

**FINAL REPORT
OF THE
INTERIM STUDY COMMITTEE ON
ECONOMIC DEVELOPMENT**



**Indiana Legislative Services Agency
200 W. Washington St., Suite 301
Indianapolis, Indiana 46204-2789**

November 2012

**INDIANA LEGISLATIVE COUNCIL
2012**

Senator David Long

Vice-Chairperson

Fort Wayne

Speaker Brian Bosma

Chairperson

Indianapolis

Senator Vi Simpson

Bloomington

Representative Linda Lawson

Hammond

Senator Brandt Hershman

Buck Creek

Representative Kathy Richardson

Noblesville

Senator Patricia Miller

Indianapolis

Representative William Friend

Macy

Senator Brent Steele

Bedford

Representative Eric Turner

Cicero

Senator James Merritt

Indianapolis

Representative Timothy Brown

Crawfordsville

Senator James Arnold

LaPorte

Representative Vanessa Summers

Indianapolis

Senator Timothy Lanane

Anderson

**John M. Ross
Executive Director
Legislative Services Agency**

Interim Study Committee on Economic Development

Membership Roster

Senators

**James Buck, Co-Chair
Kokomo**

**James Arnold
LaPorte**

Representatives

**Mark Messmer, Co-Chair
Jasper**

**Sheila Klinker
Lafayette**

Lay Members

**Sonny Beck
Atlanta**

**Angela Faulkner
Granger**

**Chris Lowery
Batesville**

**Mark Becker
Fort Wayne**

**Mayor Shawna Girgis
Bedford**

**Michael Maurer
Carmel**

**Tom Easterday
Zionsville**

**Nancy Guyott
Indianapolis**

**Jeff Quyle
Camby**

**Art Evans
Coatsville**

**Daniel Hasler
Indianapolis**

**Gail Zeheralis
Indianapolis**

Legislative Services Agency Staff

James Landers, Fiscal Analyst

Heath Holloway, Fiscal Analyst

Michael Landwer, Attorney

Dan Paliganoff, Attorney

George Angelone, Attorney

November 2012

FINAL REPORT

Interim Study Committee on Economic Development

I. STATUTORY DIRECTIVE

IC 2-5-31.8 directs the Committee to study the following:

- (1) Best practices in state and local economic development policies and activities.
- (2) The use and effectiveness of tax credits and deductions.
- (3) Whether there are any specific sectors of the economy for which Indiana might have comparative advantages over other states.
- (4) The extent to which Indiana's tax laws encourage business investment, and any improvements that might be made to Indiana's tax laws.
- (5) The extent to which Indiana's education systems support economic development.
- (6) The benefits of existing community revitalization enhancement districts and possible new community revitalization enhancement districts as an economic development tool.
- (7) Any other issue assigned to the committee by the Legislative Council or as directed by the Committee's co-chairs.

The Legislative Council did not assign any additional responsibilities to the Committee.

II. INTRODUCTION AND REASONS FOR STUDY

The General Assembly is interested in examining the scope, focus, and efficacy of Indiana's economic development assistance and incentive programs and evaluating the extent to which Indiana's laws, policies, and educational systems influence economic development. In particular, the General Assembly wants to review and evaluate the effectiveness of existing state and local government programs, consider new proposals, and determine whether the state's economic development programs operate within the parameters of best practices established around the United States.

III. SUMMARY OF WORK PROGRAM

The Committee met four times. These meetings were held in Indianapolis, Indiana, on August 20, 2012, September 10, 2012, September 24, 2012, and October 11, 2012.

- (1) At the August 20th meeting, the Committee considered the following topics:
 - (A) Review of the statutory charges of the Committee.
 - (B) The Indiana Economic Development Corporation update on economic development programs and issues.
 - (C) Committee discussion of the 2010 and 2011 annual reports of the Committee.
- (2) At the September 10th meeting, the Committee considered the following topics:
 - (A) Presentation of the final report of the State and Local Tax Policy Commission of Policy Choices for Indiana's Future.
 - (B) Testimony on the federal New Markets Tax Credit.

(C) Testimony on the economic impact of the extension of unemployment benefits to 99 weeks.

