



Membership Newsletter

October 2010

Indiana Economic Development Association

New address as of November 8

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Save the Date

Turning Brown into Green
November 3, 2010
Indiana Municipal Power Agency
Register today!

Annual Conference
December 9 - 10, 2010
Hyatt Regency Indianapolis
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2011 Save the Date

Spring Conference
March 3 - 4, 2011
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Belterra Casino & Resort

Fall Conference
September 15 - 16, 2011
Century Center South Bend

Annual Conference
December 8 - 9, 2011
Omni Severin Hotel

Notes from the President

IEDA events have recently taken us from Michigan City to Evansville with a Seminar/Webinar ("Are you in the Zone") in between! The professional development opportunities offered by our Association are certainly being spread out by geography and by topic. Sometimes I am questioned about the four conference platform we have continued to offer, suggesting they can't afford the time or the cost of going to them all.....this is the reason we continue to have four conferences and are now adding Seminar/Webinar opportunities in addition....so our members have choices to find the offerings that best meet their needs! Thank you to all members that attend our events on a regular basis and please feel free to make any recommendations you may have to make all of your IEDA activities worthwhile.



IEDA President
Darrell Voelker
Harrison County Economic
Development Corporation

I was fortunate to be able to attend the International Economic Development Council (IEDC) Annual Conference in Columbus, OH. The extraordinary effort that is made to offer so many enrichment opportunities made a huge impression on me. As I attended educational sessions in large and small group settings, a tour away from the conference and many networking events, I was reminded of the format of our IEDA meetings and while the time frame and attendance is much smaller, the objective and the accomplishment is nearly the same: we give the leaders of the economic development profession in Indiana an opportunity to improve themselves and the communities in which they serve! We truly hope that is what you are expecting from your IEDA membership.

Be aware that the Legislative process is heating up and Bill Dory and Carolyn Elliot have been meeting with legislators and other state leadership staff to make sure our voice is heard! The IEDA Legislative Agenda is "under construction" right now so keep in tune with our website and regular email messages to have an opportunity to let your voice be heard!

Final Word:

"Plenty of people miss their share of happiness. Not because they never found it, but because they didn't stop to enjoy it." Wm. Feather

This may be the final time I am asked to contribute to the newsletter! During this extremely busy time of the year, I would suggest that we all take some time, even if it is brief; to enjoy something that makes us happy!

Thank you to all of our Board Members for helping to lead IEDA this year and to all members for your continued support. As always, please feel free to contact me or any of the Board Members (listed in this newsletter) about any questions or issues that you may have.

Interim Study Committee on Economic Development Update

By Bill Dory

On October 5, the Interim Study Committee completed its third meeting. A fourth meeting may be scheduled as not all of the scheduled testimony was complete.

The committee has taken testimony from a wide range of individuals and organizations, representing in state and out of state interests. We will compile copies of the public testimony and post them on the IEDA website. So far, most of the testimony has indicated that overall Indiana has been doing a good job of economic development and that the state stands up well when competing with neighboring states. Several presenters indicated that the IEDC was very responsive with incentive offers as opposed to other states where the process can take weeks. Although dealing with our budget cutbacks has been difficult, it pales in comparison to the projected \$8 billion deficit in Illinois.

While listening to testimony, the following suggestions were made that might be considered significant policy changes:

- Make Indiana a right to work state. All of us in IEDA have heard the reasons for this suggestion.
- Do away with local property taxes on personal property (machinery and equipment). The presenter did not offer suggestions for making up the lost revenue. Ohio has recently done away with taxes on personal property. If the property tax cap percentages are institutionalized in the state constitution, future state legislatures may have a difficult

About the Author:

Bill Dory is the Vice President of the Indiana Economic Development Association. He also serves as the chair for the Legislative Committee.

Bill is the Executive Director for the Greencastle-Putnam County Development Ctr.

time considering these types of adjustments to keep Indiana competitive.

