INTERIM STUDY COMMITTEE ON ECONOMIC DEVELOPMENT

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MEETING MINUTES[1]

Meeting Date:	**October 11, 2012**
Meeting Time:	**1:00 P.M.**
Meeting Place:	**State House, 200 W. Washington St., 404**
Meeting City:	**Indianapolis, Indiana**
Meeting Number:	**4**

Members Present: **Sen. James Buck, Co-Chairperson; Sen. James Arnold; Rep. Mark Messmer, Co-Chairperson; Rep. Sheila Klinker; Mayor Shawna Girgis; Jeff Quyle; Sonny Beck; Gail Zeheralis; Nancy Guyott; Daniel Hasler; Tom Easterday.**

Members Absent: **Mark Becker; Chris Lowery; Angela Faulkner; Mickey Maurer.**

Rep. Messmer called the meeting to order at 1:10 pm. Rep. Messmer and Sen. Buck, Co-Chairmen of the Committee, thanked the Committee members for their participation and cooperation.

Discussion of Preliminary Draft Legislation

The Committee discussed three preliminary bill drafts stemming from topics covered during testimony (Exhibits A, B, and C). The three preliminary drafts are:

(1) PD3257 - Create a New Markets Jobs Growth Income Tax Credit.
(2) PD3260 - Change the Hoosier Business Investment Credit to a refundable tax credit.
(3) PD3263 - Establish a Sales Tax exemption for the purchase of enterprise information technology equipment.

[1] These minutes, exhibits, and other materials referenced in the minutes can be viewed electronically at http://www.in.gov/legislative Hard copies can be obtained in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for hard copies may be mailed to the Legislative Information Center, Legislative Services Agency, West Washington Street, Indianapolis, IN 46204-2789. A fee of $0.15 per page and mailing costs will be charged for hard copies.

There was discussion among the members regarding the scope of the drafts. Members discussed concerns as to the types of projects that would qualify under the New Markets Jobs Growth Income Tax Credit. Members also discussed concerns about the type of equipment that would be considered exempt under the enterprise information technology equipment exemption.

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

Consideration of the Final Report

The Committee discussed the draft final report (Exhibit D). Besides the recommendations relating to the preliminary drafts discussed above, the Committee also made the following recommendations by voice vote:

(1) The Indiana General Assembly should refrain from enacting policies that may hinder the development and advancement of the Midwest Automotive Loop initiative.

(2) The Indiana General Assembly should encourage higher education institutions in Indiana to continue to develop and implement programs in conjunction with the Indiana Economic Development Corporation and the Department of Workforce Development for improving the skills and education level of Indiana's workforce.

A motion was made and seconded to adopt the final report as amended. The motion was approved by voice vote.

Rep. Messmer adjourned the meeting at 1:50 pm.

Exhibit A
Interim Study Committee on
Economic Development
Meeting #4, October 11, 2012

PRELIMINARY DRAFT
No. 3257

PREPARED BY
LEGISLATIVE SERVICES AGENCY
2013 GENERAL ASSEMBLY

DIGEST

Citations Affected: IC 6-3.1-34.

Synopsis: New markets job growth income tax credit. Establishes a new markets job growth credit against state tax liability for investments made by a taxpayer in a qualified community development entity that then uses the proceeds of the investment to make investments in certain qualified low income community businesses located in Indiana. Specifies that the tax credit is equal to an applicable percentage multiplied by the purchase price of the qualified investment. Provides that the applicable percentage is 0% for the first and second credit allowance dates, 7% for the third credit allowance date, and 8% for the fourth, fifth, sixth, and seventh credit allowance dates. Provides that a taxpayer is not entitled to a carryback or refund of an unused tax credit, but the taxpayer may carry over excess credit amounts for not more than five subsequent taxable years. Requires the Indiana economic development corporation to limit the monetary amount of qualified equity investments to an amount necessary to limit the claiming of the tax credit to not more than $20,000,000 in any state fiscal year (based on the anticipated use of the tax credits without regard to the potential for taxpayers to carry forward tax credits to later tax years).

Effective: January 1, 2014.

First Regular Session 118th General Assembly (2013)

A BILL FOR AN ACT to amend the Indiana Code concerning taxation.

