



# 2016 Indiana Tax Incentive Evaluation

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Office of Fiscal and Management Analysis  
Indiana Legislative Services Agency

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# Office of Fiscal and Management Analysis

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## Preface

IC 2-5-3.2-1 establishes an annual review, analysis, and evaluation process for state and local tax incentives. The annual review will be conducted over a five-year cycle during which each state and local tax incentive will be reviewed at least one time. The annual tax incentive review is conducted by the Office of Fiscal and Management Analysis, Legislative Services Agency. The Office of Fiscal and Management Analysis must submit an annual report of the tax incentive review to the Legislative Council and the Interim Study Committee on Fiscal Policy. The five-year review cycle began in 2014. The prior-year reports can be found on the Indiana General Assembly's website at [https://iga.in.gov/legislative/2016/publications/tax\\_incentive\\_review/](https://iga.in.gov/legislative/2016/publications/tax_incentive_review/). Pursuant to IC 2-5-3.2-1, this report:

- Specifies the review schedule for 2017 to 2018.
- Reviews, analyzes, and evaluates the following tax incentives and incentive programs:
  - Industrial recovery (dinosaur) credit
  - Community revitalization enhancement districts
    - Community revitalization enhancement district investment credit
  - Enterprise zones
    - Enterprise zone employment expense credit
    - Enterprise zone employee deduction
    - Enterprise zone investment cost credit
    - Enterprise zone loan interest credit
    - Enterprise zone investment deduction
    - Enterprise zone obsolescence deduction
- Provides descriptive information and data relating to the tax incentives and incentive programs subject to review in 2016.
- Analyzes and evaluates the effectiveness and economic impacts of the tax incentives and incentive programs subject to review in 2016.

We would like to acknowledge the following agencies for their assistance in providing data that is presented and analyzed in this report:

- Department of State Revenue
- Indiana Economic Development Corporation
- Indiana Department of Environmental Management
- Department of Local Government Finance
- State Budget Agency

# Executive Summary

The tax incentives we analyzed this year are focused on one topic: regional development. The incentives were established as tools to encourage private investment towards the rehabilitation, revitalization, and development of specific areas of Indiana. Two of the economic development programs investigated this year cover only 0.27% of Indiana's land. The other incentive has the potential to be used for only 1.4% of all nonresidential buildings. Those areas targeted by the incentives are distressed urban communities or areas with other significant obstacles for development.

The *industrial recovery tax credit* provides businesses with a nonrefundable tax credit to reuse large vacant industrial buildings. The credit can be used across the state as long as the facility meets the size requirements and is at least 15 years old. The credit is intended to reduce the overall project cost and provide a hedge against unexpected expenses that may occur during the project. The incentive has been approved for only 48 projects in 30 years. While the incentive may have provided enough assistance for a particular project to begin, the limited number of projects makes it difficult to conclude whether the incentive is effective overall.

*Community revitalization and enhancement districts (CREDS)* were established to encourage the revitalization of small commercial and industrial areas that experienced drastic decreases in available jobs. The program distributes a limited amount of incremental state and local tax revenue back to the region to be used to address the CRED's development obstacles. Our investigation did find improvements in the region, but they did not occur immediately. It took years for the results of the revitalization efforts to go into effect. In addition, several other types of incentives and public assistance were employed along with the CRED program. The CRED program may have directly contributed to the recovery efforts, but it is unlikely the program is solely responsible (See Appendix 2 for maps of the CREDS).

*Urban enterprise zones (EZs)* were established to encourage the development of distressed neighborhoods. EZs are administered through a partnership between the Indiana Economic Development Corporation (IEDC) and locally created nonprofit urban enterprise associations (UEA). Four state tax incentives and one local property tax incentive are tied to the EZ program and are designed to overcome a specific development obstacle. In addition, the businesses within EZs pay fees to the UEA, and the UEAs use the revenues to fund a variety of local initiatives to benefit EZ residents, like providing day care and scholarships. The results of our econometric analysis suggest that, on average, employment tends to rise for firms receiving less than \$20,000 in tax incentives but tends to decline for those receiving more. An exception is, however, that, small firms with fewer than 50 employees tend to experience a higher threshold of \$100,000. The results also suggest that firms that receive much more in tax incentives (e.g., more than \$500,000) do not invest any differently or experience any higher property values than firms that receive very little (e.g., less than \$20,000) (See Appendix 3 for maps of the EZs).