- Lower the corporate income tax rate from 8.5% to 3.4% to bring the taxation rate into line with pass through entities like partnerships and S corporations. Corporations will still be double taxed at the corporate and the stockholder levels. The presenter, Scott Hodge of the Tax Foundation, did not have any suggestions on how to make up the lost revenue. According to the State Budget Agency, all corporate taxes generated \$892 million in the year ending June 30, 2009 and \$592 million in the year ending June 30, 2010. Corporate taxes are the third largest source of revenue for the state. If the rate were cut by 60%, resulting in a 60% drop in this stream of revenue, then approximately \$350+ million would have to be made up from other sources. Please note that this is a very rough estimate as all corporate revenue sources are lumped together in the revenue figures noted above.

- Retain and possibly increase the amount of funding in the 21st Century Research and Technology Fund. Representatives of several beneficiaries, such as Scale Computing, Endocyte, and Exact Target, noted the value of the financing available through the fund to fill in at amounts less than what most venture capital funds are interested in financing. Mitch Roob of IEDC noted that the emphasis of the fund has shifted to funding gazelle companies and projects that will result in faster commercialization of ideas from both our universities and from individual Hoosiers.

Other suggestions focused on adjustments to existing programs. As can be expected most constituent groups did not want to see their program or investment incentive disappear. Mitch Roob made it clear that the IEDC's key programs were EDGE, HBIT, SEF and the 21st Century Fund. It was also noted that having certain tax credits on the books such as the HQ relocation tax credit has marketing value

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although not often used. Incentives such as this one help get the IEDC in the door. Ultimately, other incentives such as EDGE may be used with a specific project.

Several presenters, including Scott Hodge, commented that a state shouldn't offer any incentives and that incentives don't work. Others indicated that some incentives provide greater benefits than costs. Several committee members noted that unless everyone does away with incentives, the state will still need to have a tool box for business recruitment and retention. Hodge also noted that focusing tax breaks only on new businesses coming into the state sends a wrong message in regard to fairness to those businesses expanding in the state. Although not explicitly stated, the IEDC does do a return on investment analysis of all of their financial incentive packages.

The IEDC did indicate the need and desirability of some specific targeted incentives such as the special treatment of data centers for property tax abatement.

The IEDA offered testimony at the second committee meeting. The message to our organization prior to the meeting was that there is NO NEW MONEY. In response, we offered several suggestions for tweaking existing programs. Some of our suggestions include the following:

- Maintaining operating funding

(Interim Study Committee continues on page 4.)

Indiana Export and Foreign Investment Trends

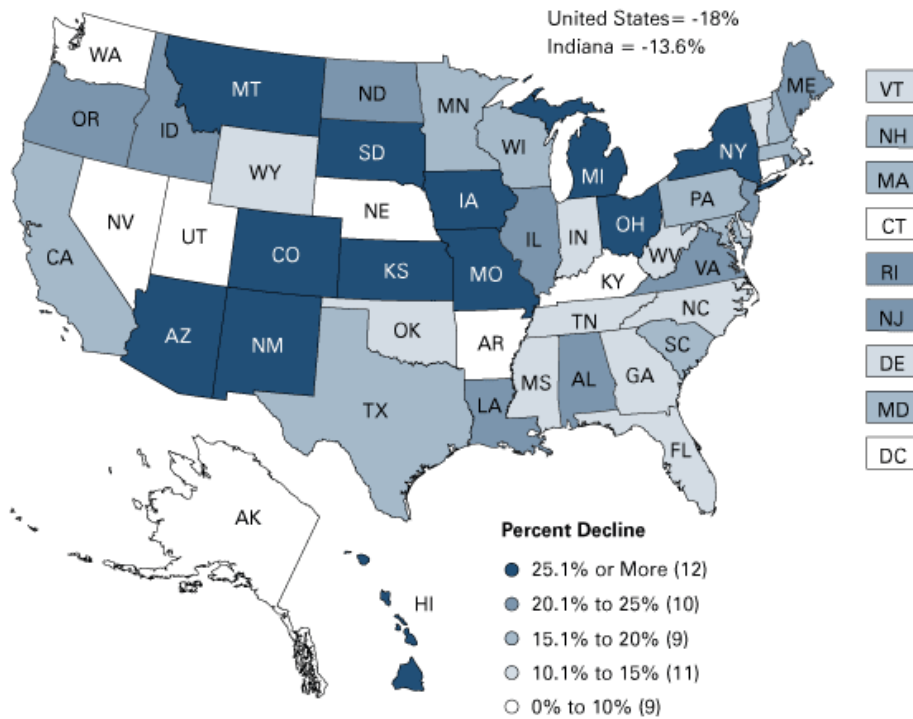
By Matt Kinghorn

The recent economic downturn had a serious impact on global trade and investment in 2009. Falling demand in many countries led to an 18 percent decline in the total value of U.S. exports