Be it enacted by the General Assembly of the State of Indiana:

SECTION 1. IC 6-3.1-34 IS ADDED TO THE INDIANA CODE AS A NEW CHAPTER TO READ AS FOLLOWS [EFFECTIVE JANUARY 1, 2014]:

Chapter 34. New Markets Job Growth Credit

Sec. 1. As used in this chapter, "applicable percentage" means the following:

(1) Zero percent (0%) for the first and second credit allowance dates.

(2) Seven percent (7%) for the third credit allowance date.

(3) Eight percent (8%) for the fourth, fifth, sixth, and seventh credit allowance dates.

Sec. 2. As used in this chapter, "credit allowance date", with respect to any qualified equity investment, means:

(1) the date on which the qualified equity investment is initially made; and

(2) each of the following six (6) anniversary dates of the date described in subdivision (1).

Sec. 3. As used in this chapter, "IEDC" refers to the Indiana economic development corporation.

Sec. 4. As used in this chapter, "long term debt security" means any debt instrument that satisfies the following conditions:

(1) The debt instrument is issued by a qualified community development entity, at par value or a premium, with an original maturity date of at least seven (7) years after the date of its issuance, with no acceleration of repayment, amortization, or prepayment features before its original maturity date.

(2) The qualified community development entity that issues the debt instrument may not make cash interest payments on the debt instrument during the period beginning on the date of issuance and ending on the final credit allowance date in an

amount that exceeds the cumulative operating income (as defined by federal regulations adopted under Section 45D of the Internal Revenue Code) of the qualified community development entity for that period, before giving effect to the expense of the cash interest payments.

However, the conditions of this section do not limit in any way the ability of the holder of the debt instrument to accelerate payments on the debt instrument in situations where the issuer has defaulted on covenants designed to ensure compliance with this chapter or Section 45D of the Internal Revenue Code.

Sec. 5. As used in this chapter, "purchase price" means the amount paid to the issuer of a qualified equity investment for the qualified equity investment.

Sec. 6. (a) As used in this chapter, "qualified active low income community business" has the meaning set forth in Section 45D of the Internal Revenue Code and 26 CFR 1.45D-1.

(b) A business is considered a qualified active low income community business for the duration of the qualified community development entity's investment in, or loan to, the business if the qualified community development entity reasonably expects, at the time it makes the investment or loan, that the business will continue to satisfy the requirements for being a qualified active low income community business throughout the entire period of the investment or loan.

(c) The term does not include a business that derives or projects that it will derive at least fifteen percent (15%) of its annual revenue from the rental or sale of real estate. However, this exclusion does not apply to a business that is controlled by, or under common control with, a second business if the second business:

(1) does not derive or project that it will derive at least fifteen percent (15%) of its annual revenue from the rental or sale of real estate; and

(2) is the primary tenant of the real estate leased from the first business.

Sec. 7. (a) As used in this chapter, "qualified community development entity" means an entity that:

(1) is a qualified community development entity for purposes of Section 45D of the Internal Revenue Code; and

(2) has entered into an allocation agreement with the Community Development Financial Institutions Fund of the United States Treasury Department with respect to credits authorized by Section 45D of the Internal Revenue Code that includes Indiana within the service area set forth in the allocation agreement.

(b) The term includes affiliated entities and subordinate community development entities of any entity described in subsection (a).

Sec. 8. (a) As used in this chapter, "qualified equity investment" means any equity investment in, or long term debt security issued by, a qualified community development entity that:

(1) is acquired after December 31, 2013, at its original issuance solely in exchange for cash;

(2) has at least eighty-five percent (85%) of its cash purchase price used by the issuer to make qualified low income community investments in qualified active low income community businesses located in Indiana by the first anniversary of the initial credit allowance date; and

(3) is designated by the issuer as a qualified equity investment under this chapter and is certified by the IEDC as not exceeding the limitation under section 17 of this chapter.

(b) The term includes an otherwise qualified equity investment that does not meet the requirements of subsection (a)(2) if the investment was a qualified equity investment in the hands of a prior holder.

Sec. 9. As used in this chapter, "qualified low income community investment" means any capital or equity investment in, or loan to, any qualified active low income community business. With respect to any one (1) qualified active low income community business, the maximum amount of qualified low income community investments made in the business, on a collective basis with all its affiliates, is ten million dollars ($10,000,000), whether issued to one (1) or several qualified community development entities.