## Introduction

A tax incentive is a provision of the tax code aimed at encouraging a taxpayer to conduct specified activities or undertake certain behavior by reducing the taxpayer's tax liability in relation to the targeted activity or behavior. Over the course of the last 30 to 40 years, tax incentives have become a significant and growing part of local tax laws, state tax codes, and the federal Internal Revenue Code. At the forefront of this expansion in tax incentive use has been the growth in the number and scale of economic development tax incentives tied to business employment, wages, and investment. In contrast to direct spending programs, tax incentive programs direct public funding to certain purposes by foregoing tax revenue. Moreover, tax incentive programs are different than direct-spending programs because tax incentives typically are not subject to the periodic scrutiny that direct-spending programs are subject to through the normal budgetary process.

### Tax Incentive Review Process

IC 2-5-3.2-1 establishes an annual review, analysis, and evaluation process for state and local tax incentives. Appendix 4 contains the text of IC 2-5-3.2-1. The tax incentive review is conducted by the Office of Fiscal and Management Analysis, Legislative Services Agency. The annual tax incentive review is to be conducted over a five-year cycle with each tax incentive being reviewed at least one time during that review cycle. The statute requires the Legislative Services Agency to develop and publish a multiyear review schedule specifying the year in which each tax incentive will be reviewed.

The five-year review cycle must be conducted twice. The first five-year review cycle began during the 2014 legislative interim and will be completed with the tax incentive review conducted during the 2018 interim.

The statute requires the Legislative Services Agency to submit a report containing the results of the annual tax incentive review to the Legislative Council and the Interim Study Committee on Fiscal Policy. The report must be submitted before October 1 each year. The statute requires the Committee to hold at least one public hearing between September 30 and November 1 at which the Legislative Services Agency presents its report and the Committee receives information concerning tax incentives. In addition, the Committee is required to submit to the Legislative Council its recommendations relating to the tax incentive review. The statute requires the General Assembly to use the Legislative Services Agency's report and the Committee's recommendations to determine whether a tax incentive (1) is successful, (2) is provided at a cost that can be accommodated by the state's biennial budget, and (3) should be continued, amended, or repealed.

### Definition of Tax Incentive

IC 2-5-3.2-1 defines a tax incentive as a benefit provided through a state or local tax that is intended to alter, reward, or subsidize a particular action or behavior by the tax incentive recipient, including a tax incentive providing a benefit intended to encourage economic development.

A tax incentive includes an exemption, deduction, credit, preferential rate, or other tax benefit that reduces a taxpayer's state or local tax liability or results in a tax refund. A tax incentive also includes a program where revenue is dedicated by a political subdivision to pay for improvements in an economic or sports development

area, a community revitalization area, an enterprise zone, a tax increment financing district, or a similar area or district.

### Tax Incentive Review Purposes and Approaches

IC 2-5-3.2-1 essentially specifies that the purpose of the annual tax incentive review is to (1) ensure tax incentives accomplish the purposes for which they were enacted, (2) provide information to allow the inclusion of the cost of tax incentives in the biennial budgeting process, and (3) provide information needed by the General Assembly to make policy choices about the efficacy of tax incentives. IC 2-5-3.2-1 lists a variety of descriptive and analytical information that could accomplish these tax incentive review goals. This information is as follows:

- The attributes and policy goals of the tax incentive.
- The tax incentive's equity, simplicity, competitiveness, public purpose, adequacy, and conformance with the purposes of the legislation enacting the incentive.
- The activities the tax incentive is intended to promote and the effectiveness of the tax incentive in promoting those activities.
- The number of taxpayers applying for, qualifying for, or claiming the tax incentive, and the tax incentive amounts (in dollars) claimed by taxpayers.
- The tax incentive amounts (in dollars) claimed over time.
- The tax incentive amounts (in dollars) claimed by industry sector.
- The amount of income tax credits that could be carried forward for the ensuing five-year period.
- An estimate of the economic impact of the tax incentive, including a return on investment calculation, cost-benefit analysis, and direct employment impact estimate.
- The estimated state cost of administering the tax incentive.
- The methodology and assumptions of the tax incentive review, analysis, and evaluation.
- The estimated leakage of tax incentive benefits out of Indiana.
- Whether the tax incentive could be made more effective through legislative changes.
- Whether measuring the economic impact of the tax incentive is limited due to data constraints and whether legislative changes could facilitate data collection and improve the review, analysis, or evaluation.
- An estimate of the indirect economic activity stimulated by the tax incentive.