2010. There are no 2010 data available on FDI inflows at the state level, yet we can get a feel for current foreign investment trends by looking at the annual number of FDI announcements as reported

The resurgence in trade activity and the prospect of continued FDI is important news for Indiana as these factors play an ever-increasing role in the state's economy. Between 1998 and 2008, growth in Indiana exports has outpaced the state's GDP growth by greater than a two-to-one margin. Over this period, Indiana's export-to-GDP ratio has climbed from 7.2 percent to 10.4 percent. The latter mark ranked Indiana ninth among states in this measure. Meanwhile, between 2002 and 2007 (the most current data available), Hoosier employment at majority foreign-owned firms has grown at a greater rate than the state's total employment. Given Indiana's ties to the global economy, a return to export growth and FDI will play a critical role in the state's economic recovery.

Figure 1: Change in the Value of Exports, 2008 to 2009



last year while at the same time, according to the Organisation for Economic Co-operation and Development (OECD), foreign direct investment inflows to the U.S. fell 59 percent. Data for the early months of 2010, however, signal that the worst may be behind us as the value of U.S. exports approach pre-recession levels and FDI activity stabilizes.

by the investment tracking service fDi Markets. Despite the global recession, fDi Markets reports that both the U.S. and Indiana had their largest number of FDI announcements in 2009 (note, however, that the fDi Markets data series extends back only to 2003).

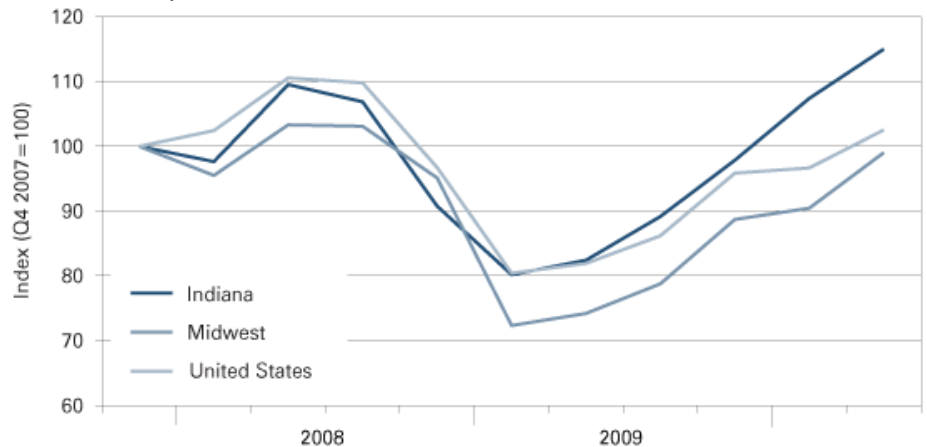
This article examines Indiana's connection to the global economy and whether these connections will help lead Indiana's recovery. Clearly, the national economy is growing at a modest pace, job growth is stagnant, and the recovery remains fragile. However, the most current export and FDI data show encouraging signs that Indiana is emerging from the economic downturn.

Indiana Exports Rebound from a Tough 2009

Export trends offer one more indicator of how widespread the current economic crisis has been. Every state in the nation saw the annual value of its exports

Indiana's experience has been similar to that of the U.S. in terms of export trends, although the state has fared better. Indiana also saw a double-digit decline in the value of exports in 2009, but Hoosier companies have gone on to post a record level of exports in the first two quarters of

Figure 2: Quarterly Change in the Value of Exports for Indiana, the Midwest, and the United States, 2007:4 to 2010:2



(Investment Trends continues on page 4.)

