



**Indiana Economic
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Notes from the President

During last week's IEDA board meeting I invited Bill Goffinet, IACT Field Services Manager and former Tell City mayor to give us an update from the mayor's economic development roundtable discussion he conducted at July's Rising Sun IACT Leadership Conference. Bill reported that during this two way discussion he gave his perspective of a mayor's role in economic development and also the function and importance of a county LEDO. He gave a live demonstration of various utilities' and the State's economic development web sites to show how industrial properties in their respective communities were being marketed. Bill compiled the mayor's feedback from the meeting which included:

- The mayors would like a seat on the LEDO board including the executive committee board.
- They would like to see the leads shared with the LEDO board however Bill reported caution to the mayors related to confidentiality.

(President continues on page 6.)

Planning IEDA's 2010 Legislative Agenda

Dennis Maloy, Chairman, IEDA Legislative Committee

The 2010 session of Indiana's General Assembly will be here before we know it. Organization Day will occur in late November and the first day of the new session in early January.

As an organization, it is important that we begin to formulate our legislative agenda now. Your Legislative Committee has been meeting to discuss possible legislative initiatives for the 2010 session.

While no single suggestion has been agreed upon as our primary focus, some of the ideas under consideration are:

- A program to add to our economic development toolbox to assist small business and entrepreneurialism;
- Dedicating a percentage of CEDIT revenue towards local economic development funding;
- Re-instatement of the automatic 3-year tax abatement;
- Elimination of sales tax on new construction materials;
- Sharing incentives on a regional basis; and
- A technical correction to economic improvement districts.

Historically, Indiana's incentive tools are designed for large manufacturing operations. The amount of tax relief a company receives is based on the size of the capital investment made and the number of jobs created. The larger the capital investment and the more jobs created, the more incentives a company is eligible to receive.

Most experts tell us that the majority of new jobs that will be generated in the coming years will come from small business and newly created business. Could Indiana better position itself for this type of economic activity if there were a program to assist these emerging companies?

Please understand that very few bills are likely to be passed during the coming session. This is a "short session." House members are only allowed to file 5 bills, while members of the Senate are restricted to authoring 10 bills. By statute, the Indiana General Assembly must finish their work no later than March 14. Several legislators have indicated that the session may conclude its work well before that date.

Therefore, regardless of our main focus, it is likely to take this session and the next before seeing any results.

Finally, please register for and plan to attend IEDA's Fall Conference in Ft. Wayne. On Thursday evening, September 24, we plan to recognize Sen. Ed Charbonneau and Rep. Terri Austin as "Friends of Economic Development." Their leadership was instrumental in passing SEA 448, which allows Indiana to compete for highly capitalized, knowledge-based IT jobs.

IEDA Webinar Summary

Susan Reed, Manager of Member Services and Economic Development
Indiana Municipal Power Agency

On August 26, 2009, IEDA hosted its first webinar and presentation at the office of Ice Miller LLP. The webinar included an update from the Indiana Economic Development Corporation (IEDC) regarding the status of stimulus funding, new tools for economic development resulting from the stimulus bill and an expansion of the New Market Tax Credits (NMTC) program. Each of the presentations is available online on IEDA's webpage: www.ieda.org.

Attendance for the presentation/webinar was strong, and participants were provided with important information about new and expanded programs resulting from the federal legislation. Pam Fisher, Director of Regulatory Affairs for the IEDC provided an update from the State's perspective on stimulus activities and updated contact information for stimulus projects submitted on the Ball State database last March. She serves as the coordinator for IEDC for stimulus efforts and may be contacted at (317) 232-8893 or pfisher@iedc.in.gov.

Denise Barkdull, a partner in the municipal finance section of Ice Miller LLP, discussed new opportunities for tax exempt bonds, including financings for private companies. Her presentation focused on Recovery Zone Facility Bonds and Heartland Disaster Bonds.

Recovery Zone Facility Bonds may be used in areas designated as recovery zones, and recovery zones are designated by state and local governments based on findings of significant poverty, unemployment, home-foreclosure rates or general distress, or any area for which a designation as an empowerment zone or renewal community is in effect. With the exception of certain limited prohibited businesses, any private business may use this type of tax exempt financing to finance capital expenditures. Authority to issue these bonds is allocated to the state and counties and large municipalities (populations greater than 100,000) based on decreases in "individuals employed" in 2008. The Recovery Zone Facility Bonds must be issued prior to January 1, 2011.

Heartland Disaster Bonds are a new type of tax exempt bonds. Indiana has authority to issue up to \$3 billion of this type of bond. The State will allocate the bonding authority to projects within the 40 Indiana counties that were designated as disaster counties. To qualify, a business must have either suffered a loss from flooding, or be designated by the Governor as replacing a business that suffered a loss to spur economic development. For questions on either the Recovery Zone Facility Bonds or Heartland Disaster Bonds, contact Denise Barkdull at (317) 236-5803 or denise.barkdull@icemiller.com.