### Tax Incentive Review Report

IC 2-5-3.2-1 requires the Legislative Services Agency to submit a report containing the results of the annual tax incentive review to the Legislative Council and the Interim Study Committee on Fiscal Policy. The report must be submitted before October 1 each year.

The report must include at least the following:

- A detailed description of the review, analysis, and evaluation for each tax incentive reviewed.
- Information to be used by the General Assembly to determine whether a reviewed tax incentive should be continued, modified, or terminated, the basis for the recommendation, and the expected impact of the recommendation on the state's economy.
- Information to be used by the General Assembly to better align a reviewed tax incentive with the original intent of the legislation that enacted the tax incentive

**Tax Incentive Review Schedule**

A total of 42 tax incentives and 6 incentive programs were scheduled for review from 2016 to 2018, and 18 incentives were evaluated between 2014 and 2015. The tax incentives included on the review schedule are associated with the corporate income tax and individual income tax (27 tax incentives), the property tax (21 tax incentives), the sales tax (6 tax incentives), and other taxes (1 tax incentive). The 6 incentive programs are tax increment financing (TIF), enterprise zones (EZs), community revitalization enhancement districts (CREs), professional sports development areas (PSDAs), certified technology parks (CTPs), and the motor sports development district. Table 1 specifies the tax incentives and incentive programs reviewed during the 2016 interim.

**Table 1: Tax Incentives and Incentive Programs Scheduled for Review in 2016**

Tax	Tax Provision
<b>2016</b>	
Corporate Income Tax (C) / Individual Income Tax (I)	<ul style="list-style-type: none"> <li>• Industrial Recovery Credit (C)(I)</li> <li>• Community Revitalization Enhancement District Credit (C)(I)</li> <li>• Community Revitalization Enhancement District Local Credit (I)</li> <li>• Enterprise Zone Employment Expense Credit (C)(I)</li> <li>• Enterprise Zone Employee Deduction (I)</li> <li>• Enterprise Zone Investment Cost Credit (C)(I)</li> <li>• Enterprise Zone Loan Interest Credit (C)(I)</li> </ul>
Property Tax	<ul style="list-style-type: none"> <li>• Enterprise Zone Investment Deduction</li> <li>• Enterprise Zone Obsolescence Deduction (Marion County)</li> </ul>
Other	<ul style="list-style-type: none"> <li>• Community Revitalization Enhancement Districts</li> <li>• Enterprise Zones</li> </ul>

The remaining schedule for 2017 to 2018 is specified in Table 2. Appendix 5 contains a list of tax incentives and incentive programs on the review schedule, including descriptions.

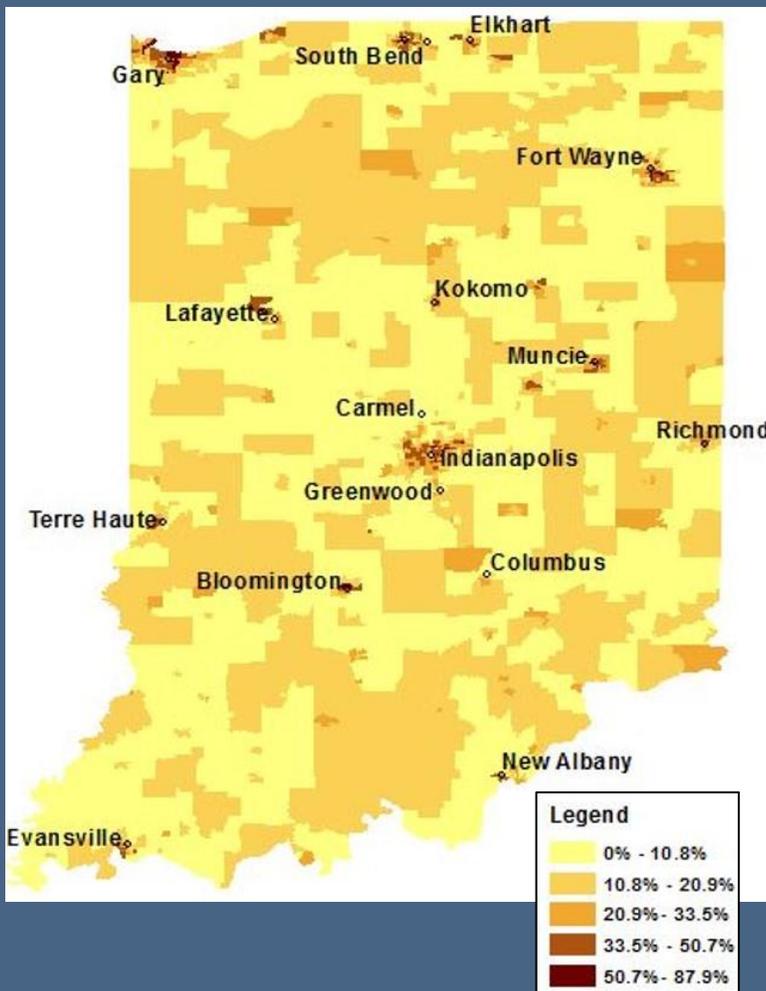
**Table 2: Tax Incentives and Incentive Programs Scheduled for Review, 2017 and 2018**