About the Author

Matt R. Kinghorn

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Indiana Business Research Center,
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University

Interim Study Committee

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for the IEDC and maintaining funding for IEDC programs.

- Reopening programs for business expansion and retention projects.
- Returning some of the historic flexibility in the use of TIF including expansion of existing TIF areas.
- Adjusting the size of eligible properties under the Industrial Recovery Site to a sliding scale based on community population.
- Designating a portion of EDIT for direct economic development activities.
- Continuing to keep incentives simple, easy to understand, transparent, and realistic.
- Allowing flexibility at the local level in funding economic development, both soft and hard costs, including outside of the property tax caps. A successful economic development program helps to grow the tax base and helps to keep the tax rate below the caps.
- Opening up CRED to all sizes of communities. This suggestion has state revenue implications and so may not be acted upon.

• Prior to the elimination of a program or incentive, determining if it has marketing value even if it is not currently used.

• Consider linking the Shovel Ready Site Program to IDGF so that if a community invests in infrastructure using local funds, they can be reimbursed by IDGF should a project land on the site. The community could be required to invest the grant into opening another shovel ready site.

• Opening up the Venture Capital Investment Tax Credit to fund venture capital pools to invest in Indiana companies.

• Provide a clear legal and/or legislative determination that certain state tax credits can be monetized.

• Continue to allow for the confidentiality of negotiations with a client company.

The committee's work has stimulated some great discussion and some good research. As the research documents become available, we will post the material on our web site or provide links. The committee chairs have made it clear that many good ideas may come forward during testimony; however, fiscal restraints may require that some ideas be postponed for future consideration.

Investment Trends

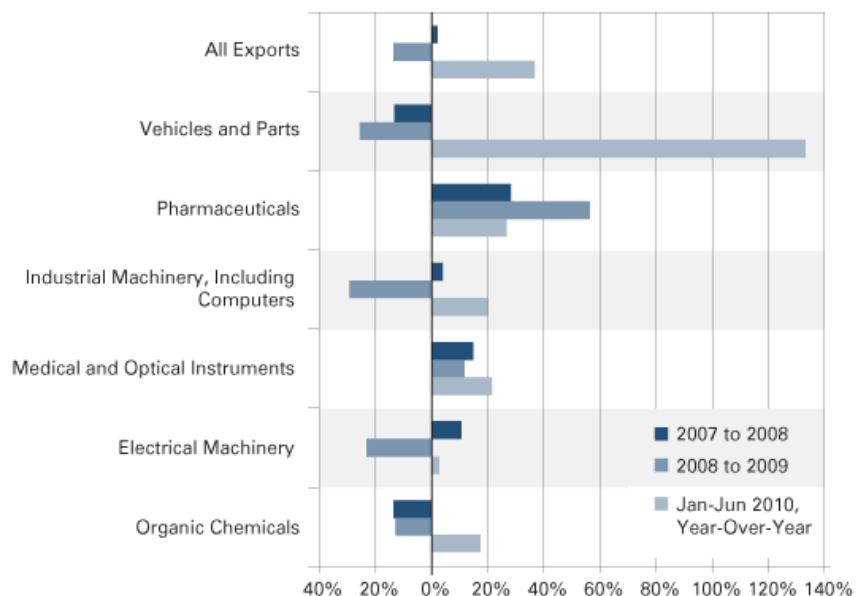
(continued from page 3)

decline between 2008 and 2009, with the depth of these declines ranging from as little as 0.6 percent in Utah to 55 percent in New Mexico. The Midwest region (Indiana, Illinois, Iowa, Kentucky, Michigan, Minnesota, Missouri, Ohio, Tennessee, and Wisconsin) saw the value of its exports fall 21 percent in 2009.

The value of Indiana's exports fell from \$26.5 billion in 2008 to \$22.9 billion in 2009—a 14 percent decline. The recession took such a toll on exports throughout the nation that Indiana's 14 percent decline actually ranked among the top one-third of all states and positioned it well above the U.S. mark of -18 percent (see **Figure 1**).