Sec. 10. As used in this chapter, "state tax liability" means a person's total tax liability that is incurred under:

(1) IC 6-3-1 through IC 6-3-7 (the adjusted gross income tax);

(2) IC 6-5.5 (the financial institutions tax); and

(3) IC 27-1-18-2 (the insurance premiums tax);

as computed after the application of the credits that under IC 6-3.1-1-2 are to be applied before the credit provided by this chapter.

Sec. 11. As used in this chapter, "tax credit" refers to a credit granted under this chapter against state tax liability.

Sec. 12. As used in this chapter, "taxpayer" means an individual, a corporation, a partnership, or another person or entity that has state tax liability.

Sec. 13. A taxpayer that makes a qualified equity investment earns a vested right to tax credits as follows:

(1) On each credit allowance date of the qualified equity investment, the taxpayer, or the subsequent holder of the qualified equity investment, is entitled to a tax credit for the taxable year that includes the credit allowance date.

(2) Subject to subdivision (3), the tax credit amount is equal to:

(A) the applicable percentage; multiplied by

(B) the purchase price paid to the issuer of the qualified equity investment.

(3) The amount of the tax credit claimed may not exceed the amount of the taxpayer's state tax liability for the taxable year for which the tax credit is claimed.

Sec. 14. A tax credit claimed under this chapter is not refundable or saleable on the open market.

Sec. 15. (a) If:

(1) a pass through entity does not have state tax liability against which a tax credit may be applied; and

(2) the pass through entity would be eligible for a tax credit if the pass through entity were a taxpayer;

a shareholder, partner, or member of the pass through entity is entitled to a tax credit under this chapter.

(b) Tax credits earned by a pass through entity may be allocated to the partners, members, or shareholders of the pass through entity for their direct use in accordance with the provisions of any agreement among the partners, members, or shareholders.

Sec. 16. (a) If the amount of a tax credit for a taxpayer in a taxable year exceeds the taxpayer's state tax liability for that taxable year, the taxpayer may carry the excess over to not more than five (5) subsequent taxable years. The amount of the tax credit carryover from a taxable year shall be reduced to the extent that the carryover is used by the taxpayer to obtain a tax credit under this chapter for any subsequent taxable year.

(b) A taxpayer is not entitled to a carryback or refund of an unused tax credit.

Sec. 17. (a) The IEDC shall limit the monetary amount of qualified equity investments permitted under this chapter to an amount necessary to limit the claiming of the tax credit to not more than twenty million dollars ($20,000,000) in any state fiscal year. This limitation on qualified equity investments must be based on the anticipated use of credits without regard to the potential for taxpayers to carry forward tax credits to later tax years.

(b) When the total tax credits approved under this chapter equal the maximum amount allowable in any state fiscal year, no application filed thereafter for that same state fiscal year may be approved.

Sec. 18. The issuer of a qualified equity investment shall certify to the IEDC the anticipated dollar amount of the investments to be made in Indiana during the first twelve (12) month period following the initial credit allowance date. Subject to section 22 of this chapter, if on the second credit allowance date the actual dollar amount of the investments is different than the amount certified, the IEDC shall adjust the credits arising on the second allowance date to account for the difference.

Sec. 19. (a) If the proceeds of a qualified equity investment are invested completely in qualified low income community investments in Indiana, the purchase price, for the purpose of calculating the tax credit under this chapter, equals one hundred percent (100%) of the qualified equity investment, regardless of the location of investments made with the proceeds of other qualified equity investments issued by the same qualified community development entity.

(b) To the extent a part of a qualified equity investment is not invested in Indiana, the purchase price, for the purpose of calculating the tax credit under this chapter, must be reduced by the same ratio that the part of the qualified equity investment that is not invested in Indiana bears to the total amount of the qualified equity investment, independently of the location of investments made with proceeds of other qualified equity investments issued by the same qualified community development entity. In this case, the burden is on the qualified community development entity to establish the extent to which the qualified equity investments are fully invested in Indiana, either by:

(1) establishing that the qualified community development entity itself invests exclusively in Indiana; or

(2) otherwise establishing, through direct tracing, the part of a qualified equity investment invested solely in Indiana.