Paul Jones, a partner in the tax section of Ice Miller LLP, explained tax credit equity, and how this equity may be used to cover funding gaps between the cost to acquire and develop or redevelop the project and the amount of other funding sources that the owner can secure. Specifically, the expansion in the NMTC program was highlighted. The NMTC are federal tax credits intended to encourage private equity investment in qualified "low-income" communities. NMTCs are awarded by the Community Development Financial Institutions Fund ("CDFI Fund") to entities which qualify as Community Development Entities ("CDEs") and which apply for an allocation of credits. Once a CDE receives tax credits, investors (such as banks) invest in the CDE by contributing cash. The CDE uses cash from the investment to invest in qualifying businesses. A wide range of businesses are eligible for assistance, including for-profit retail, manufacturing, service businesses and nonprofit businesses. For the years 2008 and 2009, the Recovery Act increased the national limit for the new markets tax credit from \$3.5 billion to \$5 billion.

Andy Fraizer, Executive Director of the Indiana Association of Community Economic Development (IACED) and Mark Burton, Vice President of City Real Estate Advisors, Inc. (CREA) discussed the Indiana Development Capital, LLC (IDC), which is a CDE and a joint venture between the IACED and CREA. IACED explained its track record of supporting

(IEDA Webinar continues on page 10.)

Is Your Organization's Federal Tax Exempt Status In Jeopardy?

By Julie Ashmore, Consultant

990 Background

Form 990 is the primary federal tax compliance tool for tax-exempt organizations. Also, most states rely on the form to perform charitable and other regulatory oversight, and to satisfy state income tax filing requirements. It is a public document made available by nonprofits themselves, the IRS, and others, and is relied on by the public, state regulators, the media, researchers, and policymakers to obtain information about nonprofits. Each year, over 500,000 nonprofits file a Form 990 or Form 990-EZ with the IRS.

The 990 had not been significantly revised since 1979 and required a major overhaul to reflect changes in the sector. It no longer adequately met the transparency and accountability needs of the IRS, the states, the public, and communities served by nonprofits. The IRS extensively revised the format and content of the form based on three guiding principles: enhancing transparency, promoting tax compliance, and minimizing burden on the filing organization.

IRS Form 990-N

The Pension Protection Act of 2006 requires exempt organizations, nonprofits the IRS has designated as exempt from federal income taxes, that do not meet the income threshold for filing an annual return (IRS Form 990 or one its variants) to provide certain information to the IRS each year. The IRS created Form 990-N for this purpose, and smaller nonprofits began filing it in 2008. The new Form 990 requires information not previously required. Some information previously required of only certain types of organizations now is required of all types of organizations completing the form. Generally, Form 990 is to be filed by the 15th day of the 5th month after the organization's accounting period ends (May 15th for a calendar-year filer).

(Tax Exempt in Jeopardy continues on page 10.)

BRE — What We've Learned After Three Years

Nick Lawrence, BRE Specialist, One Southern Indiana

As many of you know, Business Retention and Expansion is the dirty work of economic development. It doesn't get the headlines that landing the big fish does; you know the one like the newest high tech manufacturer you lured into town with that vacant ode to architectural glory on a piece of Greenfield space that is so pristine it would make both Ray Kinsella and Shoeless Joe ask if they were in heaven. No, BRE is a life in the trenches, where you have to roll up your sleeves and dig in. But as an economic development professional, having an active BRE program is vital to your business community's survival.

At One Southern Indiana our Business Retention and Expansion program was founded on and guided by three simple, yet critical questions that helped us help our existing businesses:

1. How's business?
2. Are there any impediments to the operation of your business?
3. Are you planning on doing an expansion or making a capital investment?

As you are probably aware from your interactions with co-workers, friends, and fellow business associates, people absolutely love to talk about themselves. And with this simple approach we have found out so much about what makes a business tick just by giving the floor to them. Owners and managers have opened up to us like you wouldn't believe, taking a relationship that started initially with asking for 15 minutes of their time to a whole new level; one where we are recognized as a trusted advisor that can be called upon when something goes awry, putting us in the enviable position of having **real** relationships within our local commerce base. Three simple questions have given us an open door, typically a friendly greeting, and often times an hour of their time where intensive and insightful business knowledge is gained.

Is it rocket science? No, but you'll never guess what this has done for our business community. Our economic development team covers a two-county area just north

of Louisville, KY. We have cultivated this area with the three question technique and have had well over 400 one-on-one business visits in a three year period. These visits and the relationships established have yielded more than 40 announced existing business expansions (commitments of capital investment and job creation). That means we have a project development rate around 10%, all from just sitting down and listening (not prodding, selling, and certainly not by handing over a multi-page survey and expecting them **to give us what we need**). We turn the equation around and make it customer-centric, helping them chart a course for success by acting as a connector of the dots and a worthy co-pilot as they navigate. It's using simple customer service etiquette and applying it to the ED world: *how has your experience been so far and how can we make it better?*

And the funny thing is you'd be surprised by what they ask for and how simple it can be to shine like a rock star in your customer's eyes. Sometimes they may ask for information on green initiatives... Got it! Other times it's a support letter for a signal light... Got it! It could be a connection to a local business... Got it! And every now and then you find a company ready to make that next step, one that involves capital investment and job creation, in which you can call in a cavalry of resources, including our partners at IEDC. Every assist you make helps to build the relationship and makes you, the economic development professional, relevant to their daily business activities and, most importantly, their success.