Fortunately, export activity appears to be recovering since bottoming out in 2009. The value of U.S. exports in the first half of 2010 was 23 percent greater than for the same period in 2009. As **Figure 2** shows, Indiana's rebound has been stronger than that of the United States or the Midwest region. In the first half of 2010, Indiana exported a record \$14.6 billion worth of

Figure 3: Annual Change in the Value of Indiana Exports by Industry, 2008 to 2010



Source: IBRC, using WISERTrade data

(Investment Trends continues on page 6.)

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The North American Automotive Industry: No Time to Walk Away!

It is tempting, after the long and harrowing recession, for Midwestern communities to reconsider their commitment to the auto industry. There is some appeal to the notion of building a local economy with knowledge-based jobs or 'green' jobs. Yet the auto industry is one of the most important industries in the United States and it is full of green and knowledge-based jobs. A significant number of people are employed in support of the industry. The industry directly employs over 1.7 million people engaged in designing, engineering, manufacturing and selling new motor vehicles. In addition, the automotive industry is a huge consumer of goods and services from many other sectors, including raw materials, construction, machinery, legal, computers and semi-conductors, financial, advertising, and healthcare, helping create many more jobs. Manufacturing is the backbone of the American economy, and the automotive industry is its heart.

At the end of 2008, U.S. automotive production was 2.2% of GDP while manufacturing overall contributed 11.5% to GDP. The sizeable contribution to economic output by the manufacturing industry is attributable to several factors, including international trade and the export of highly specialized manufactured products. Many of these products are high value-added goods that are made using skilled labor and advanced equipment. The complexity of products made in the U.S. contributes to the large job-creating multiplier effect of American manufacturing.

The U.S. market is one of the largest motor vehicle markets in the world; consequently, many automakers sell and manufacture in the U.S. In fact, many automakers make the majority of their profits in North America. The three U.S.-based companies have right-sized their operations, re-focused product design,

improved quality and productivity. Ford has achieved profitability, and the bankruptcies at GM and Chrysler helped these companies slash costs and cut debt. They are all now equal players fully able to meet the fierce competition in the U.S. market.

The need to constantly innovate and remain competitive drives both domestic and international automotive manufacturers to focus on R&D. The auto industry spends \$16 to \$18 billion every year on research and product development responding to: 1) the need to improve safety in vehicles, 2) consumer demands for new model types with enhanced cosmetic and drive performance characteristics, and 3) regulation of emissions. Until recently, and unlike other industries, automotive research and development efforts have been largely funded by the industry rather than through public sources. Historically, only 1 percent of R&D in the automotive industry was funded through the Federal government. Over 80 percent of the industry's R&D spending occurs in the Great Lakes states.

New technologies continue to emerge for industry. With more R&D investment than any other North American region, the Midwest is well situated to take advantage of new opportunities arising from technological change. Communities must stay aware of which technologies are up-and-coming, and which are of less or diminished importance. Then, they need to focus their talent and resources on producing these new technologies.

The major assets for many Midwest communities include their existing productive and highly qualified workforce, advanced manufacturing infrastructure, and education resources. Communities must use these assets to attract and retain industry and local businesses. With the fragile, but slowly emerging economic recovery, it is important to follow through on sizeable federal government investments in local communities and industries of strategic national importance. From 2009 through 2011, automakers have been and will continue to invest more than \$6 billion in their North American plants and

operations, with the majority of that investment occurring in the Midwest. In addition, the government has committed or already spent more than \$123 billion in this industry in training, loans, and new technology research and development. Communities that will derive the greatest benefits from investments totaling nearly \$130 billion are those that leverage their foundational strengths to position themselves to help companies profit from the new products, processes and technologies being developed.

Given the new public and private investments coming to the Midwest, its already existing productive assets, its central role in research and development for the industry, and the return of profitability and competitiveness to the region's automakers, it is not the time to abandon the industry. With the beginning of an economic recovery, sales, production, and employment within the auto industry have gradually increased and will grow faster in the future. Communities that take advantage of the region's automotive assets, marketing themselves as ideal locations for further investment, stand to benefit from coming waves of automotive investment and job creation.

(Automotive Industry continues on page 7.)