Tax	Tax Provision
<b>2017</b>	
Corporate Income Tax (C)/ Individual Income Tax (I)	<ul style="list-style-type: none"> <li>• Economic Development for a Growing Economy (EDGE) Credit (C)(I)</li> <li>• Headquarters Relocation Credit (C)(I)</li> <li>• Hoosier Business Investment Credit (C)(I)</li> <li>• Patent-Derived Income Deduction (C)(I)</li> <li>• Research Expense Credit (C)(I)</li> <li>• Special Rate for Income Derived Inside a Military Base (C)</li> <li>• Venture Capital Investment Credit (C)(I)</li> </ul>
Property Tax	<ul style="list-style-type: none"> <li>• Certified Technology Park Deduction</li> <li>• Economic Revitalization Area Personal Property Tax Abatement</li> <li>• Economic Revitalization Area Real Property Tax Abatement</li> <li>• Infrastructure Development Zone Deduction</li> <li>• Marine Opportunity District Deduction</li> </ul>
Sales Tax	<ul style="list-style-type: none"> <li>• Research and Development Property</li> </ul>
Other	<ul style="list-style-type: none"> <li>• Certified Technology Park</li> <li>• Professional Sports Development Areas</li> </ul>
<b>2018</b>	
Corporate Income Tax (C)/ Individual Income Tax (I)	<ul style="list-style-type: none"> <li>• Adoption Tax Credit (Effective 2015) (I)</li> <li>• Alternative Fuel Vehicle Manufacturing Investment Credit (C)(I)</li> <li>• Coal Gasification Technology Investment Credit (C)(I)</li> <li>• Natural Gas-Powered Vehicles (C)(I)</li> </ul>
Property Tax	<ul style="list-style-type: none"> <li>• Aircraft Deduction</li> <li>• Brownfields Revitalization Zone Deduction</li> <li>• Coal Combustion Product Deduction</li> <li>• Deduction for Purchases of Investment Property by Manufacturers of Recycled Components</li> <li>• Geothermal Energy Heating or Cooling Device Deduction</li> <li>• Hydroelectric Power Device Deduction</li> <li>• Intrastate Aircraft Deduction</li> <li>• Resource Recovery/Coal or Oil Shale System Deduction</li> <li>• Solar-Energy Systems Deduction</li> <li>• Wind-Powered Devices Deduction</li> </ul>
Sales Tax	<ul style="list-style-type: none"> <li>• Aircraft Parts</li> <li>• Aviation Fuel</li> <li>• Cargo Trailers/RVs Sold to Certain Nonresidents</li> <li>• Certain Aircraft</li> <li>• Certain Racing Equipment</li> </ul>
Other	<ul style="list-style-type: none"> <li>• Motorsports Investment District</li> <li>• Promotional Free-Play Deduction</li> </ul>

## Regional Development and Revitalization

The incentives evaluated this year - industrial recovery credit, CREDs, and EZs - are intended to encourage regional development and revitalization activities. Regional development consists of both community and economic development activities. Broadly defined, regional development is asset building that improves the quality of life among residents of low- to moderate-income communities. This definition includes a variety of programs attempting to address poverty, education, and public health. It can also be narrowly defined as property and business development in distressed communities. The common element in all definitions of community development is distressed or low- to moderate-income regions.

