

# Economic Development Evaluation

## Strong Progress, But Still ‘A Long Way to Go’

By Tom Schuman

**S**ports analogies are extremely useful for helping put developments into the proper context.

With football season approaching, we'll utilize the Colts for this exercise. If quarterback Peyton Manning throws for 450 yards against the recently hapless Bengals (they have to get better someday, don't they, this frustrated Cincinnati fan says) in a meaningless preseason game, you rejoice briefly and move on.

If Manning throws for only 150 yards, but that total includes two touchdowns against the top-ranked defense in the league and the team wins its first playoff game in nearly a decade, then there is reason for celebration.

In the serious game of economic development, there are no exhibitions. The stakes are lofty and growing higher each year. Government decisions set the stage for what local economic development professionals, communities and businesses can do to attract and retain growing companies and the high-skill, high-wage jobs they possess.

Context also applies to the 2003 legislative session and the economic development initiatives that were passed, primarily as part of the budget bill.

If that package was (and now many wish it had been) adopted in the late 1990s when the state banking account was flush with a \$2.3 billion surplus, the reaction at the time would have been disappointment that more had not been accomplished. Fast forward to today – with its challenging economic times throughout the state and nationally – and the same initiatives are a tremendous accomplishment. Not a conclusion, but a strong step on the way to ensuring a better economic future.

Discussing the progress in 2003 and the steps that remain are:

### Participants

**Brian Bosma** – Republican state representative from Indianapolis and minority leader of the House

**Kevin Brinegar** – president of the Indiana Chamber of Commerce

**Bill Konyha** – executive director of the Tipton County Economic Development Corp. and president of the Indiana Economic Development Association (IEDA)

**Mike Wells** – president of REI Investments

### Better than anticipated

“Pleasantly pleased and very pleasantly surprised” is Brinegar’s reaction to the outcome of the session. Given the state’s financial condition, protecting the gains made in the 2002 tax restructuring and not further delaying property tax reassessment were among the Chamber’s priorities. The organization initiated and supported many of the proposals eventually adopted, but leaders were not overly optimistic about the chances for success.

Although the final package included input from the administration’s Energize Indiana plan, proposals from each legislative caucus and business community initiatives, Brinegar says much of the credit must go to the House Republicans.

“Brian Bosma was the person and the House Republican caucus was the caucus that said, ‘We’ve got to have these items in here ... to pass this budget.’”

The journey began 16 months earlier with the caucus announcement of an economic development program. A few elements were enacted in the tax reform measures of 2002, but the plan was revised and rolled out again in the fall of 2002. Candidates in last year’s elections discussed the plan and the 49 elected members of the caucus continued to push its components. Two weeks before the end of the 2003 session, 24 concepts that had been debated were endorsed by the House Republicans; 19 of them passed.

“We just kept putting it on the front burner,” Bosma explains. “If I had to give it a



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single word, it would be persistence. We set a goal. We stated that job creation would be Job One for the House Republicans over the last year, and we accomplished a great deal of that with the help of a lot of people.”

## Help now ... and later

Some of the components of the legislation offer the opportunity for immediate impact, while others are long-term proposals. Wells cites the funding of certified technology parks and ability of the Indiana Port Commission to finance projects throughout the state as key elements.

“I think, for once, we’ve really given our economic development people some tools to work with. Those two items, while neither one original, were showing good results in other states,” he points out. “It’s great for Indiana to have those things available.”

As one of the economic development people utilizing the state’s toolkit of programs, Konyha puts the Hoosier Business Investment Tax Credit (a 30% tax credit on new capital investments) at the top of the list of immediate impact items.

“It provides us with an opportunity to assist existing businesses to upgrade technology, to improve on quality, to expand current operations,” Konyha claims. “For many of us in those outlying areas, it’s just as important to be able to preserve what we have as it is to be able to expand by adding employers and adding businesses.”

Reverting back to the big picture of the overall package, Brinegar is encouraged by the beginning of a reversal of spending priorities. Over the last six budget years, the largest percentage increases in funding were devoted to welfare, corrections and regulatory programs. At the bottom of the spending table has been education and economic development.

## New leadership

A fundamental change to the future of economic development in Indiana was realized through the revision of the Indiana Economic Development Corporation (IEDC). The governor, legislative caucus leaders and university presidents will appoint board members charged with setting the state’s course of action and instituting a public-private sector partnership in the IEDC that will go into effect on July 1, 2005.