Welcome IEIDA New Members

Since July 2010

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Fishers, IN

Clarence L Hulse
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Jeffersonville, IN

Phil Lehmkuhler
USDA/Rural Development
Indianapolis, IN

Justin Loveless
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Rushville, IN

Judy Rueger
Evansville, IN

About the Author:

Debbie Maranger Menk, Joshua Cregger, and Kim Hill

Center for Automotive Research

Automotive Communities Partnership

Investment Trends

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goods, which was a 37 percent increase over the same period in 2009 and a 7 percent improvement over the first half of 2008. In contrast, the value of U.S.

combined to account for 65 percent of the state's total exports in the first half of 2010. Indiana's pharmaceutical exports surged between the second quarter of 2008 and the first quarter of 2009 while vehicles and industrial machinery dropped. Meanwhile, medical and optical

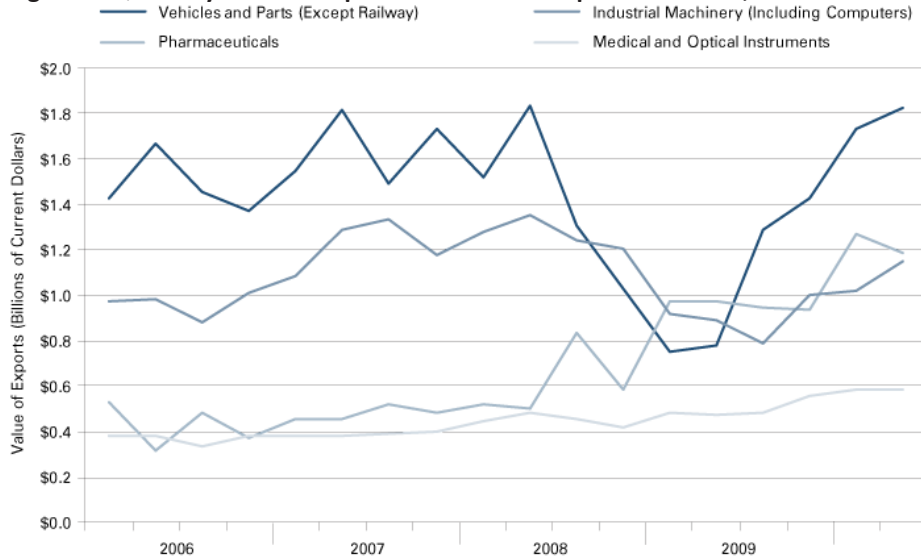
makers have a strong presence, exported \$13.2 billion worth of pharmaceuticals in 2009—a figure that was over three times greater than Indiana's.

Indiana's Largest Trading Partners

Canada has long been Indiana's top export market. Our neighbor to the north purchased 37 percent of all Indiana exports in 2009 and 38 percent in the first two quarters of 2010, far ahead of the second largest destination, Mexico which accounted for 9 percent of all the exports in the first half of 2010. Vehicle and parts sales dominate Indiana's exports to Canada. The auto industry accounted for 39 percent of Indiana exports to Canada in 2009 and 49 percent of the total in the first half of 2010. Even more noteworthy, Canada traditionally accounts for roughly 75 percent of Indiana's total exports of vehicles and parts. Indiana's vehicle exports to Canada took a serious hit early in 2009—declining by 24 percent—but have recovered strongly thus far in 2010.

After Canada and Mexico, a trio of European nations—Germany, the United Kingdom and France—round out Indiana's top five trading partners. While the United Kingdom and France remain key markets for Indiana companies, the value of their imports from the state continued to decline in the first half of 2010. As **Figure 5** illustrates, Indiana's recent increase in the export of pharmaceutical products was driven primarily by activity in these countries and several of their Western

Figure 4: Quarterly Value of Exports for Indiana's Top Commodities, 2006 to 2010



Source: IBRC, using WISERTrade data

and Midwestern exports in the first half of 2010 fell short of their 2008 levels for the same period. In fact, Indiana is one of only fourteen states whose value of exports in the first half of 2010 surpassed pre-recession levels.