**Figure 1. Poverty Rates by Census Block Group**



Source: Raw data provided by U.S. Census Bureau, data analysis by the Office of Fiscal and Management Analysis.

While the attributes of a distressed region vary depending on the incentive program, they all share certain attributes. Many of the distressed regions in Indiana formed around industries and institutions that have either left or closed. The loss or relocation of these establishments resulted in a large decline in employment. The areas the incentives may be used are also centered on older neighborhoods where the commercial and residential buildings have declined in value.

In addition, higher-income households have moved out of these regions, and households with lower incomes have moved in to take advantage of lower rents and property values. Recent demographic shifts and population declines, along with the decline in employment opportunities, have exacerbated regions of concentrated poverty (see Figure 1 for an illustration of poverty rates by census block group). Concentrated poverty is defined as an area where the poverty rate is 30% or higher. Regions of concentrated poverty tend to have limited educational opportunities, increased crime, reduced private sector investment, and increased prices for goods and services. Areas of concentrated poverty also have a declining tax base while requiring an increase in public services (Kneebone, 2011).

In order to combat distress, tax incentive packages are often introduced. Government subsidies such as property tax abatements and incentives for employment creation and capital investment are often offered to firms with the intention of attracting other firms that sell to or purchase from the incentive recipient. It is also possible that firms identify attractive locations and request tax incentives (Reese, 2006). As firms begin to relocate to an area based on lower taxes, other firms may follow, thereby leading to the agglomeration of an industry (Coulson et al., 2013). Additionally, as He and Romanos (2015) find, vertical and horizontal linkages between suppliers and the market tend to influence the movement of a firm to an area with industrially similar firms. That is, sector-specific firms tend to move to areas where they can harness the resources and knowledge already available. As a result, lower tax rates may not necessarily attract firms in search of operational support (Gerritse, 2014), but may instead provide a breeding ground for leading firms. Those firms that are able to overcome barriers to development tend to be most successful.

### Barriers to Regional Development

Regional development programs are unlikely to counter major macroeconomic shifts. However, these programs could assist in the prevention of further decline and potentially reverse the course of the region. But first, the programs have to overcome a number of barriers that inhibit economic development in distressed areas. Some of the most common challenges include poorly maintained infrastructure, unskilled labor or the need for workforce training, crime, high costs of doing business, and difficulty accessing capital.

Distressed regions are characterized by having aged or poorly maintained infrastructure. Many of the communities, both urban and rural, were built around industries before the development of suburban communities. Much of the infrastructure investment in the past few decades has been dedicated to the mobility of goods and workers. This has left many distressed communities isolated from the regional economy. Even if the infrastructure connecting the community to the regional economy is in place, it may be inadequate for modern businesses. In addition, the facilities within the region may not meet the standards of modern businesses. They may have insufficient access to utilities, outmoded docks, and inefficient use of working space. Streets and sidewalks in poor condition also contribute to an unattractive physical environment (Porter, 1995).

Another barrier facing the development of distressed regions is the mismatch (or presumed mismatch) between the workforce skills demanded by employers and those supplied by residents (Hartley, Kaza, & Lester, 2015). People living in areas of concentrated poverty are more likely to have limited educational opportunities, which result in lower levels of educational attainment. And the demand for such unskilled labor is decreasing. Of course, even a skilled labor force may find itself at a loss, especially when its skill set does not match the needs of a changing job market (Andersson, Haltiwanger, Kutzbach, Pollakowski, & Weinberg, 2014). For example, a manufacturing facility may close or leave a region, leaving a skilled workforce unemployed. Although the residents in the region may all be highly skilled in a particular field, those skills may not match the skills required by other businesses moving into the region. Workforce and economic development training programs are increasingly working to develop new training programs highlighting the transferability of skills, yet social barriers still may exist (Ferguson & Dickens, 2011). A long-term unemployed skilled or unskilled production workforce may not immediately consider transferring to an emerging service sector industry, yet many of the growth sectors today are in service-providing industries (both skilled and unskilled).