Bosma used words like “thrilled,” “shocked” and “monumental occurrence” when describing the initiative. He believes it will allow the state to combine the resources currently in place and to better take advantage of its strong higher education institutions.

“This is probably the most important long-term change,” he suggests. “Right now, we have no course set; at least not a unified course. This package will not change our economy next week, but hopefully 10 years from now we’ll look back and say: ‘This was a defining moment, a place where the ship was turned around



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**– Brian Bosma  
House of Representatives**

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In a post-session lobbying move, Konyha says he hopes there is room on the council for an IEDA representative, someone working day in and day out on economic development issues. He believes the organization and its members were listened to during the legislative debate and have more to offer.

Wells points out positive results from Michigan and Florida, among others, in similar public-private efforts. He agrees with the Bosma assertion of its importance and “how it can change the whole agenda for the state.”

Brinegar is cautiously optimistic, adding the word potential to the description of the IEDC as the “most important element of the whole legislation.”

## Entrepreneurial incentive

Providing entrepreneurs with the resources to succeed has been a challenge. Brinegar cites expansion of access to the venture capital tax credit enacted in 2002 and the funding of the 21st Century Research and Technology

Fund (\$37.5 million a year over the next two years – a much larger amount than many thought possible) as positive steps.

Wells, utilizing the context argument, says the \$75 million total is small compared to other states, but significant.

“It sends a message to the business community and the universities and all of those who are interested in job creation that government is there, moving in the right direction and willing to help,” he says. “When we find success from these investments, I think the legislature will be very interested in providing more dollars.”

Konyha considers entrepreneurship a significant piece of the puzzle, with the legislation including a number of incentives for those willing to take a chance to start and grow their business. “I think those individuals who have the entrepreneurial spirit will be encouraged to apply that spirit here in Indiana and develop their own company.”

The core elements are in place, according to Bosma. Funding is the missing link.

“We have to have the capital. We have to have the resources.

We have to have the technology for these companies to thrive here. We have strong entrepreneurs. We have strong universities. We have to have



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*Indiana Economic Development Association*



strong resources for those who want to stay here.”

The state has clearly identified priority areas of developing companies in life sciences, advanced manufacturing, information technology and logistics. Konyha and Bosma warn not to forget the importance of the state’s long established agricultural strength and its role in biotechnology development.

Focus is fine, Brinegar adds, but not at the expense of others.

“We need to make sure we’re nurturing education, training and development, and competitiveness among the business community as a whole,” he contends. “We don’t want to be betting the farm on three or four categories the government has selected as the blessed and future growth areas. It’s hard for stock market analysts to do that, let alone state government.”

### **Work far from over**

Before anyone sits back and rests on the laurels of passing this legislation, implementation awaits, as does additional fundamental changes and investments.

“We still have a long way to go,” Wells states. “One of the reasons I think a lot of this was done in the last session is the fact that we’re getting clobbered

by Michigan, Ohio, Kentucky, Illinois. The competition is getting tougher and tougher, and we were falling way behind.”

Picking up on the Bosma analogy of moving the ship forward, Wells says there are still a number of obstacles in the way of “turning this barge around.”

“We have to come to grips with our K-16 education and our workforce development. We can do some things to attract companies rather quickly and we can make some things happen, but in the long run we’re never really going to get where we want to get without a well-educated and well-trained workforce. That, as we all know, is not something you can do by just snapping your fingers.”

Disappointments from the legislative session, Bosma says, were the lack of adequate K-12 education funding to fully implement the standards and accountability legislation approved in Public Law 221 and the absence of a training tax credit to assist adult workers.

Two defeated proposals would have allowed employers or individuals to receive personal tax credits for training in certain key job areas, and graduates in those career fields to receive an annual tax credit for up to five years in exchange for working within the state.

It’s critical to not only educate tomorrow’s workforce, but retrain today’s employees.

“Companies don’t want to come here and get a grant to train 200 people to do what they need done,” Wells contends. “They want to go to a state that already has 200 people waiting to start work tomorrow.”

### **Budget bottleneck**

All agree that Indiana can’t fund the education and workforce development systems at appropriate levels without solving the state’s budget crisis. Only once, in the last six budget sessions, has the spending outlined in the budget matched the anticipated resources. Budgets have typically spent hundreds of millions of dollars more than what the revenue forecast calls for.

Borrowing from various funds and employing accounting tricks allows the state to get by, but not solve the long-term problem. Six states, according to Bosma, limit expenditures to 99% of expected revenues, but a similar measure advocated by the Chamber in the past and proposed by House Republicans this year was defeated.