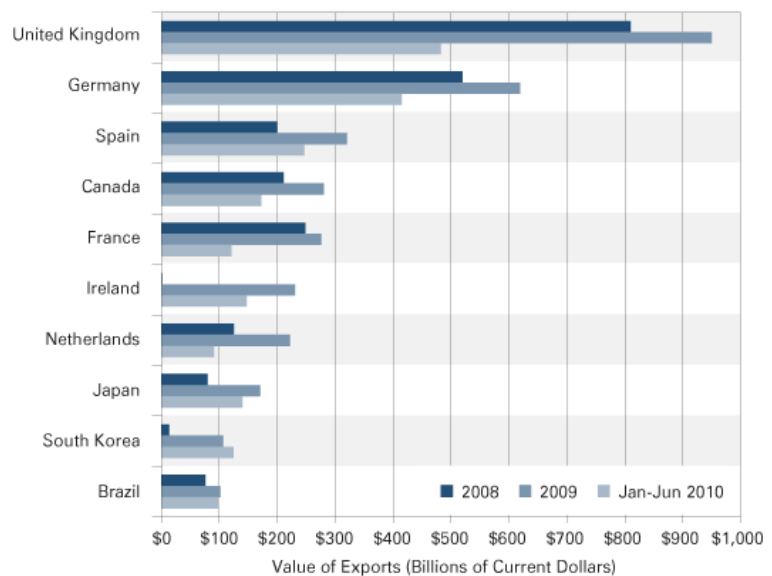
The primary force behind the decline and subsequent rebound of Indiana's exports has been the disruption in the auto industry. As **Figure 3** illustrates, the value of Indiana's vehicle and parts exports declined in both 2008 and 2009. However, Indiana's \$3.5 billion in vehicle exports in the first half of 2010 was more than twice the value for the same period in 2009. Compared to previous high watermarks, Indiana's auto industry exports in the first half of 2010 were a 6 percent improvement over both 2007 and 2008.

While the auto industry accounted for much of the variation in Indiana's export activity through the economic downturn, the state's life science companies largely prevented the level of declines seen in many Midwestern states and in the nation overall. **Figure 4** shows the quarterly value for Indiana's four largest export commodities. These commodities

instrument exports remained strong through this period.

To underscore Indiana's strength in pharmaceuticals, the state's drug makers exported \$3.8 billion worth of goods in 2009, which ranked first among states. Indiana continues to lead all states in pharmaceutical exports through two quarters of 2010 with \$2.5 billion in foreign sales. It's interesting to note that Puerto Rico, where many U.S. drug

Figure 5: Indiana's Top Pharmaceutical Destinations



Source: IBRC, using WISERTrade data

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Investment Trends

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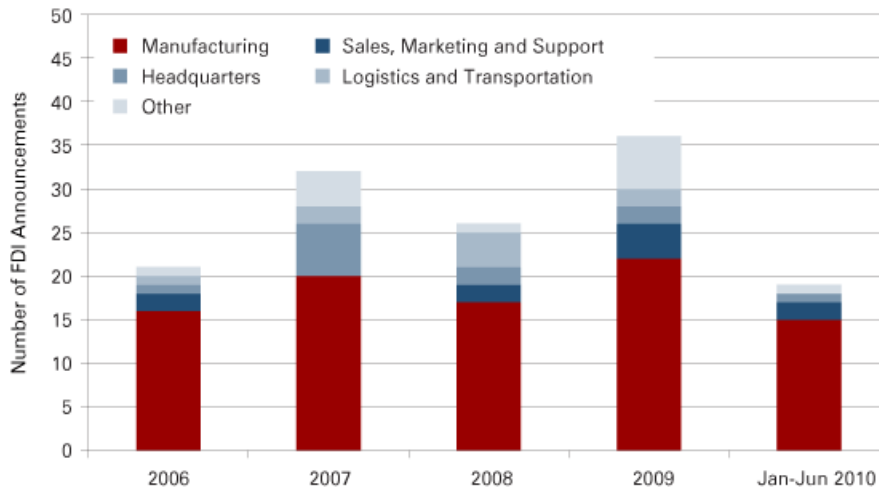
European neighbors.