Further impediments include the propensity of distressed regions to either have high crime or be perceived to have high crime. As a result, customers and employees are less likely to work or visit establishments in these regions. Crime also affects the cost of doing business. To make customers and employees feel safe, businesses may restrict hours of operation and invest in additional lighting, fencing, and other security measures. Crime also impacts the availability and cost of insurance. It has been found that the perception of high crime has the same effect on business activity as actual crime (Ellen, 2010).

Businesses must deal with a variety of other factors that could potentially result in higher costs. While land is likely to be less expensive, there is a greater chance the site will require environmental remediation before it can be used. The cost of the remediation and the future liability risk of undertaking a cleanup increases the development costs in a distressed region. In addition, there may be further regulations and fees with which a business must comply. Having to comply with permitting, building requirements, inspections, and labor agreements costs businesses and residents both time and resources. Often, even utilities are more expensive in distressed urban regions.

Businesses and residents in distressed regions also have difficulty accessing capital due to the risk that investors bear in providing that capital. For all the reasons mentioned above, investors and banks are hesitant to lend money for projects in distressed communities. Also, distressed areas do not have the same access to venture capital (Benjamin, Rubin, & Zielenbach, 2004). Some of the lack of venture capital is because of the industry's preference to invest in specific industries. While these impediments can hinder expansions and start-up businesses, many distressed regions lack an entrepreneurial support network to attract investments in the first place (Rubin J. S., 2010).

### Approaches to Regional Development

Regional development and revitalization programs are characterized as being either people-based, place-based, or a hybrid approach (Ladd, 1994). People-based programs target individuals regardless of where they live. These programs are intended to improve human capital and mobility. An education or training program is an example of a person-based program. A training program provides skills and credentials that they can use outside of the distressed region.

Conversely, place-based programs target geographic regions. Place-based programs seek to bring investments and jobs to particular areas. The residents of the region directly or indirectly benefit from such economic growth. Indiana's industrial recovery tax credit, for example, focuses on reuse of vacant buildings, and CREDS seek to increase investment and jobs in a specific geographic area. In that sense, firms in industries that stand to benefit the most from a place-based tax incentive are expected to have the highest willingness to pay to relocate to a designated economic development area (Hanson & Rohlin, 2011).

There are also hybrid programs that have both people- and place-based aspects. These programs seek to increase employment opportunities and quality of life for residents of a distressed area. For example, Indiana's EZ employee deduction provides individuals with a tax deduction for income earned at an EZ business as long as the person lives in the EZ.

While the majority of community revitalization programs are focused on inner cities and urban neighborhoods, rural communities can also be distressed. Even though there has been a steady increase in

agricultural productivity, farm employment has gradually decreased. In addition, the loss of a larger employer, such as a manufacturing facility or a hospital, can significantly impact a rural community given the relative isolation of the area. These factors along with an aging and generally declining population result in distressed rural regions (Council of Economic Advisors, 2010).

### Tax Incentives and Programs

While each program is distinct, all the incentives evaluated this year involve regional development and revitalization. They were established to encourage investment and jobs and indirectly improve the lives of the residents of the community.

