CHAPTER 11
ECONOMIC DEVELOPMENT

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IN THIS CHAPTER. . .

Credit: City of Evansville

WHAT IS ECONOMIC DEVELOPMENT?

Economic development is most commonly thought of as activities pertaining to job creation, but the term refers to a wide range of activities related to improving and sustaining the economic health and standard of living of a community or region. The construction and/or expansion of industrial and commercial properties, educational and medical facilities, and corresponding infrastructure and utilities are all core objectives of economic development. As such, the field has a close relationship with both land use and long-range planning.

Economic developers work at many different levels on a wide variety of activities, from the federal government to local municipalities and not-for-profit organizations. They craft policies, secure grants and other financial resources, negotiate public-private partnerships, and manage real estate development projects. There are five key economic development strategies that are employed, though not all communities employ all of them simultaneously:

1) Business/Job Recruitment;
2) Business Retention and Expansion;
3) New Business Development/Entrepreneurship ;
4) Tax Base Expansion and Diversification;
5) Redevelopment;
6) Workforce Development; and
7) Community Economic Development.


Credit: South Bend Regional Chamber of Commerce


Credit: Dearborn County

Credit: City of Evansville

TYPES OF ECONOMIC DEVELOPMENT

Business / Job Recruitment

Business recruitment is by far the most common focus of economic development organizations. Virtually every economic development organization (EDO), small or large, has a focus on recruiting new jobs. The spotlight on the ability to create new jobs has taken on a new emphasis since the 2007-2009 recession, which saw the nation lose 8 million jobs from 2007 to 2010. Business recruitment has long been a focus in Indiana communities, many of which are dealing with changing economic trends related to the restructuring of the manufacturing industry. EDOs employ a number of strategies designed to recruit new businesses. They offer or coordinate the application of financial incentives, sometimes in conjunction with state or federal programs; they prepare "shovel-ready" land in strategic locations that makes it easier and cheaper for a new business to construct a facility; and they build infrastructure such as roads and utilities to serve prospective businesses.

Due to the prevalence of business recruitment activities, this strategy has become extraordinarily competitive, with states and communities across the country competing for the same number of finite jobs, from small scale technology start-ups to large industrial and manufacturing facilities. This has, in essence, created a "buyer's market" in that businesses looking to locate new facilities have enormous leverage in playing communities against each other in order to receive the best financial deal possible. While there is great competition between states and between communities and economic regions in providing public incentives to businesses, it is often the case that certain businesses require specific types of production inputs and/or proximity to critical suppliers that may be far more important to the business location decision than any combination of local and/or state public incentives packages.


Credit: Huntington County Indiana Economic Development

Business Retention / Expansion

Business retention and expansion (BRE) consists of activities related to retaining and expanding local employers. The implementation of BRE activities by EDOs is far less prevalent than business recruitment, despite studies that show that the majority of job creation takes place through the expansion of existing businesses in a community rather than those attracted to a community.

As described in its name, BRE includes two related but different activities. Business retention is the act of convincing existing businesses to stay and re-invest in the community. Because of the leverage that employers have (see above), this often includes the allocation of an incentive package of sufficient benefit to convince a business to stay. Another method used to retain business is to make tangible quality of life improvements, such as downtown revitalization, commercial development, and parks and recreation-related amenities that convince business owners that they can retain talent.

Business expansion consists of incentives and partnerships related to the growth of an existing business. Sometimes this consists of a business moving to a larger facility – thus making sure there are properties available for businesses to expand into – and sometimes this includes expansions of existing facilities. Economic developers have a wide range of tools at their disposal to assist businesses in expansion if they require assistance.

New Business Development/ Enterpreneurship

Small and emerging new enterprises can create significant employment and wealth generations for communities. These businesses can also help to diversify local economies. Considering the continuing evolution of technology, coupled with high speed internet connectivity, small businesses have the freedom to operation their businesses at the local of choice. Communities that foster innovation and new businesses development will be well positioned to realize a more vibrant and dynamic community. Typical tools to support new businesses development range from providing business incubator space to offering alternative financing resources. Emerging engagements include economic gardening, where local efforts are provided to support market analysis, technology transfer and related research assistance to new and emerging businesses.

Increase / Diversification of Tax Base

The recent Great Recession put a spotlight on the importance of managing the local tax base. Declining residential and commercial property value has resulted in lower municipal revenue to cover services, payroll, and investment in economic development. Numerous communities have had difficulty keeping staff – including key personnel such as firefighters and police officers – and some states have seen a rash of municipal bankruptcies, where municipal debt in the form of short- and long-term obligations has proven to be too extensive relative to the adjustment in revenue.