Sec. 20. Subject to section 22 of this chapter, the IEDC shall recapture the tax credit allowed under this chapter from a taxpayer that claimed the credit on a tax return, if:

(1) any amount of the federal tax credit available with respect to a qualified equity investment that is eligible for a tax credit under this section is recaptured under Section 45D of the Internal Revenue Code; or

(2) subject to section 21 of this chapter, the issuer redeems or makes a principal repayment with respect to a qualified equity investment before the seventh anniversary of the issuance of the qualified equity investment.

If subdivision (1) applies, the IEDC's recapture is proportionate to the federal recapture with respect to the qualified equity investment. If subdivision (2) applies, the IEDC's recapture is proportionate to the amount of the redemption or repayment with respect to the qualified equity investment.

Sec. 21. For purposes of section 20(2) of this chapter, an investment shall be considered held by an issuer even if the investment has been sold or repaid if the issuer reinvests an amount equal to the capital returned to or recovered by the issuer from the original investment, exclusive of any profits realized, in another qualified low income community investment within twelve (12) months after receipt of the capital. An issuer may not be required to reinvest capital returned from qualified low income community investments after the sixth anniversary of the issuance of the qualified equity investment, the proceeds of which were used to make the qualified low income community investment. The qualified low income community investment shall be considered held by the issuer through the seventh anniversary of the qualified equity investment's issuance.

Sec. 22. The IEDC may not make an adjustment in a tax credit under section 18 of this chapter or recapture a tax credit under section 20 of this chapter unless:

(1) the IEDC has given the qualified community development entity notice of the proposed adjustment or recapture; and

(2) the IEDC allowed the qualified community development entity six (6) months after the date of the notice to cure the cause of the proposed adjustment or recapture.

Sec. 23. The IEDC shall adopt rules to implement this chapter and to administer the certification of qualified equity investments and the allocation of tax credits under this chapter.

Sec. 24. To apply a tax credit under this chapter against the taxpayer's state tax liability, a taxpayer must claim the tax credit on the taxpayer's annual state tax return or returns in the manner prescribed by the department. In addition, the taxpayer must submit to the department any additional information that the department determines is necessary for the department to determine whether the taxpayer is eligible for the tax credit.

PRELIMINARY DRAFT
No. 3260

PREPARED BY
LEGISLATIVE SERVICES AGENCY
2013 GENERAL ASSEMBLY

DIGEST

Citations Affected: IC 6-3.1-26.

Synopsis: Hoosier business investment tax credit. Permits the Indiana economic development corporation to grant a Hoosier business investment income tax credit that is entirely or partly refundable to the taxpayer or to a pass through entity. Specifies that the corporation's discretion to grant a refundable credit applies to credit awards approved and investments made on or after July 1, 2013.

Effective: July 1, 2013.

A BILL FOR AN ACT to amend the Indiana Code concerning taxation.

Be it enacted by the General Assembly of the State of Indiana:

SECTION 1. IC 6-3.1-26-1 IS REPEALED [EFFECTIVE JULY 1, 2013]. ~~Sec. 1. As used in this chapter, "base state tax liability" means a taxpayer's state tax liability in the taxable year immediately preceding the taxable year in which a taxpayer makes a qualified investment.~~

SECTION 2. IC 6-3.1-26-14, AS AMENDED BY P.L.199-2005, SECTION 20, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2013]: Sec. 14. **(a)** The total amount of a tax credit claimed for a taxable year under this chapter is a percentage determined by the corporation, not to exceed ten percent (10%), of the amount of a qualified investment made by the taxpayer in Indiana during that taxable year. **For a credit award that was approved by the corporation before July 1, 2013, and that pertained to an investment that was made before July 1, 2013,** the taxpayer may carry forward any unused credit, **and the taxpayer is not entitled to a carryback or refund of any unused credit.**

(b) For a credit award that was approved by the corporation on or after July 1, 2013, and that pertains to an investment made on or after July 1, 2013, the corporation may approve a credit amount for a taxable year that exceeds the taxpayer's state tax liability for the taxable year. In such a case, all or a part of the excess may, at the discretion of the corporation, be refunded to the taxpayer. If the corporation does not approve a refund for the entire amount of the credit, the taxpayer may carry forward any unused credit.