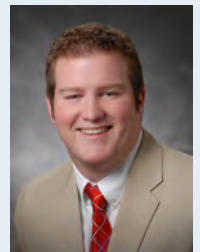
Other interesting outcomes from our BRE visits run the gamut in an attempt to respond to the needs of our local businesses. Our economic development team created the *Business Resource Information Guide*, a print and online publication that acts as a quick reference guide on incentives and resources available. Noticing our region's proclivity for family-owned business, One Southern Indiana formed *Family Works Network*, which is aimed specifically at family-owned business leaders to meet and discuss

topics of interest to enhance professional growth and overcome unique business challenges. And the crown jewel is the Metro Manufacturing Alliance (MMA), which recently celebrated its one year anniversary. The MMA is a unique forum where manufacturing managers meet with their peers, discuss common issues and successes, and listen to expert presentations on topics that apply exclusively to manufacturing. We see the three question model permeating through the entire organization. It is now commonplace in our combined chamber of commerce and economic development organization to find staff members meeting with clients asking the same three questions and literally acting as the sounding board, collecting page after page of notes while putting the client in the driver's seat.

In this time of bottomline number crunching and elimination of superfluous expenditures and processes, One Southern Indiana's BRE program thrives by creating value and building relationships. And while we cannot guarantee our technique will work in every community or with every customer, we can guarantee that meeting with your existing business community is time well spent. You never know...your next big fish may already be in your pond!

About the Author

Nick Lawrence is a Business Retention and Expansion Specialist with One Southern Indiana



Hoosier Energy — Cap and Trade

Article submitted on behalf of: Indiana Municipal Power Agency, Hoosier Energy, Wabash Valley Power Association and Indiana Statewide Association of Rural Electric Cooperatives.

In its June newsletter, IEDA published an article prepared by Duke Energy which highlighted its position as an investor owned utility on Cap and Trade. This article provides another perspective on this important issue.

The Indiana Municipal Power Agency (IMPA) is a not-for-profit wholesale electric generation and transmission organization serving 52 municipal communities in Indiana. Hoosier Energy and the Wabash Valley Power Association (WVPA) are not-for-profit generation and transmission cooperatives serving 17 and 21 rural electric cooperatives respectively in Indiana. The Indiana Statewide Association of Rural Electric Cooperatives (ISA) is the membership organization for state electric cooperatives. Together, we serve more than 1 million Hoosiers. Our goal is to provide our customers with low cost, reliable, and environmentally responsible electricity, without costing jobs, manufacturing and industry in communities we serve. More information about IMPA, Hoosier Energy, WVPA, and ISA can be found at www.impa.com, www.hepn.com, www.wvpa.com and www.indremcs.org.

Ninety-five percent of the electricity consumed in Indiana comes from coal, which means Hoosier consumers have enjoyed some of the lowest rates in the nation. In tough economic times like these, affordable electricity is something we can't do without. Yet a bill that has made its way through the U.S. House of Representatives threatens to rob our consumers of that very necessity. On June 26, the U.S. House of Representatives approved H.R. 2454, the American Clean Energy and Security Act 2009 (ACES), otherwise known as the Waxman-Markey cap and trade bill. The measure passed by a marginal vote of 219-212, indicating how diverse views are on this issue. While improvements were made to the bill before it passed the House, Indiana's not-for-profit consumer-owned municipal and cooperative power providers have serious concerns about the impact this legislation will have on residential, commercial and industrial customers in Indiana.

One improvement in the bill was an adjustment from a 100 percent auction of carbon emission allowances to a partial auction, with some free allowances being given to carbon emitting entities. However, Indiana utilities are being shorted more than 35 percent beginning in 2012. Too many allowances are being provided to non-emitting sources and special interest groups, such as merchant generating plants that do not directly serve customers. The end result is a redistribution of wealth from the Midwest, which is heavily reliant on coal for electricity generation, to the East and West coasts, which are not. The distribution of allowances to East and West coast states and merchant plants will do nothing to reduce carbon emissions and will dramatically increase Indiana electric rates.

Under the current allowance allocation formula, Indiana's not-for-profit utilities receive less than 65 percent of allowances needed to meet consumer needs, requiring us to purchase more than 35 percent of the allowances in an unregulated and speculative trading market.

As it now stands, the ACES Act could have a devastating effect on Indiana ratepayers and our state economy. Electric rates would increase at least 20 percent by 2012, and could double by 2026. This would be an undue hardship for our economy, industry and fixed income residential customers.

As further debate takes place, we continue to recommend:

- That the emissions formula be fixed to provide allowances only to entities that directly serve consumers with power from carbon emitting resources.
- That utilities receive up to 100 percent of the allowances needed to comply with the mandate in order to minimize the rate impact of the cap and trade program. Allowance prices should have a "safety valve" to mitigate price spikes.
- That the unrealistic emissions reduction mandate of 17 percent below 2005 levels by 2020 be amended to a reasonable and achievable level. Such a revision is necessary to provide breathing room for utilities to invest in carbon reduction technology without dramatically increasing our Indiana electric rates, hopefully preventing the further loss of business and industry.
- That Congress fund research and development into carbon reduction technologies in order to meet the carbon cap mandates.

We are not opposed to climate change legislation; we simply seek to protect our members and their consumers, the ratepayers of Indiana. The current ACES Act does not safeguard against unfair price increases to Indiana consumers. We encourage you to engage your congressmen on this issue. We will continue spreading the message of this bill's negative effect on Indiana and keep doing our part to protect Indiana's electric rates. We urge consumers to contact Senators Richard Lugar and Evan Bayh and voice their support for a fair, balanced and affordable approach to climate change legislation. Learn more about the issue at www.fairpowernow.org.