Indiana communities experienced an additional hit to their tax bases when the State imposed property tax caps beginning in 2010 for residential, industrial, and commercial property, just as the gradual recovery from the Great Recession had begun. Accordingly, stabilizing and increasing revenue has emerged as an essential economic development activity as important as job creation. Increasing the local tax base typically consists of developing raw land for commercial or industrial users, or redeveloping underutilized for vacant property for similar uses. This focus on commercial and industrial users is important to note as they generate higher rates of tax contribution than it costs to serve them through utilities or infrastructure construction/maintenance. These users can also contribute revenue to multiple tax revenue sources, such as sales and hospitality taxes in addition to property taxes. Most communities have realized that residential neighborhoods, built at low levels of density, do not always support the cost of serving them through utilities, or generate enough revenue to provide efficient and effective city services. In communities that have historically relied on residential property taxes, this is a tax base diversification initiative. Carmel, Zionsville, and Fishers are good examples of communities with increasingly diverse tax bases.

Credit: Kokomo Tribune

Redevelopment

The construction or rehabilitation of property that was previously developed has become an increasingly important economic development objective. Whereas the reuse of formerly active industrial properties has long been a practice of economic developers, the growing number of vacant and abandoned commercial and residential properties - often found in the older parts of cities and towns – have become a priority for redevelopment for a number of reasons, many associated with tax base and community development.

High concentrations of vacant, distressed, or "blighted" property has resulted in a negative cycle that threatens economic and social stability within Indiana's residential neighborhoods and downtowns. Because these properties stand vacant due to disinterest from the market (i.e. businesses, developers, and investors), this cycle has become extremely difficult to arrest, even in large urban areas. Simply put, the market may not respond to many redevelopment opportunities since developers often do not perceive them as profitable ventures, despite the numerous advantages that the reuse of a particular property or series of properties might offer to a community. There are two key components to a developer's decision not to take on a redevelopment project: 1) unfavorable cost/benefit analysis results – where the projected revenue from a project does not overcome the estimated costs associated with redeveloping the site; and 2) perceived lack of adequate market demand to support potential development on the site. Larger cities with strong demand for housing and corresponding commercial services and destinations have been able to overcome these hurdles, but smaller communities with more limited demand and lower consumer spending power struggle with property redevelopment. In these cases, redevelopment efforts may turn to the process of incentivizing property to make sure private investors can make a deal work. This is an area where economic developers can contribute their expertise in managing many of the same funding sources and incentives used to recruit jobs.

An important sub-area of redevelopment is brownfield remediation and redevelopment. Brownfield sites are defined by the Environmental Protection Agency (EPA) as "real property, the expansion, redevelopment or re-use of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant." Brownfield sites can be extremely difficult to redevelop for new uses, as investigating and cleaning up contaminants and pollutants can be an expensive process - often too expensive for private investors to bear. Indiana's historic concentration of industry and manufacturing means that the state is littered with thousands of brownfield properties, though the problem is hardly found only within Indiana or the Midwest. The brownfield redevelopment process is complicated by sites that are thought to potentially be contaminated. Once a new business or developer purchases land, they are legally obligated to remediate (clean up) the site. This understandably results in hesitation to engage in land speculation and investment if the status of a site's cleanliness is unclear.Both the State and Federal Government have a number of funding sources available for brownfield cleanup, but it is becoming increasingly competitive to obtain.

Workforce Training / Development

Many occupations have become increasingly specialized, and aligning a skilled workforce with employment opportunities has become a vital component of economic development. Workforce training and development typically is split into two areas of focus: the needs of a particular employer, and the needs of people living in a particular geography. Economic development literature refers to these approaches as “sector-based” and “place-based” strategies.

In making decisions to locate operations, it suits employers to seek out geographies with a skilled workforce that aligns with what that employer needs to do business. This is the essential need behind the sector-based strategy. Technology companies prefer locations with highly educated young professionals, biomedical companies prefer proximity to hospitals and universities, manufacturing businesses require skilled line workers and managers, and so on. Strategies to grow and leverage an educated and skilled workforce can yield effective “clusters” of businesses that form a prosperous economic base.

However, workforce training is also about transitioning a local workforce to new employment opportunities. This has become a particularly important issue in communities where a loss of employers has left behind a workforce trained for specific jobs that no longer exist locally, such as automotive or steel manufacturing. Investing in technology- and trades-based courses at local educational institutions and offering training and technical assistance to train new hires are both examples of “supply-side” or “place-based” workforce development.