The loss of nearly 120,000 jobs over the last three years only added to the problem. Maintaining

that job base would have resulted in revenue growth, Brinegar says, instead of unprecedented back-to-back fiscal year decreases in revenue.

“The budget situation is the big log that’s laying across the railroad tracks that could derail us pretty quickly,” he notes. To continue to make progress, we have to come up with a long-term solution or it could throw us down in the ditch – a ditch that we’d have a hard time crawling out of.”

Complacency is and has been a factor in Indiana.

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**Mike Wells**  
*REI Investments*



## Adding to the Power of the Ports

A number of economic development initiatives survived close scrutiny and were passed by the 2003 General Assembly. One with an extremely high potential for long-term benefits is the expansion of Indiana Port Commission financing authority.

Technically, that includes the ability to finance and construct: 1) infrastructure projects throughout Indiana for the transfer of goods and passengers; and 2) non-port projects to promote statewide growth and development.

Specifically, the possibilities are numerous.

"We can't even know what the positive consequences can be yet," notes Indiana Ports Commission Executive Director Will Friedman. "The legislation has opened up the whole state to us to apply our capabilities. It used to be within the fences of these ports was the only place we could operate."

The effort is similar to one in Ohio in which the port system's bonding authority is used to enhance statewide infrastructure. A study will determine specific projects and timetables. High on the list is expected to be ways to better take advantage of the state's capabilities in distribution and warehousing operations.

"One of the strengths of our state is our transportation infrastructure, but we need to exploit that better. We have to drive down costs and make Indiana companies more competitive," Friedman asserts. "I don't know how many times site selection people have told us the models point to Indiana (as a potential location)."

Those models can turn into actual company relocations/expansions and more jobs. In addition, the improvements to the state's tax climate are removing a previous obstacle to business investment.

Friedman cites the value chain of trucking, intermodal rail, software logistics and more as an already large part of the state's economy with tremendous growth potential. The movement of goods will only be enhanced through realization of the Port Commission's goal of "developing inland ports that function like ports without water."



## Lost opportunities

Another item in the budget bill was appropriating \$1 million to the Indiana Department of Commerce to promote the 2002 tax restructuring changes. Such marketing, it seems, should have been taking place since the legislation passed more than a year ago.

"It shows that we're sick and tired of having other states advertise in Indiana, stealing our customers, so I think that's positive," Wells analyzes. "The fact that we had to do it (appropriate money for that specific purpose) is troubling to some extent."

"What we find in our business is that once Indiana is on a short list and it's allowed to compete for a lot of jobs, we do pretty well. The problem has been that we don't make the short list to begin with, and if you're not in the competition, you have no chance to win."

Konyha shares similar sentiments, noting the "difficulty of fending off the marketing efforts of surrounding states when we don't have the same marketing effort ourselves. The economic development community appreciates this effort."

Brinegar: "The (need for the appropriation) is a sad statement and underscores the fact that we've squandered valuable time in getting the word out about this historic tax restructuring. It's frightening – or sad – that out of a \$22 billion budget that the administration couldn't have found at least a million dollars, or whatever the desired number is, to promote this legislation prior to now. That should have happened long before now."

Bosma acknowledges that there have been opportunities lost in the last decade, but maintains

that all but a very few elected leaders were "prepared to take whatever steps were necessary to put us back on the 'right track' (the title of the House Republican economic development program), and we will continue to do that."

Brinegar says the last two sessions have demonstrated a willingness to look ahead.

"We can sit around and wring our hands and point fingers about what we should or shouldn't have done in the past," but the focus has appropriately shifted to "beginning to put the state where it needs to be and making it more competitive – looking forward into the future and not back over our shoulder at the past."

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Bosma says he spent a substantial portion of his time in the latter half of 2002 convincing legislative leaders that the job was not done following the 2002 tax restructuring. He encountered a great deal of resistance.

"We cannot run our respective businesses by setting a course of action and walking away and saying: 'OK, that's it. It's on course. It's going and now I'm done.' It takes constant mentoring, constant adjustment, and economic development in our state is no different. But I am optimistic that for the first time in the last decade we actually have decided that it is important for our state to move forward."

Wells believes that attitude has arisen due to the desperate nature of the state's economy.

Konyha carries that idea further, noting that alcoholics in search of sobriety act out of crisis.

"I see Indiana in that kind of place, and it's actually kind of good," he says. "We took our first steps toward sobriety with the lines of progress last year, and I've seen that expand and grow. Now the key is to continue to be able to work together as the sobriety period lengthens."