- (3) At the September 24th meeting, the Committee considered the following topics:
- (A) Presentation of the final report of the Education and Workforce Development Commission of Policy Choices for Indiana's Future.
 - (B) Testimony on state workforce skills and training programs.
 - (C) Testimony on the creation of an industrial zone for automotive-related industry (SR 3-2012).
 - (D) Testimony on Next Generation manufacturing.

- (4) At the October 11th meeting, the Committee considered the following topics:
- (A) Preliminary draft legislation to establish a New Markets Job Growth Tax Credit.
 - (B) Preliminary draft legislation to make the Hoosier Business Investment Tax Credit refundable.
 - (C) Preliminary draft legislation to establish a sales and use tax exemption for the sale of certain enterprise information technology equipment.
 - (D) The final report of the Committee.

IV. SUMMARY OF TESTIMONY

The testimony focused on three broad topics:

- (1) Taxes.
- (2) Workforce and Education.
- (3) Marketing Indiana.

Taxes

The Policy Choices for Indiana's Future: Commission on State and Local Tax Policy presented the findings from its final report. The Co-Chairs of the Commission of State and Local Tax Policy (CSLT), David Lewis, Vice President - Global Taxes, Chief Tax Executive and Assistant Treasurer at Eli Lilly and Company, and Kathy Davis, Owner of Davis Design Group LLC, gave the testimony. The study recommended a balanced tax system relying on income, sales and property taxes with low rates and broad bases. CSLT did not recommend changing the Individual Income Tax rate, but concluded that the Corporate Income Tax rate decrease in current law has been helpful to the business climate. They stressed a regional approach to economic development. Communities should cooperate with each other because economic activity transcends government boundaries.

CSLT brought up a few issues for the Committee to consider. They expressed concern about the future of Indiana's infrastructure. The CSLT noted that the infrastructure in Indiana is aging and new funding sources must be found to maintain and repair the current infrastructure. In regards to local taxes, they recommended studying the impact of the credit for excessive property taxes (circuit breaker) on local governments. The circuit breaker has created problems for local governments, and they provide essential services to their communities. The CSLT proposed standardizing the tax treatment of not-for-profit

organizations. Not-for-profits can consume large amounts of public services, but they typically receive tax-exempt status. A system of payments-in-lieu-of-taxes (PILOTS) could be implemented to ease the burden on local governments. Lastly, the CSLT suggested the Indiana Sales Tax rate is too high. Currently, Indiana's state Sales Tax rate is the second highest in the nation. They propose that lowering the state Sales Tax rate would improve the overall business climate and make Indiana more attractive to outside businesses.

Daniel Hasler, ex officio Committee member, Indiana Secretary of Commerce and CEO of the Indiana Economic Development Corporation (IEDC), provided an overview of the progress made by the IEDC in the past year. He reported the Indiana business climate was ranked the best in the Midwest and 5th nationally by Chief Executive Magazine. Mr. Hasler said Indiana could do better. One area of improvement he suggested also involved the state sales tax. Data centers and cloud computing operations require significant capital investments in information technology (IT) equipment. This equipment is expensive and has to be replaced every two to four years. The sales tax rate of 7% is an impediment despite Indiana's other advantages. He suggested that Indiana make the IT equipment necessary to operate these businesses sales tax-exempt. Mr. Hasler stated that this change would attract more capital investment and create more IT jobs in Indiana. In addition, he reported that Indiana needs more readily available shovel-ready sites. Programs should be put into place to encourage investors and speculators to develop more of these sites. One idea Mr. Hasler offered was to make the Hoosier Business Investment (HBI) Tax Credit refundable. HBI is a tax credit for qualified capital investments, and Mr. Hasler suggested that making the credit refundable would spur additional investments.