Community Economic Development

The fields of economic development and community development – the practice of building community through affordable housing, citizen involvement, social integration and poltical empowerment – have often been practiced separately. Recently, there have been efforts to more closely connect aspects of both fields due to the recognition that economic and social advancement of low income households is highly connected to their access to education and employment. Thus, the field of “Community Economic Development” has risen to address economic development needs at a more localized level, focusing on a holistic and inclusive approach to foster economic, social, and cultural well-being.

Credit: South Bend Regional Chamber of Commerce

COMMON INCENTIVES FOR ECONOMIC DEVELOPMENT

The competitive nature of job creation and retention, combined with the need to stimulate the development of underutilized and/or contaminated properties, means that financing related to stimulating, incentivizing, and subsidizing investment is very much at the forefront of the economic development field. There are a wide variety of financial sources and tools used for economic development purposes across the state, but the most widely used tools are centered around raising, capturing, or reducing property, income, or sales tax. Some of these tools can be employed at any time, but others require political approval and community support to create, and thus it is important for citizens to understand what they are and how they are used.

Tax Abatement

In some cases, the most expensive part of setting up new business operations is the investment in property, infrastructure, and equipment. Accordingly, businesses often look to local or state government to offset these costs. In Indiana, and in virtually all other states, local governmental taxing units can offer tax abatement on real property and equipment. Recent changes to Indiana's tax abatement provisions allow communities to customize the terms for local property abatement. Tax abatement may be the most common economic development tool available. In many cases, it can be a huge benefit to the economic stability of a new or expanded operation. However, the increasing competitiveness of the economic development field has led to businesses demanding an abatement, whether one is needed or not.


Credit: Around Fort Wayne

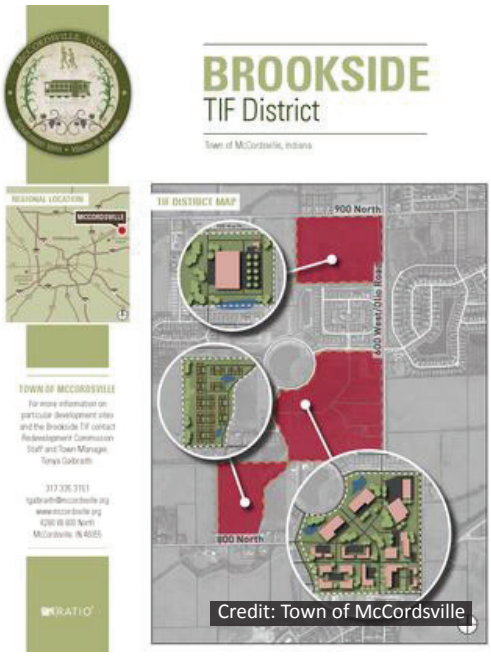
Tax Credits

Whereas tax abatement offers relief from property taxes, tax credits offer reductions to claim on several tax responsibilities – mostly income taxes. Indiana offers a number of tax credits to reduce the corporate tax burden, including the Economic Development for a Growing Economy (EDGE), Hoosier Business Investment, Industrial Recovery, and Headquarters Relocation credits. Additionally, the Federal Government offers several tax credit programs, many of which are administered at the state level. These include

Investment, Historic Rehabilitation, Renewable Energy, Industrial Development, Low Income Housing, New Markets, and Qualified School Construction credits. The availability of the federal-level credits has created a secondary market in which businesses or developers can sell the credits for project equity – particularly common are Low Income Housing, New Markets, and Historic Rehabilitation credits. The ability to sell state credits can be challenging due to the limited market. Often times these credits are purchased/used primarily by the businesses making the primary investment in facilities.

Tax Increment Financing

Tax Increment Financing (TIF) is a tool that generates economic development revenue through a special district that captures additional tax revenue generated from various economic development and real estate development projects. To establish such a district, a community will designate a geography as either a redevelopment or economic development area through the local redevelopment commission. A tax "base" is then established that records the existing tax assessment of that area. Any property tax generated above this base is diverted into a special fund for economic development purposes. The creation of a TIF district and diversion of future tax revenue away from local tax collecting bodies is justified by an analysis that determines a "but for" test. Will investment happen "but for" the district and available funds? If the answer is yes, then a TIF district may not be required. If the answer is no, the district is justified by the fact that new investment – and thus growth in the tax base – would not occur but for the improvements available to be built via the TIF district. Strategies in the use of TIF fall into two categories: 1) "project based" investment – which allocates resources on a project-by-project basis, or 2) "district-based" investment, which targets broader public infrastructure investment (roads, sidewalks, infrastructure, utilities, etc.) with the intention of attracting additional future business investment to the TIF district.