SECTION 3. IC 6-3.1-26-16, AS AMENDED BY P.L.199-2005, SECTION 22, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2013]: Sec. 16. **(a) If the corporation approves a refund of all or part of the credit under this chapter for a pass through entity and the credit exceeds the pass through entity's state income tax liability for the taxable year, the pass through entity is entitled to a refund of the excess.** If ~~a pass through entity does not have state tax liability against which the tax credit may be applied,~~ **the corporation**

does not approve a refund for the entire amount of the credit, a shareholder or partner of the pass through entity is entitled to a tax credit equal to:

(1) the tax credit determined for the pass through entity for the taxable year **that is not refunded;** multiplied by

(2) the percentage of the pass through entity's distributive income to which the shareholder or partner is entitled.

(b) If the corporation grants a refund directly to a pass through entity under this section, the pass through entity shall claim the refund on forms prescribed by the department of state revenue.

SECTION 4. IC 6-3.1-26-21, AS AMENDED BY P.L.4-2005, SECTION 110, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2013]: Sec. 21. The corporation shall enter into an agreement with an applicant that is awarded a credit under this chapter. The agreement must include all the following:

(1) A detailed description of the project that is the subject of the agreement.

(2) The first taxable year for which the credit may be claimed.

(3) The amount of the taxpayer's state tax liability for each tax in the taxable year of the taxpayer that immediately preceded the first taxable year in which the credit may be claimed.

(4) The maximum tax credit amount that will be allowed for each taxable year **and if the applicant's credit award exceeds the applicant's state tax liability for a taxable year, to what extent the excess, if any, may be refunded to the applicant.**

(5) A requirement that the taxpayer shall maintain operations at the project location for at least ten (10) years during the term that the tax credit is available.

(6) A specific method for determining the number of new employees employed during a taxable year who are performing jobs not previously performed by an employee.

(7) A requirement that the taxpayer shall annually report to the corporation the number of new employees who are performing jobs not previously performed by an employee, the average wage of the new employees, the average wage of all employees at the location where the qualified investment is made, and any other information the director needs to perform the director's duties under this chapter.

(8) A requirement that the director is authorized to verify with the appropriate state agencies the amounts reported under subdivision (7), and that after doing so shall issue a certificate to the taxpayer stating that the amounts have been verified.

(9) A requirement that the taxpayer shall pay an average wage to all its employees other than highly compensated employees in each taxable year that a tax credit is available that equals at least one hundred fifty percent (150%) of the hourly minimum wage

under IC 22-2-2-4 or its equivalent.

(10) A requirement that the taxpayer will keep the qualified investment property that is the basis for the tax credit in Indiana for at least the lesser of its useful life for federal income tax purposes or ten (10) years.

(11) A requirement that the taxpayer will maintain at the location where the qualified investment is made during the term of the tax credit a total payroll that is at least equal to the payroll level that existed before the qualified investment was made.

(12) A requirement that the taxpayer shall provide written notification to the director and the corporation not more than thirty (30) days after the taxpayer makes or receives a proposal that would transfer the taxpayer's state tax liability obligations to a successor taxpayer.

(13) Any other performance conditions that the corporation determines are appropriate.

PRELIMINARY DRAFT
No. 3263

PREPARED BY
LEGISLATIVE SERVICES AGENCY
2013 GENERAL ASSEMBLY

DIGEST

Citations Affected: IC 6-2.5-5-47.

Synopsis: Sales tax exemption. Provides a state sales and use tax exemption for the sale of enterprise information technology equipment that qualifies for the personal property tax exemption in a high technology district area.

Effective: July 1, 2013.

First Regular Session 118th General Assembly (2013)

A BILL FOR AN ACT to amend the Indiana Code concerning taxation.

Be it enacted by the General Assembly of the State of Indiana:

SECTION 1. IC 6-2.5-5-47 IS ADDED TO THE INDIANA CODE AS A **NEW** SECTION TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2013]: **Sec. 47. (a) As used in this section, "eligible business" has the meaning set forth in IC 6-1.1-10-44.**

(b) As used in this section, "enterprise information technology equipment" has the meaning set forth in IC 6-1.1-10-44.

(c) As used in this section, "high technology district area" has the meaning set forth in IC 6-1.1-10-44.

(d) As used in this section, "qualified property" means tangible personal property that consists of enterprise information technology equipment purchased after June 30, 2013, and any additions to or replacements to that property.

