Caterpillar. The companies have threatened to leave the state year, as Illinois struggles with high unemployment and a multibillion-dollar government budget deficit.

Caterpillar, a Fortune 500 company based in Peoria, reminded Quinn earlier this year — after he signed off on income tax increases — that the company had suitors in other states.

Now, Dugan said, Illinois is again sending the wrong message, especially since the company is deciding where to locate a manufacturing operation that will employ 1,000 people. The company has talked with about two dozen states including Illinois, along with sites in Mexico and Canada that are interested in its plans to move some tractor and excavator manufacturing to North America from Japan, Dugan said.

Incentives play an important role in site selection, but business climate is a major factor, he said.

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This week's legislative vote in Illinois is "a perfect poster child for what's wrong with the state," Dugan said. "It sure as heck sends the absolute wrong signal."

Sears spokesman Chris Brathwaite was less direct, but said lawmakers were up against a deadline.

"It is our hope that lawmakers will achieve a compromise very soon as our timeline for making a decision about our future by the end of the year has not changed," Brathwaite said.

Quinn said he doesn't think Illinois will have to up its ante to match the \$400 million offer reportedly made by the state of Ohio to Sears, which is headquartered in suburban Chicago. Ohio Gov. John Kasich told The Columbus Dispatch Wednesday that his state had put together the best package it could and was "in the ballgame."

The tax break deal in Illinois would have given Sears \$15 million a year for 10 years.

"I think the proposed help for Sears is more than adequate to keep them here," Quinn said. "I think that ultimately Sears will stay here. That's what I endeavor to do as governor working with them."

Quinn and other state officials are in a multi-front struggle to build up the state's economy. The governor in January agreed to increase the corporate tax rate from 4.8 percent to 7 percent to help deal with a budget deficit projected to top \$8 billion.

That tax hike gave states including Indiana and New Jersey an opening to lure some Illinois-based companies and set-off a chain of threats — veiled and otherwise — from businesses to leave.

Caterpillar CEO Douglas Oberhelman told Quinn in a letter written just after the tax increase that the company — which was founded in Illinois and employs 23,000 in the state — has offers to move.

Sears has said it wants incentives or it could move its headquarters. The CME Group Inc. and CBOE Holdings Inc. contend the state's tax structure is unfair, saying the financial exchanges they own could leave downtown Chicago.

Illinois' unemployment rate, meanwhile, has increased for six straight months, to 10.1 percent in October. The national rate was 9 percent.

Brathwaite, the Sears spokesman, said Thursday that the company thinks the tax breaks in the deal voted down by the House would make Illinois "competitive."

CME Group and CBOE Holdings declined to comment about the legislative vote.

Quinn spokeswoman Brooke Anderson said the governor is talking to lawmakers about getting some version of the tax breaks passed.

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