IEDA Corporate Partners

Platinum

- Duke Energy
- Garmong Construction Services
- Hoosier Energy
- Northern Indiana Public Service Company
- Wabash Valley Power

Gold

- Ice Miller
- Indiana Michigan Power
- Umbaugh
- Vectren Corporation

Silver

- Bose McKinney & Evans, LLP
- Indiana Municipal Power Agency

Why a Community Needs Economic Development

By *Thayr Richey, Ph.D., President Strategic Development Group, Inc.*

An Essential Community Service

We are facing difficult economic times. Our country is in a recession, and while companies are still expanding and looking for new locations, there are far fewer in 2009 to-date than in recent years. At the same time, local governments — towns, cities, and counties — are facing unparalleled challenges. The state legislature has severely limited local government funding and in many communities property tax revenue is in decline. In times of hardships, it is easy to understand why some people might be questioning the need for a fully functional economic development organization.

In the early years of the 21st century, economic development is an essential service for every community. As the Midwest continues to experience a transition from a traditional, manufacturing-based economy to one that is more dependent upon service jobs, the local economic development organization (LEDO) stands on the front lines of this struggle.

The LEDO has a critical mission: improving the community it serves through building capacity for new business investment. This new investment brings additional jobs and tax revenue to a community, helping increase citizens' standard of living by providing better jobs and additional revenue for public services.

The Basic Employer

Traditionally, the focus of the LEDO is primarily upon the basic employer. This is a business that does not depend upon the community as its market. Instead, the basic employer sells its products or services mainly outside of the community. A portion of the revenue from that sale returns to the community in the form of wages, local vending opportunities, and local taxes.

Many Different Approaches

The past 30 years in Indiana have seen a dramatic growth in the types of local economic development programs. Perhaps the most common LEDO is the not-for-profit organization that helps established basic employers expand and works to recruit new basic employers. In some cities, mayors have added economic development staff to their offices. In a number of communities chambers of commerce house the local economic development program.

In contrast to expansion and recruitment of basic employers, tourism turns the business model upside down by bringing customers from outside the community to buy goods and services from that community's businesses. In many communities tourism plays a significant role in the local economy — supporting local restaurants, hotels, and retailers.

Small business development has become a necessary economic development focus. From local Service Corps of Retired Executives to business incubators, many communities are helping grow and expand small businesses owned by local citizens. This approach might include helping a local farm with a value-added processing operation or a small manufacturing plant transition to serving a different business sector. Much of small business development involves meeting with residents who have an idea for starting a business and helping them develop a business plan.

Every county in Indiana has access to a Small Business Development Center (SBDC). The Indiana SBDC network is composed of 10 regional offices. Each of these offices serves a number of counties in the region where it is located. The SBDC is supported by the federal Small Business Administration, state government, and the local host community.

Another form of small business development is Indiana's Certified Technology Park (CTP) program. Communities with a CTP can recapture certain state and local tax revenue; this revenue, then, can be invested in the development of the park.

Infrastructure

Whether one focuses on new basic employer recruitment, tourism, or small business development, having adequate infrastructure is critical to success. Infrastructure might include roads, rail, water and sewer, electricity, gas, and telecommunications. One of the LEDO's functions is to coordinate with government departments and private utilities to ensure that the community has sufficient capacity for future development.

Product: Business Sites, Workforce Development, Education

Communities compete in economic development. In order to remain competitive, the community's "product" is important. A community must have adequate land and/or buildings for businesses to occupy. If tourism is important, the community must have both competitive attractions to draw tourists and local businesses where tourists can spend their money.

Workforce development and education are also a LEDO concern. Helping workers gain new skills makes the community more competitive. Many LEDOs work closely with their established basic employers to find funds to assess and train a community's workforce.

In a knowledge-based economy, continuing education is a must. More and more LEDOs are actively engaged with K-12 school systems to help ensure that high school graduates are both ready for college and ready for the world of work. Many LEDOs have taken the lead in their communities to develop post-secondary learning centers.

(Why a Community Needs continues on page 6.)



About the Author

Thayr Richey, Ph.D., is president of Strategic Development Group, Inc. SDG assists communities and businesses with planning and research solutions.

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Why a Community Needs

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Funding and Leadership

There are a few government funding programs for local economic development. For tourism, the Innkeeper's Tax provides revenue from a tax on hotel guests. These funds, in turn can be used to market the community to attract more visitors. The state also allows counties to pass the County Economic Development Income Tax (CEDIT), which can provide funding to LEDOs.

However, despite a few specialized taxes, most of the financial support for local economic development has to come from the community. This funding normally comes from both local governments and local businesses.

Active board leadership is a characteristic of successful LEDOs. A board member's having a long-term vision, understanding the LEDO's basic strategy, and assisting with resource development can make a difference to the organization and to the community.

More Important Than Ever

Economic development is needed today more than ever. LEDOs in our state compete daily with dozens of countries and a thousand communities throughout the world. The battle to remain competitive economically is not slowing down; it is increasing. Communities will continue to need a strong, fully functioning LEDO for the foreseeable future.

The Indiana Economic Development Association (IEDA) is the statewide membership group for economic development professionals. IEDA provides training and networking opportunities for its members, works with state government to improve the environment for economic development, and responds to important issues that impact our state. Find more information on our website at www.ieda.org or contact IEDA at (317) 566-2142.

