



Kochoconomics in Wisconsin and North Carolina

By Anna Chu

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Introduction and summary

As heads of Koch Industries, Inc., America’s second-largest privately held company, a business empire heavily invested in oil and gas, chemicals, transportation, and manufacturing, the brothers Charles and David Koch are the fifth- and sixth-richest individuals in the world, worth an estimated \$52 billion each.¹ Much has been written about how the Koch brothers have used their immense wealth and influence to build a network of influence and how they are working to create an economic and political system at the national level that is rigged for the wealthy regardless of everyone else—or as we call it, “Kochonomics.” However, Kochonomics is not just being pushed at the federal level. Indeed, Kochonomics has gone beyond that and is being practiced by its foot soldiers at the state and local levels as well.

This report focuses on how Kochonomics is playing out in two states: Wisconsin and North Carolina. We chose these states for several reasons. First, the Koch brothers have a direct financial interest in these states, given that they own several subsidiaries operating in both North Carolina and Wisconsin. Second, conservative leaders have assumed much of the elected political leadership in these states and have put in place policies that have benefited a wealthy few with little to no regard for the effects on average taxpayers. Lastly, we chose Wisconsin and North Carolina because the Koch network selected them as targets for their conservative philosophy. In 2012, David Koch admitted that, “We’ve spent a lot of money in Wisconsin. We’re going to spend more.”² Tim Phillips, the head of the Koch-backed issue advocacy group Americans for Prosperity, or AFP, called North Carolina a “model state” for its activities.³ “A few years ago, the idea we had was to create model states,” said Phillips. “North Carolina was a great opportunity to do that—more so than any other state in the region. If you could turn around a state like that, you could get real reform.”⁴ Indeed, Phillips admitted that North Carolina “was one of the states we were most active” in pushing its conservative agenda.⁵

We divide this report into three sections. The first lays out the financial stake Koch Industries has in Wisconsin and North Carolina and how public policies in these two states would affect the Koch’s bottom line.

The second section looks at how the Koch network has funded state leaders in Wisconsin and North Carolina who can and have put in place policies that benefit the wealthy few, including the Koch brothers, regardless of the effect such policies have on everyone else. We focus on two ardent followers of Kochonomics—Wisconsin Gov. Scott Walker (R) and North Carolina Speaker of the House Thom Tillis (R). Both Walker and Tillis have received large campaign contributions from Koch Industries in their respective states. The Koch network is also helping Walker and Tillis in their 2014 election campaigns: Walker is running for reelection as governor and Tillis is vying for a U.S. Senate seat representing North Carolina in one of the most competitive races in the country.⁶

The third and final section of the report looks at the various effects that Kochonomics has had on both Wisconsin and North Carolina. In general, we show that the conservative policies put into place by Koch-supported lawmakers have benefited the wealthy few. Specifically, we focus on the issue of tax and find that:

- In Wisconsin, the Koch network aggressively pushed for tax cuts that heavily favor millionaires, billionaires, and big corporations. One of the resulting benefits to the Kochs is that they could see their income tax rate on the manufacturing activities of Koch Industries subsidiaries in Wisconsin drop to as low as 0.15 percent.⁷ Conversely, over the past four years, Wisconsin’s working and low-income families have had to pay \$170 million more in additional taxes.⁸
- In North Carolina, the Koch-backed Americans for Prosperity advocated for—and state lawmakers passed—tax cuts for the wealthiest 1 percent by an average of more than \$10,000 annually, while working families making between \$52,000 and \$84,000 per year would actually have to pay an average of \$74 more in taxes.⁹ Moreover, state lawmakers eliminated local business taxes, further reducing the taxes of Koch subsidiaries in North Carolina.

Koch Industries stake in Wisconsin and North Carolina

The Kochs have numerous business interests in Wisconsin, including at least six wholly owned subsidiaries in the state—Georgia-Pacific, Flint Hills Resources, Koch Pipeline Company, L.P., C. Reiss Coal Company, Koch Carbon LLC, and Koch Business Solutions—and at least two wholly owned subsidiaries in North Carolina—INVISTA and Georgia-Pacific Wood Products LLC. Because of these businesses, the Koch brothers have a financial stake in reducing the tax liability and regulatory obligations of their companies in these states.