Ben Dupuy, Director of Government Affairs and Marketing at Stonehenge Capital, presented information on a tax credit program he believes would help attract additional private investments. He talked about the federal New Markets Tax Credit (NMTC) program. The New Market Tax Credit provides tax incentives to private investors who provide capital to community development entities (CDEs). An organization must be certified by the federal Community Development Institutions (CDFI) Fund as a CDE to be eligible for the NMTC program. A CDE is a domestic corporation or partnership that provides loans, investments, or financial counseling in economically distressed communities. The CDEs provide the capital for equity investments to businesses investing in economically distressed areas. The federal program has allocated \$33 billion in tax credits since it began in 2000. The credits are provided on a project basis through a competitive application process. Mr. Dupuy indicated that states with their own version of the New Markets Tax Credit attract more federal New Markets qualified investment. He advised that Indiana should consider enacting a New Markets Tax Credit program.

Michael Hicks, Ph.D., Director of the Center for Business and Economic Research at Ball State University, testified that extending unemployment benefits does have a negative impact on employment, but the effect is extremely small. In addition, he provided research conducted by the Center for Business and Economic Research on the effectiveness of the federal New Markets Tax Credit program.

Workforce and Education

Teresa Lubbers, Commissioner, Commission for Higher Education (CHE), stated that four out of five jobs lost during the recession required only a high school degree or below, and Indiana ranks 40th in higher education degree attainment. Commissioner Lubbers believes the Hoosier workforce needs to focus on acquiring the skills necessary to succeed in a knowledge-based economy. Commissioner Lubbers was not alone in her assessment. Dan Clark, Executive Director of the Education Roundtable, and Jeff Terp, Sr. Vice President for Engagement and Institutional Efficiency at Ivy Tech Community College and Co-Chair the Policy Choices for Indiana's Future: Commission on Workforce and Education, agreed that Indiana's educational objective should be to increase the number of people with degrees or credentials.

Mr. Clark provided information from the Indiana Education Roundtable on measures of degree attainment. He offered specific proposals on how to address this issue. Mr. Clark proposed identifying students who would need remediation at an institution of higher education (IHE) while they are still in high school, and then give those students the necessary assistance before graduation. He also proposed aligning secondary school curriculum to provide a seamless transition to an IHE. This would involve providing dual-credit courses to accelerate degree or occupational certification completion. Aligning the opportunities and pathways to higher education was a consistent message.

Commissioner Teresa Lubbers shared CHE's strategic plan "*Reaching Higher, Achieving More.*" with the Committee. The CHE is emphasizing that all people acquire at least a sub-baccalaureate degree. According to the CHE, the knowledge economy will require a person to have at least an occupational certification to earn a reasonable wage. She proposed implementing programs to promote postsecondary education and program completion. Commissioner Lubbers stressed that it is not enough just to get more students enrolled at IHEs. The CHE wants students to graduate and graduate on time. The CHE is proposing a refined performance funding formula based on those objectives. Another aspect of the strategic plan is ensuring the degree earned has value to both the student and the workplace. This goal cannot be achieved in isolation. It can only be achieved through a partnership with private employers.

Jeff Terp emphasized the same points when he presented the final report from the Policy Center for Indiana's Future: Commission on Education and Workforce Development (CEWD). The CEWD final report contained similar findings. They proposed a better pathway to guide students from secondary school to IHEs, then to employment. Collaborating with private employers is the best way to accomplish the last transition. Mr. Terp emphasized these partnerships provide benefits to all parties. IHEs can offer valuable degree and certification programs to students. A student can earn a degree or certificate that they can use to gain employment. An employer gains an employee with the necessary skills needed for their operations. CEWD provided policy recommendations geared to training and expanding the skill of the available workforce.

Jeff Terp provided an overview of the Ivy Tech Corporate College. The Ivy Tech Corporate College works with employers to provide specific training and certification programs to their

employees. These programs are already available and are currently being used by Magnolia Health Systems, Cook Group, Subaru of Indiana, and Kirby Risk Corporation. These programs could be promoted as a business incentive.

Mr. Terp unveiled a new program to the Committee. The new program is a partnership between the Ivy Tech Corporate College, the IEDC, and private employers. The new program allows employers to sponsor employees to enroll in specific certification programs. The employee will earn a certification from Ivy Tech, and they will not have to pay any tuition as long as they commit to work for the sponsoring employer for a certain amount of time. The employer and the state of Indiana will provide the tuition to Ivy Tech after the employee completes the program. This initiative has yet to be implemented, but has already received recognition by the National Association of Manufacturers.