Credit: Town of McCordsville

In 2010, 77 counties had adopted a local economic development income tax

Economic Development Income Tax

The Economic Development Income Tax (EDIT or CEDIT) was authorized by the Indiana General Assembly in 1987 to provide funding for local economic development projects that increase local employment opportunities and/or attract or retain businesses. It is one of the few Local Option Income Taxes (LOIT) authorized to allow Indiana counties a revenue source for local governments. Indiana is one of only a few states that allow LOITs to be approved by counties. With property tax cap provisions, many Indiana counties have increased the utilization of local income taxes.

Revenue Bonds

Economic development projects can be expensive, especially if they involve the construction of a major new industrial facility. Many available funding resources, such as TIF or LOITs, do not generate enough annual revenue to pay for a large-scale project. However, this revenue can be financed through a bond issuance to generate the necessary capital. Like all long-term financing, there needs to be a sufficient level of due diligence to ensure that the revenue is available to support principal and interest payments. There have been examples of cities that have gotten into financial trouble because revenue forecasting was done poorly. The Great Recession and unforeseen impact on property taxes has not helped. However, economic development bonds are one of the only available resources for large-scale economic development projects that can result in hundreds of new primary jobs or the large-scale redevelopment of a blighted neighborhood.

ROLE AND CAPACITY OF ECONOMIC DEVELOPMENT ORGANIZATIONS

Economic Development at the State Level

The primary economic development organization at the state level is the Indiana Economic Development Corporation (IEDC). The IEDC is responsible for promoting the overall state business climate, and offers a wide range of incentives for projects and technical assistance to local economic development projects that meet project-specific criteria within various state economic development programs. The IEDC primarily targets its resources in one of three areas for local economic development projects: job training, public infrastructure upgrades, and business tax credits.

However, the IEDC is far from the only state agency that engages in economic development activity. The Department of Workforce Development offers workforce

training and other assistance to small businesses. The Indiana Finance Authority administers financing for public investments including the State Revolving Loan Fund and Indiana Brownfields Program, which may directly or indirectly spur private economic development projects. The Indiana Housing and Community Development Agency administers a variety of housing and community development related programs, including the Community Development Block Grant (CDBG) program and the Home Investment Partnership Program (HOME). The Office of Community and Rural Affairs administers grants and incentives aimed specifically for small-scale, rural communities including the Small Cities and Towns CDBG program.

Regional Economic Development Organizations

In Indiana, economic development activities are typically performed at county and regional levels, though many larger cities have their own dedicated economic development staff. Indiana is separated into eleven economic development districts (EDDs), as defined by the U.S. Economic Development Administration (EDA), a division of the U.S. Department of Commerce. Each EDD consists of a number of counties allocated by sub-region of the state (Northwest, North-Central, etc.). The administration and organization of EDDs are often rolled into other regional organizations, such as the River Hills EDD and Regional Planning Commission, the Economic Development Coalition of Southwest Indiana, and the Michiana Area Council of Governments. Each EDD is required to complete a Comprehensive Economic Development Strategy (CEDS) on an annual basis to maintain eligibility for funding through the EDA.

A map of these regional planning commissions and economic development district is available at: http://www.iarc.cc/map-of-regions.html

Local Economic Development Organizations

Every county in Indiana has a Local Economic Development Organization (LEDO). Despite many regional approaches to economic development, LEDOs exist both to advocate for individual county needs as well as to apply local county resources, such as local option income taxes.

Differing economic development objectives found within individual counties (e.g., rural interests vs. urban interests) have resulted in many Indiana cities having their own dedicated economic development staff to focus on the above-mentioned activities within established municipal boundaries. Coordination between city economic development staff and LEDOs or regional EDOs is typical, but it is also common to see differing economic development objectives, often resulting in a division of resources.

A listing of local economic development organizations is available at: http://iedc.in.gov/business-resources/local-economic-development-organizations

CONNECTING ECONOMIC DEVELOPMENT TO PLANNING

There are many needs and expectations placed upon economic developers. As a result, much of their focus has to be on the "now" – active recruitment of jobs and real estate development projects, with less time available to focus on the strategic planning side of economic development. Clearly it is helpful to conduct economic development activities according to a well-thought out plan that guides policy, investment and land use decisions. The planning process can help fill this strategic void, as well as serve to guide land use policies that assist in economic development efforts.

SUGGESTED RESOURCES

- Indiana Economic Development Corporation
  http://iedc.in.gov/
- Indiana Associaton of Community Economic Development
  http://www.iaced.org/
- The United States Economic Development Administration
  http://www.eda.gov/
- International Economic Development Council
  http://www.iedconline.org/
- Indiana Economic Development Association
  http://www.ieda.org/