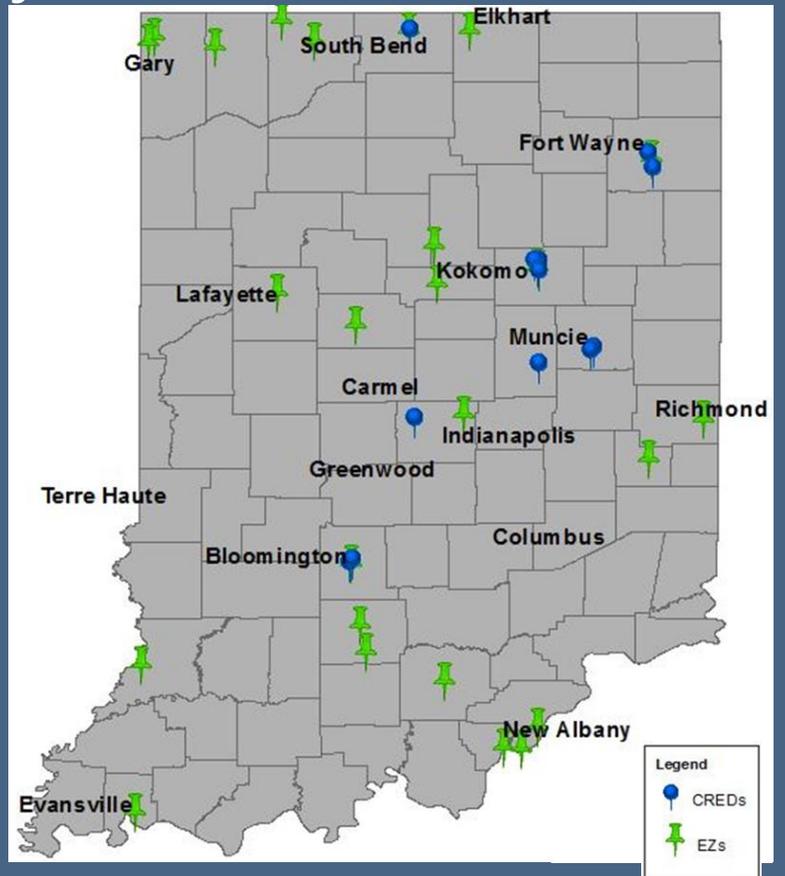
The *industrial recovery tax credit* provides businesses with a nonrefundable tax credit to reuse large, vacant industrial buildings (note the locations of these buildings are not shown in Figure 2 due to confidentiality). The credit can be used across the state as long as the site meets the eligibility requirements. The credit is unique in that the discount provided depends on the age of the facility. The older the facility, the greater the discount provided by the credit.

*Community revitalization and enhancement districts (CREDS)* were established to encourage the revitalization of commercial and industrial areas that experienced drastic decreases in available jobs. CREDS are relatively small geographic areas located in urban areas (see Figure 2 for their geographic location). The program provides the local redevelopment entities with a limited amount of incremental state tax revenue. In addition, there is a dedicated income tax credit available to taxpayers who invest within the CREDS.

*Urban enterprise zones (EZs)* were established to encourage the development of distressed neighborhoods (see Figure 2 for their geographic location). The EZs are administered through a partnership between the IEDC and locally created nonprofit urban enterprise associations (UEA). Four state tax incentives and one local property tax incentive are tied to the EZ program.

These three programs are not alone in their attempts to revitalize distressed regions. The U.S. Government Accountability Office (GAO) identified 23 federal community development tax expenditures in 2010. A total of five programs spent \$1.5 B on specifically targeted distressed regions, while nine other

Figure 2. Location of CREDS and EZs



Source: Raw data provided by Indiana Economic Development Corporation.

programs allocated \$8.7 B to specific activities that broadly supported community development (2012). Indiana also has several tax incentives designed to promote economic activity both inside and outside distressed regions such as the Economic Development for a Growing Economy (EDGE) tax credit and skills enhancement fund. Additionally, local officials use tax increment financing (TIF) to provide funding for infrastructure improvements. Part of the difficulty in evaluating the effectiveness of these programs is not only controlling for larger economic forces but also attempting to isolate the impact of a single incentive when so many others are used.

## Industrial Recovery Credit (6-3.1-11)

The industrial recovery credit (also called the “dinosaur credit”) was established in 1987 to encourage the rehabilitation or remodeling of vacant industrial facilities. The credit can be provided for qualified investments in facilities that were placed in service at least 15 years before and at least 75% of the facility is not used to produce or warehouse tangible personal property. The facility must also have at least 100,000 square feet of total floor space. A business seeking the credit must submit an application to the IEDC.

**Table 3. Determination of Industrial Recovery Credit**

In Service <sup>1</sup>	% of Qualified Investment
15 - 29 Years	15%
30 - 39 Years	20%
40 Years or More	25%

<sup>1</sup>Dating back from the IEDC application date.

The amount of the credit depends on the total qualifying investment multiplied by a percentage that depends on the age of the facility being rehabilitated. The percentages are given in Table 3.

The credit may be used to offset liabilities from the individual adjusted gross income (AGI), corporate AGI, financial institutions, and insurance premiums taxes. The credit is nonrefundable, but unused credits may be carried forward. In addition, unused credits may be

transferred to a lessee of the industrial recovery site.