Vic Lechtenberg, Ph.D., Acting Executive Vice President for Academic Affairs and Provost at Purdue University, discussed the programs Purdue has implemented to enhance the skills of Indiana's adult workforce. The Purdue College of Technology can partner with businesses to provide training and degree courses to employees. Employees can earn a Purdue degree at a reduced tuition through such a partnership. Dr. Lechtenberg believes these collaborative programs between employers and IHEs can be more valuable to some firms than tax incentives.

Marketing Indiana

Mr. Hasler mentioned during his presentation that Indiana needs to improve its brand. He said that Indiana needs to better promote its strengths to others. Indiana should be more outspoken on the merits of its business climate, research institutions, and manufacturing base.

Dr. Lechtenberg discussed the proposed Next Generation Manufacturing Center. The Next Generation Manufacturing Center will be an advanced manufacturing training and research facility that will provide benefits to small-sized and medium-sized manufacturers. The new project along with the Purdue Research Parks will allow Indiana to attract research outsourced by other firms.

An example of a successful brand is the Midwest Automotive Loop. The Midwest Automotive Loop is a cooperative economic development initiative created by Mayor Wayne Seybold of Marion and Mayor Greg Goodnight of Kokomo. They are working together to promote the entire region by providing a clear vision of what they have to offer investors and other manufacturers. The mayors represent two communities with a large concentration of automotive manufacturing industries, easy access to major interstates, municipal airports, and close proximity to six IHEs. They presented their current vision of the Midwest Automotive Loop and discussed their efforts to include other regions. The mayors emphasized that all investment in the region, regardless of which county it is located, provides benefits beyond political boundaries.

V. COMMITTEE FINDINGS AND RECOMMENDATIONS

The Committee made the following findings of fact:

- (1) Indiana needs additional venture capital investment.
- (2) Indiana's sales tax rate is high compared to other states and is prohibitive to investment in Indiana by data center and IT companies because this equipment is subject to sales tax.
- (3) The Hoosier Business Investment Tax Credit program is limited in its effectiveness due to the nonrefundable nature of the tax credit.
- (4) The Midwest Automotive Loop is an important cooperative regional economic development initiative that could result in new investment and employment opportunities in Indiana.

The Committee made the following recommendations:

- (1) Legislation should be enacted to establish a New Markets Job Growth Tax Credit for investments in qualified community development entities (PD 3257).
- (2) Legislation should be enacted to permit the Indiana Economic Development Corporation to grant the Hoosier Business Investment Tax Credit as a refundable credit (PD 3260).
- (3) Legislation should be enacted to establish a sales and use tax exemption for the sale of certain enterprise information technology equipment (PD 3263).
- (4) The Indiana General Assembly should refrain from enacting policies that may hinder the development and advancement of the Midwest Automotive Loop initiative.
- (5) The Indiana General Assembly should encourage higher education institutions in Indiana to continue to develop and implement programs in conjunction with the Indiana Economic Development Corporation and the Department of Workforce Development for improving the skills and education level of Indiana's workforce.

By voice vote, the Committee recommended each of the PDs for adoption by the General Assembly.

The Committee approved this final report by voice vote after discussing the proposed findings and recommendations.

WITNESS LIST

Dan Clark, Executive Director
Indiana Education Roundtable

Kathy Davis, Co-Chair
State and Local Tax Policy Commission
Policy Choices for Indiana's Future

Ben Dupuy
Director of Government Affairs and Marketing
Stonehenge Capital Co, LLC

Greg Goodnight, Mayor
City of Kokomo

Daniel Hasler, CEO
Indiana Economic Development Corporation

Michael Hicks, Director
Center for Business and Economic Research
Ball State University

Vic Lechtenberg,
Acting Executive Vice President for Academic Affairs and Provost
Purdue University

David Lewis, Co-Chair
State and Local Tax Policy Commission
Policy Choices for Indiana's Future

Teresa Lubbers, Commissioner
Indiana Commission for Higher Education

Wayne Seybold, Mayor
City of Marion

Jeff Terp, Co-Chair
Education and Workforce Development Commission
Policy Choices for Indiana's Future