Koch businesses in Wisconsin and North Carolina

- **Georgia-Pacific**, which is incorporated as a limited liability company, or LLC, and has six locations in Wisconsin and eight in North Carolina, produces paper products.¹⁰
- **Flint Hills Resources**, a limited partnership, or LP, is a refining and chemical company with four locations in Wisconsin.¹¹ Among other things, the company offers a wide variety of petroleum-based products, including asphalt, gasoline, jet fuel, and heating oils.¹²
- **Koch Pipeline Company, L.P.**, which is organized as a foreign limited partnership,¹³ owns or operates pipelines that transport crude oil, refined petroleum, and other chemicals.¹⁴
- **C. Reiss Coal Company** is a coal supplier with four locations in Wisconsin.¹⁵ It is organized as a corporation.¹⁶
- **Koch Carbon LLC** is registered in the state as a foreign LLC,¹⁷ and according to its website, “specializes in the global sourcing, supply, handling and transportation of bulk commodities.”¹⁸ The company is a subsidiary of Koch Minerals, LLC.¹⁹ Koch Minerals and its subsidiaries are “among the world’s largest dry-bulk commodity handlers, marketing and trading more than 40 million tons of product annually.”²⁰ Koch Carbon has a registered office in Madison, Wisconsin.²¹
- **Koch Business Solutions, LP** provides consulting and transactional services, such as human resources, informational technology, and finance, for subsidiaries of Koch Industries.²² Koch Business Solutions has an office in Green Bay, Wisconsin,²³ and is organized as a foreign limited partnership.²⁴
- **INVISTA** is a “wholly owned subsidiary of Koch Industries, Inc.”²⁵ and has a few locations in North Carolina, including one in Wilmington.²⁶ Among other products, it produces synthetic fibers used in everything from clothing to seatbelts and chemicals used in agricultural products, hand cleaners, and more.²⁷ Although INVISTA is incorporated as an LLC in North Carolina, its country of incorporation is Luxembourg,²⁸ a well-known tax haven.²⁹

Meet the foot soldiers of Kochonomics

Wisconsin Gov. Scott Walker

Gov. Walker is no stranger to Koch largesse. Over the past 19 years, the Wisconsin governor has been one of the top recipients of Koch Industries political action committee, or PAC, donations in state political races, according to the National Institute on Money in State Politics.³⁰ During Walker’s 2010 gubernatorial race, the Koch network donated \$43,000 to his campaign, the second-largest donation that Walker received in his campaign.³¹

Moreover, Americans for Prosperity strongly supported Walker. AFP President Tim Phillips estimates that from 2011 to 2012, the group spent \$10 million promoting Walker’s conservative policies,³² which included dismantling collective bargaining for public sector unions, rolling back environmental regulations, cutting taxes,³³ and helping the governor withstand a recall attempt.³⁴ AFP actions included

transporting Wisconsin residents to the state capitol to support Walker's proposals³⁵ and spending more than \$48,000 on television ads for state Senate races in 2011.³⁶ AFP also sent absentee ballot applications to Wisconsin voters, though the ballots were printed with the wrong date and erroneously told voters to return their ballots before August 11, 2011, despite the fact that Election Day was two days earlier on August 9.³⁷ AFP claimed this was a mistake of the printer and that it contacted individuals on its mailing list to clarify the date of the elections.³⁸

When Walker's aggressive push of conservative policies raised voter ire, AFP helped the governor successfully fight a recall attempt.³⁹ The group spent \$1.5 million in the state's biggest media markets during the recall election.⁴⁰ Just days before the recall election, AFP organized a multi-city bus tour promoting Walker's policies.⁴¹ As one reporter pointed out, "[g]iven the tour's timing and billing, any reasonable person would view it as a statewide drive to get out the vote for Walker and his GOP allies in the June 5 election."⁴²

Additionally, AFP has dedicated nearly \$1 million thus far in 2014 to support Walker's re-election bid in November.⁴³ As of the publication of this report, Walker is under investigation for improperly coordinating between his political campaign and independent groups.⁴⁴ Records show he solicited millions of dollars for independent groups such as Wisconsin Club for Growth during the 2011 and 2012 recall elections in Wisconsin.⁴⁵

North Carolina Speaker of the House Thom Tillis

As speaker of the North Carolina House of Representatives, Thom Tillis has tremendous influence over the direction of public policy in the state. He is also one of the biggest recipients of Koch Industries campaign contributions. According to the National Institute on Money in State Politics, from 2010 to 2012, Tillis received \$11,000 from Koch Industries, making him second-highest recipient of Koch Industries campaign contributions in the Tar Heel state.⁴⁶

The Koch network is also heavily supporting Tillis in his current race for the U.S. Senate. Charles Koch, his wife, son, and daughter-in-law each gave the maximum \$2,600 campaign contribution to Tillis' Senate campaign, for a combined total of \$10,400.⁴⁷ Koch Industries PAC also gave \$5,000 to the Tillis campaign.⁴⁸

Additionally, AFP has already spent nearly \$9 million attacking Tillis' opponent, the incumbent Sen. Kay Hagan (D).⁴⁹ Another Koch-backed group, Freedom Partners, plans to spend at least \$2.8 million in the North Carolina Senate race as well.⁵⁰

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