President

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- Standardizing of LEDO bylaws and how they are governed (The IEDA Governance Committee will be addressing this and will post recommended LEDO by-law templates to the IEDA web site)
- During the period immediately following an election to the swearing in is critical for transition and orientation of a new mayor; the LEDO should contact the new mayor and establish communication and foster a relationship; there should be an economic development training session for all in government as to how they could work with the LEDO and mayors could bring their individual expertise to the scenario.
- Mayors would appreciate improved communication and feedback from IEDC staff in regards to project submissions and status.
- Several mayors from smaller communities displayed their interest in participating in the Governor's annual mission trip to Japan. It was recommended to Bill that mayors participate with the regional organizations on their foreign mission trips which have been very productive.

Every four years after the elections IACT offers a well attended two day training session for elected officials along with regional sessions. Bill would welcome our participation to offer economic development training for the mayors and staff members. We partnered with IACT last June during the Indiana Conference of Mayors and offered a two hour panel discussion which included site consultant Brent Polina, Charlie Sparks from IEDC, Jim Plump executive director of the Jackson County IDC, Greg Wathen CEO of the Economic Development Coalition of Southwest Indiana and moderated by yours truly. In addition Jim Plump was invited to participate in a session at the IACT Mayor's Institute September 2-3. The board is evaluating the sponsorship of up to 5 regional ED 101 classes for elected officials through Ball States' Building Better Communities Program.

We certainly appreciate our close partnership with IACT and they will be on our annual meeting agenda addressing the membership.

We had strong attendance and participation at the August 26 "New and Expanded Economic Development Tools Resulting From Federal Stimulus and Recovery Legislation" presentation and webinar. Ice Miller offered to host this workshop of which we are grateful.

I received a call from Bose Public Affairs managing principal Dan Seitz in May advising us they were realigning their business operations and the association management accounts would be transferred to a newly formed organization owned and managed by Paula Carey who managed the Bose operation. The transfer was completed July 1. However we still have a contract with Bose and they are subcontracting to Paula's company Association Services Unlimited until the end of the year. The board decided to prepare a RFP and a committee has been formed with four board members and two from Governance to manage the RFP and selection. The RFP will be emailed to the membership, known association management firms, Association Services Unlimited and also posted to our web site. A selection will be made by November 1.

Respectively Submitted,
Mike Heaton

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Filling in the Gaps Beyond a Phase I ESA

Cindy Madrick, Vice President of Business Development, Cornerstone Environmental, Health and Safety, Inc.

As an economic development professional, finding and developing opportunities represents an enormous investment in time and financial resources. In these challenging economic times, it is vital that projects being worked have every opportunity to come to fruition. One of the many critical elements is ensuring your client has addressed environmental requirements. Addressing environmental early in the game is imperative to prevent costly delays.

Whether your client is purchasing, leasing, insuring or holding a mortgage, a Phase I Environmental Site Assessment (ESA) is a prudent decision and, in many cases, a requirement of lending institutions. In addition, to claim protection from liability, a prospective property owner must comply with the statutory requirements for obtaining the contiguous property owner or bona fide prospective purchaser liability defenses. Among these is the requirement to, prior to the date of acquisition of the property, undertake “all appropriate inquiries” into prior ownership and uses of a property. This refers to EPA’s All Appropriate Inquiries rule (EPA 560-F-05-240) also commonly known as “AAI.”

As of November 1, 2006, parties must comply with the requirements of the All Appropriate Inquiries Final Rule, OR follow the standards set forth in the ASTM E1527-05 Phase I Environmental Site Assessment Process, to satisfy the statutory requirements for conducting all appropriate inquiries. The AAI requirements are applicable to any public or private party who may potentially claim protection from CERCLA liability as an innocent landowner, a bona fide prospective purchaser, or a contiguous property owner.

The site, inclusive of exterior and interior, must be assessed for possible environmental impact. Of course, in many cases, a Phase I ESA will result in an acceptable site and no further action recommended. In other instances, a Phase I may have no recommended further actions, yet the buyer is still faced with the “cleaning” of a vacated building. This can lead to the buyer incurring unexpected costs or other

environmental requirements, which can cause a deal to be delayed. Lastly, when environmental issues exist, further site investigation and possible clean up can be time consuming (with unpredictable time tables) and costly which will slow down a deal. This is why the sooner you involve an environmental professional, the better.

In the matter of a consolidation, give a friendly reminder to your client that this can cause permit levels to change, training requirements may increase — EPA, OSHA, DOT, DHS requirements should be re-evaluated based on the planned combined operation EARLY so that potential liabilities are diminished and the deal progresses as it should.

In the event your client is acquiring a functioning operation, in addition to the Phase I ESA, it is of utmost importance to continue the due diligence inside the building and evaluate the operation’s compliance status. Being out of compliance with the required regulations can negatively impact the value of a deal for the buyer or the seller. The key to success is minimizing surprises for all parties. Although, ultimately, most operations can be brought into compliance, if EPA, OSHA, DOT, DHS, etc. have not been adequately addressed, there are related costs and potential liabilities that must be considered.

In case studies through the years, the subject of environmental permitting — what is my client required to have to be compliant? — can many times create more questions than answers. This is another step that should be addressed during site identification or, at the very least, during site investigation (ESA). This is a safer bet than getting bad news (or surprises) after your client has settled on a site. Include a well-qualified consultant on the project team. Utilize the consultant for preliminary evaluation of regulatory applicability that will provide an understanding of expected costs, timelines and resources.