Indiana's fastest growing major trading

these thirty-six projects is \$2 billion, which is Indiana's second highest investment total in this data series. The record investment amount occurred in 2006 when BP announced a \$3.6 billion investment in Whiting. Like Indiana,

so far in 2010. It is also encouraging that while 2009's export figures remained broadly negative, there were some bright spots, most notably in the life science industries. We are still in the early stages of recovery, however, and there are no assurances that global demand will not decline again. That said, strong export growth in the first half of 2010 coupled with numerous FDI announcements are two positive signs that Indiana could be on the road to recovery.

Figure 6: Number of FDI Announcements in Indiana by Business Activity, 2006 to 2010



Source: IBRC, using WISERTrade data

partner in recent years has been China. The value of the state's exports to the world's most populous country grew by an average of 25 percent a year between 2001 and 2008 before declining in 2009. Indiana's leading export commodity to China in 2009 was industrial machinery, which accounted for 32 percent of all exports, followed by plastics and electrical machinery.

Foreign Direct Investment in Indiana

Indiana has been one of the nation's top beneficiaries of foreign direct investment (FDI). As of 2007, 144,000 Hoosiers worked at firms in which a foreign investor or company had at least a 50 percent stake. This number accounted for 4.5 percent of the state's total private employment at the time, which ranked twelfth nationally. Data are not yet available for FDI-related employment trends during the recession, but the number of FDI announcements in Indiana since 2009 suggests that foreign companies continue to find Indiana an attractive destination for investment.

The investment tracking service fDi Markets reports thirty-six FDI announcements for Indiana in 2009—the largest number of annual announcements since this data series began in 2003. The estimated total value of investment for

fDi Markets reports that the United States also had its largest tally of FDI announcements in 2009. The total value of these investments trailed only the 2008 mark.

Not surprisingly, the majority of announcements in Indiana are in the manufacturing sector (see Figure 6). There were twenty-two manufacturing announcements in 2009 with the largest project coming from Toyota's \$500 million investment to retool its Princeton facility to begin producing a different type of vehicle. This investment is not likely to generate many new jobs at the facility but it should secure the jobs already there for some time. The other largest FDI announcements in 2009 came from BP and Electricite de France for renewable energy projects.

To view details on FDI deals announced in your region, visit IBRC's interactive map on Stats Indiana <http://www.stats.indiana.edu/interactive/fdi.asp>

Conclusion

The poor performance of U.S. exports was one of many indications that 2009 was a difficult year. Indiana may have suffered the same fate as the rest of the country—seeing a drop in demand from nearly all of its major trading partners—but this downward trend has reversed

¹ fDi Markets tracks foreign direct investment announcements (media releases) which typically include projected investment values and job creation targets. With this data source, FDI projects are counted in the year they are announced but it may take years before the investments are fully realized, if they are realized at all. Also, fDi Markets collects data on greenfield and expansion related announcements only. Merger and acquisition transactions are not captured.

² GDP—the sum of all value-added components, such as wages and profits—is not conceptually the same as sales (sales include the price of intermediate inputs as well as value added). However, the export-to-GDP ratio provides a rough measure of the relative dependence a state has on exports.

³ Ted Evanoff, "Toyota's \$500M move refocuses Indiana plant," Indianapolis Star, July 7, 2009, www.indy.com/posts/toyota-s-500m-move-refocuses-indiana-plant.

Portions of this article originally appeared in the Fall 2010 issue of the Indiana Business Review.

<http://www.ibrc.indiana.edu/ibr/2010/fall/article1.html>

Automotive Industry

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The Center for Automotive Research is a nonprofit organization based in Ann Arbor, Michigan. Its mission is to conduct research on significant issues related to the future direction of the global automotive industry, as well as organize and conduct forums of value to the automotive community. The Center for Automotive Research's Automotive Communities Partnership (ACP) is a Midwest organization that has been addressing the needs of automotive communities for the past decade. The ACP brings communities, international partners, automotive companies, large employers, educational institutions and government agencies together to advocate for the automotive industry and its investment in the region. Furthermore, the ACP helps the region's communities respond to the challenges and opportunities presented by the auto industry. For more information, visit: www.cargroup.org and acp.cargroup.org.