(e) A transaction involving qualified property is exempt from the state gross retail tax if:

(1) a designating body has established a high technology district area that exists on the date of the transaction;

(2) the designating body has entered into an agreement under IC 6-1.1-10-44(i) with an eligible business; and

(3) the eligible business acquires qualified property for installation and use in the high technology district area.

(f) This section applies to transactions that occur after June 30, 2013.

FINAL REPORT

Interim Study Committee on Economic Development

I. STATUTORY DIRECTIVE

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

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

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

II. INTRODUCTION AND REASONS FOR STUDY

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

III. SUMMARY OF WORK PROGRAM

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

(1) At the August 20th meeting, the Committee considered the following topics:
- (A) Review of the statutory charges of the Committee.
- (B) The Indiana Economic Development Corporation update on economic development programs and issues.
- (C) Committee discussion of the 2010 and 2011 annual reports of the Committee.

(2) At the September 10th meeting, the Committee considered the following topics:

- (A) Presentation of the final report of the State and Local Tax Policy Commission of Policy Choices for Indiana's Future.
- (B) Testimony on the federal New Markets Tax Credit.
- (C) Testimony on the economic impact of the extension of unemployment benefits to 99 weeks.

(3) At the September 24th meeting, the Committee considered the following topics:

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

(4) At the October 11th meeting, the Committee

[This summary item will be updated after the October 11, 2012, meeting.]

IV. SUMMARY OF TESTIMONY

The testimony focused on three broad topics:

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

Taxes

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

CSLT brought up a few issues for the Committee to consider. They expressed concern about the future of Indiana's infrastructure. The CSLT noted that the infrastructure in Indiana is aging and new funding sources must be found to maintain and repair the current infrastructure. In regards to local taxes, they recommended studying the impact of the credit for excessive property taxes (circuit breaker) on local governments. The circuit breaker has created problems for local governments, and they provide essential services to their communities. The CSLT proposed standardizing the tax treatment of not-for-profit organizations. Not-for-profits can consume large amounts of public services, but they typically receive tax-exempt status. A system of payments-in-lieu-of-taxes (PILOTS) could be implemented to ease the burden on local governments. Lastly, the CSLT suggested the Indiana Sales Tax rate is too high. Currently, Indiana's state Sales Tax rate is the second highest in the nation. They propose that lowering the state Sales Tax rate would improve the overall business climate and make Indiana more attractive to outside businesses.

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

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

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

Workforce and Education

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

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

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

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

Jeff Terp provided an overview of the Ivy Tech Corporate College. The Ivy Tech Corporate College works with employers to provide specific training and certification programs to their employees. These programs are already available and are currently being used by Magnolia Health Systems, Cook Group, Subaru of Indiana, and Kirby Risk Corporation. These programs could be promoted as a business incentive.

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

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

<u>Marketing Indiana</u>

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

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

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

V. COMMITTEE FINDINGS AND RECOMMENDATIONS

The Committee made the following findings of fact:

(1) Indiana needs additional venture capital investment.

(2) Indiana's sales tax rate is high compared to other states and is prohibitive to investment in Indiana by data center and IT companies because this equipment is subject to sales tax.

(3) The Hoosier Business Investment Tax Credit program is limited in its' effectiveness due to the non-refundable nature of the tax credit.

(4) The Midwest Automotive Loop is an important cooperative regional economic development initiative that could result in new investment and employment opportunities in Indiana.

The Committee made the following recommendations:

(1) Legislation should be enacted to establish a New Markets Job Growth Tax Credit for investments in qualified community development entities (PD 3257).

(2) Legislation should be enacted to permit the Indiana Economic Development Corporation to grant the Hoosier Business Investment Tax Credit as a refundable credit

(PD 3260).

(3) Legislation should be enacted to establish a sales and use tax exemption for the sale of certain enterprise information technology equipment (PD 3263).

(4) The Indiana General Assembly should refrain from enacting policies that may hinder the development and advancement of the Midwest Automotive Loop initiative.

[This report will be updated after the October 11, 2012, meeting.]

WITNESSLIST

Dan Clark, Executive Director
Indiana Education Roundtable

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

Ben Dupuy
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Teresa Lubbers, Commissioner
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