Once the initial evaluation is complete, a task list should be put in place under the “environmental” category on the project

schedule. This ensures all applicable parties are on the same page and, most importantly, things progress in a timely manner. Permitting timelines vary from region to region and, in some cases, an operation may be required to apply for permits up to nine months prior to construction.

Not all Site Investigation or Compliance Due Diligence work is created equal! Ensure you are NOT just considering price when checking these steps off your list — qualifications matter. The provider must conduct due diligence that includes a thorough walk-through of the entire site — interior and exterior of all areas of the building(s), and property line to property line. A Phase I can result in the need for further site investigation, which of course can be costly and delay a project. Take the AAI guidance on criteria for an environmental professional to heart. Request specific information about the provider’s experience and methodology. Working with the right provider from the beginning can make a substantial difference in the outcome of the project.

About the Author:

Cindy Madrick, is the Vice President of Business Development for Cornerstone Environmental, Health and Safety, Inc. Ms. Madrick manages multi-



facility accounts by counseling clients in the areas of site selection/ investigation and acquisition due diligence, EH&S compliance management, quality certifications and implementation of sustainable business practices in: automotive, plastics, primary metal, logistics, printing and packaging.

www.corner-enviro.com

Smart, Strategic, Economic Development: The Only Long-lasting Option to Grow Your Tax Base

By Gary Malone, CPA, Executive Partner, Umbaugh

Economic development has always been a good tool for increasing local revenue, but the current environment makes economic development more desirable than ever. Property tax caps are limiting revenues from property taxes, and individual state income tax collections declined 23 percent during the first four months of 2009, reducing revenues for local government. Although there are a variety of options to replace lost property and income tax revenues, the only long-lasting option is to grow your tax base. And it's the only option that doesn't depend solely on getting more revenue from the individuals and businesses already in your taxing district.

- Growing your property tax base at or above the growth in property tax levies will stabilize or reduce property tax rates and revenues lost to the tax caps.
- Growing your income tax base at or above the rate of inflation will provide a reliable revenue source to pay competitive wages and meet the growing needs of your constituents.

Sound economic development does both.

The effect of growing your assessed value

The circuit breaker tax credits create a hard cap on total property taxes paid by each taxpayer. Once the limit is reached, you will not collect any more from that taxpayer no matter how much you increase your levy or tax rate. The only way to stabilize or increase property tax revenues is to grow the tax base.

The chart below shows a theoretical example of an area with \$10 million in assessed value. Originally it took a tax rate of \$2.25 to generate a levy of \$225,000. If the municipality needs an 11% increase in levy to meet constituents' needs, it will take a 25-cent increase in tax rate to generate the needed \$250,000 levy.

Property tax levy	\$225,000	\$250,000
Assessed value	\$10,000,000	\$10,000,000
Property tax rate	\$2.25	\$2.50

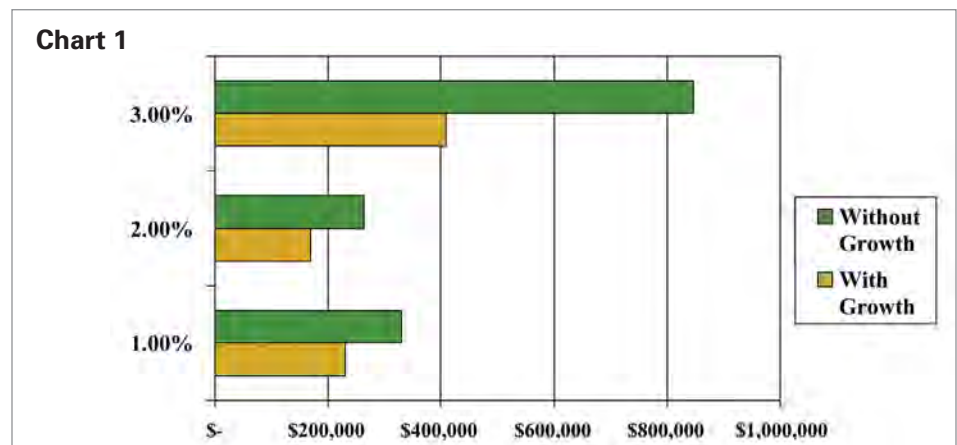
In this same example (below), the owner of a home with a \$125,000 assessed value pays \$1,170 a year in taxes at the \$2.25 tax rate. With the property tax caps in place, even if you increase the tax rate to \$2.50, you will collect only \$1,250 — so even though you increased the tax rate by 11 percent, you're collecting only 6.8 percent more from this taxpayer.

Assessed value	\$ 125,000	\$ 125,000
Homestead deduction	(45,000)	(45,000)
Supplemental HS	(28,000)	(28,000)
Net assessment	\$ 52,000	\$ 52,000
Tax rate	\$2.25	\$2.50
Taxes before credit	\$ 1,170	\$ 1,300
Circuit breaker credit	0	(50)
Property taxes due	\$ 1,170	\$ 1,250

If the area can use economic development to increase its assessed value by 11 percent to \$11.1 million, it can generate the new levy amount and still keep the tax rate at \$2.25.

Property tax levy	\$225,000	\$250,000
Assessed value	\$10,000,000	\$11,100,000
Property tax rate	\$2.25	\$2.25

Similarly, in Chart 1 below, it shows how growth in tax base can reduce the losses from property tax caps from a potential \$1.44 million to \$810,000 for taxpayers subject to the 1%, 2% or 3% limits.



Economic development strategies to consider

No one should ever “give away the farm” in attracting economic development. Most localities have been smart about matching their incentives to the potential benefits that development can deliver. But in the current economic environment, the incentives must be more strategic and require surgical precision to produce the economic benefit you're hoping for.

There is no “one size fits all” formula to follow. Instead, you should develop flexible incentive guidelines that consider:

- the level of investment,
- the probable term of investment,
- the number of jobs created and
- the value of the payrolls created or retained.

Use a tiered approach to tax abatements so you offer longer abatement periods only to those projects with largest investments, more jobs and higher payrolls. Use that same tiered approach to determine the amount of the investment that will qualify for abatement.

You can apply the same tiered approach to the use of tax increment financing (TIF):

- Limit TIF use to those projects with larger investments, more jobs and higher payrolls.
- Limit the amount of investment captured by the TIF allocation area.
- Consider using TIF for those projects that develop infrastructure capacity that can attract additional future investment.

Anson: A Case Study

This case study illustrates how economic development incentives were used to produce the desired results for the Anson Development in Boone County.

The Anson development is a 1,700-acre mixed-use development of residential properties, retail, regional hospital and medical offices, high tech facilities, traditional office space and flex and industrial space.

By the numbers it amounts to:

- \$800 million in real property investment through 2020
- \$50 million in personal property investment
- 12,900 construction-related jobs (payroll \$453 million)
- 25,000 direct jobs (annual payroll \$868-877 million)
- 12,000 indirect jobs (annual payroll \$316 million)
- \$3.3 billion in annual business and employee spending

Phase 1 (from 2005 to 2010) is expected to bring \$290 million in residential investment and \$218 million in non residential. The new assessed value will amount to nearly \$350 million in 2011 — which will have a considerable positive impact on property tax rates. (See Chart 2.)

But Phase 1 also will impact local income tax revenues. The annual combined direct, indirect and construction payrolls will reach nearly \$324 million, producing \$169,800 in new income for the library, \$109,500 in additional income tax revenue for townships, \$598,000 for the cities / towns, and \$849,500 for the county — for a total of more than \$1.7 million. (See Chart 3.)

Phase 1 requires an investment of \$17+ million in roads, sidewalks, design fees, and sanitary, water and stormwater infrastructure. The improvements are funded by \$11.5 million in TIF Bonds (67 percent of the project) and \$5.77 million from the developer (33 percent of the project).

- Tax abatement was to be considered on a case-by-case basis.

As you can see, the TIF revenues were structured to exceed the amount needed for debt service. (See Chart 4.)

What do these investments do for tax rates?

The 2004 tax rate for this area was \$1.9884. While the bonds are outstanding, the 2011 tax rate is projected to be \$2.0045, but it would have been \$2.1311 if there were no development.

After the bonds are retired, the tax rate — with development — is estimated to be reduced to \$1.9432.

	While bonds are outstanding	After bonds are retired
2004 Tax Rates	\$1.9884	\$1.9884
Without Anson 2011 Tax Rates	\$2.1311	\$2.1311
With Anson 2011 Tax Rates	\$2.0045	\$1.9432

Strategies to consider

Use guarantees to insure that your community receives the benefits that were bargained for.

- If you use TIF bonds, they should be purchased or guaranteed by the developer or company if at all possible.
- Include “claw-back” agreements to recoup tax increment or abated property taxes if job and payroll targets are not met.

Effectively plan and manage TIF areas by developing a capital projects plan for using tax increment revenues within the TIF allocation area and releasing incremental assessed values that are not needed for funding the expected capital projects for the area. Remember, our goal is to create tax base.

As mentioned earlier a good strategy is to consider abatements on a case-by-case basis. When Medco, a pharmaceutical repackaging company, announced its intent to locating a facility in the Anson development, the economic development team had the opportunity to structure an incentive package specifically for the Medco project.

The Medco project represents

- \$38 million in real property investment

(*Smart, Strategic* continues on page 10.)

Chart 2

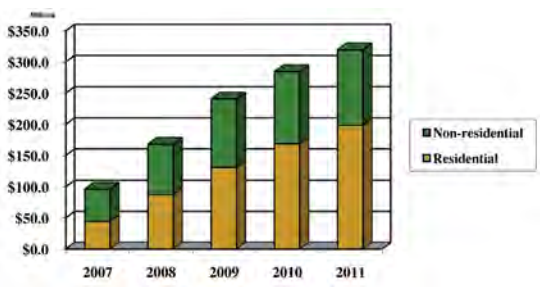


Chart 3

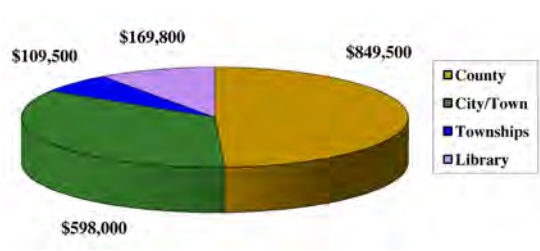
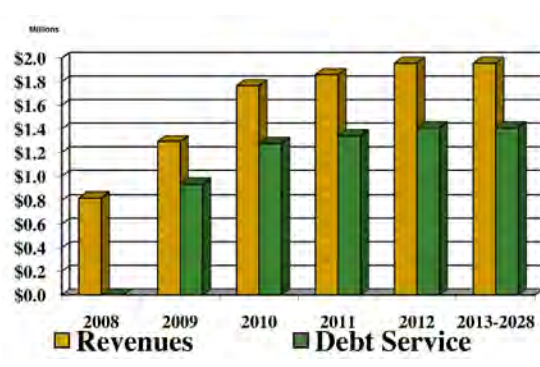


Chart 4



Why provide any incentives?

Incentives give local officials the ability to influence the nature of future development. You can use the incentives strategically to:

- maximize high value investments and jobs,
- attract high tech facilities and jobs,
- create orderly growth throughout the area as a planned development governed by a Planned Unit Development (PUD) ordinance, and finally
- achieve your goal of increasing your property tax base and income tax base.

The proposed incentives for Phase 1 were:

- 90% tax increment financing for 20 years
- Bonds were subject to a \$16 million limit and were to be secured solely by tax increment and a developer guarantee.
- Bond proceeds were limited to funding local public improvements.

Smart, Strategic

(continued from page 9)

- \$118 million in personal property investment
- 1,300 jobs
- \$69 million total payroll

The right incentive package to match the potential benefit included 10-year property tax abatements with 10 percent of assessed value passed through. Up to \$11 million in total TIF was pledged to finance the project. The Medco project alone will increase estimated assessed value by more than \$60 million by 2021.

The value of economic development

The benefits of economic development don't happen overnight. It takes time to produce the desired results, but the long-term benefits of increased revenue from income and property taxes are clear. With the new restrictions on tax increment allocation areas brought by HEA 1001 in 2008 and challenging economic conditions, the old ways of approaching economic development no longer apply. But if you are smart and strategic, the economic benefits of minimizing the impact of property tax caps, keeping local services funded and keeping property taxes low are worth the effort.

IEDA Webinar

(continued from page 2)

member projects including commercial development, charter schools, and community facilities. IDC submitted an application to the CDFI Fund for NMTC, which will be awarded around October 20, 2009. IDC has a goal to use a portion of its allocation in rural areas in Indiana.

For more information about tax credits or the NMTC Program, contact Paul Jones at (317) 236-5959 or paul.jones@icemiller.com. For more information about the IDC or NMTC Program, contact Andy Fraizer at (317) 920-2300 or AFraizer@iaced.org, or Mark Burton at (317) 972-7183 or mburton@cityrealestateadvisors.com.

IEDA welcomes suggestions for new webinar opportunities. If you have an idea for a webinar topic, please contact Daryl Voelker at 812-738-2137 or dvoelker@harrisonchamber.org.

Welcome IEDA New Members for 2009

Lynn Busby
EMH&T, Indianapolis, IN

Darby Casady
International Center of Indianapolis
Indianapolis, IN

Rob Cleveland
Blackford County Economic Development Corporation
Hartford City, IN

Tom Dowd
Elwood Staffing, Columbus, IN

Keith Gillenwater
LaGrange County Economic Development Corporation, LaGrange, IN

Marsha Gray
SESCO Group, Indianapolis, IN

Jeff Henson
Indiana American Water Co.
Greenwood, IN

Pat Kiel
Repp and Mundt, Inc., Columbus, IN

Vanessa Kuhn
Northeast Indiana Regional Partnership
Fort Wayne, IN

Patsy Lentz
Indianapolis Economic Development
Indianapolis, IN

Joe Plankis
City of Westfield, Westfield, IN

Josh Ricker
Enterprise Fleet Mgt., Indianapolis, IN

Tony Schwab
Franklin county Economic Development Commission, Brookville, IN

Dennis Shaw
Owen County Chamber of Commerce and Economic Development Corp.,
Spencer, IN

Katy Silliman
Northeast Indiana Regional Partnership, Fort Wayne, IN

Andi Udris
Fort Wayne Allen County Economic Development Alliance, Fort Wayne, IN

Gayle Van Sessen
Tipton County Community and Economic Development, Tipton, IN

Matt Waldo
The Indy Partnership, Indianapolis, IN

Laura Walls
Greater Lafayette Commerce
Lafayette, IN

Is Your Organization's Federal Tax Exempt Status In Jeopardy?

(continued from page 2)

Loss of Federal Tax Exemption — Why?

The Pension Protection Act directs the IRS to *revoke* the tax-exempt status of any organization that fails to file an annual return, including the 990-N, for three consecutive years. Revocations will happen automatically beginning in May 2010.

What Will Happen If Federal Tax Exemption Is Revoked?

Nonprofits whose exemptions are revoked will suddenly be required to pay federal income taxes and will be subject to financial penalties if they fail to do so. There are likely hundreds of thousands of charities and small organizations, many operated on shoestrings, could find themselves no longer eligible to accept tax-deductible contributions. Nonprofits that wish to have their exemptions reinstated will be required to re-apply to the IRS for tax-exempt status, a process that can take several months.

Resources

Economic developers who generally work for smaller nonprofits — make sure you know about 990-N and its requirements may be a worthwhile endeavor. Visit www.irs.gov and click on the *Charities & Non-Profits* tab for more information.

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