### Purpose

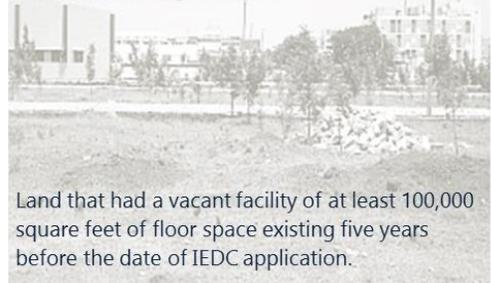
When businesses are looking for a new facility, they can either construct a new building or choose to remodel an existing building. Generally, it is in the local unit’s best interest for a business to reclaim an existing facility because of prior infrastructure investments and blight concerns. However, the business has a greater risk of encountering unexpected costs renovating the type of building that is eligible for the credit. The credit reduces the project cost and provides a hedge against unforeseen expenses like brownfield remediation.

A brownfield is defined as “real property, the expansion, or redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant or contaminant” (U.S. Environmental Protection Agency, 2016). Brownfields are commonly found in current or former transportation facilities, manufacturing plants, shopping malls, and other buildings that would likely be eligible for the credit. While the brownfield designation may decrease the cost of the land and facilities, it may not be enough to offset the additional costs to remediate the property. A brownfield designation increases project costs and introduces additional risk to the developers. In addition, investors may be more hesitant to invest because of the associated risks involved in brownfields. Investors may also be concerned with any lingering stigma associated with the property that may hinder its marketability. There are approximately 1,631 brownfield sites in Indiana (Indiana Finance Authority, 2016).

The actual remediation costs vary depending on the nature and scope of the contamination and the proper method to remediate the site. To provide context, one study found that cleanup cost for nonpetroleum sites

#### Newly Added - Industrial Land

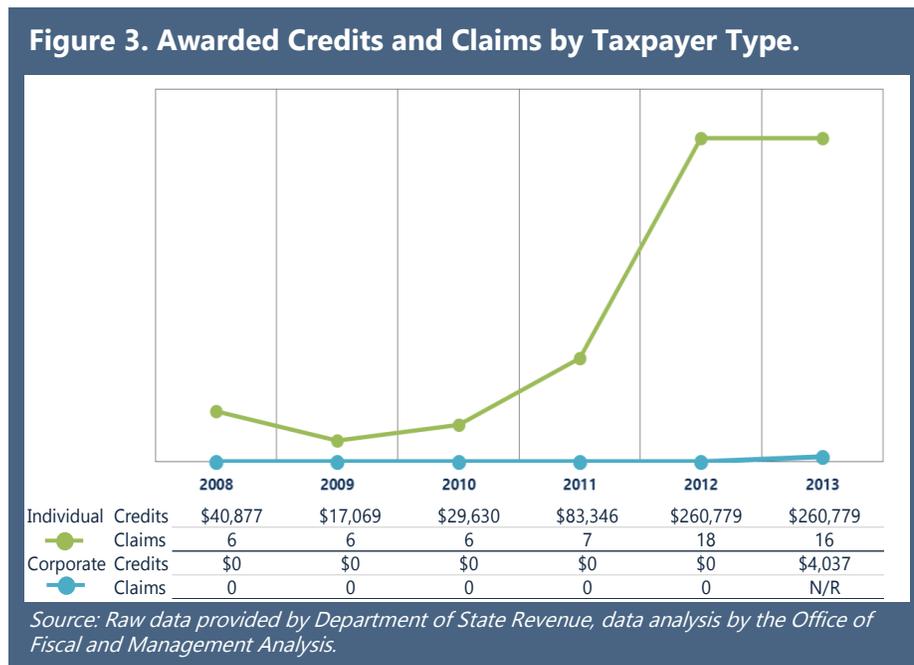
The credit parameters were modified in 2016 to take effect in tax year 2017:



with land contamination typically range from \$0.6 M to \$1.0 M (Paull, 2008). However, the costs can quickly exceed \$1.0 M. For example, the cleanup cost for an Indianapolis golf course built over a landfill is estimated to be up to \$6 M (Eason, 2016).

The financial assistance provided by the credit is only a portion of the government assistance available for the renovation of a qualifying facility. If the facility is designated a brownfield, it could receive grants and loans from the federal government for assessments, cleanups, and job training. The Indiana Finance Authority (IFA) works with the EPA, Indiana Department of Environmental Management and other state agencies to provide assistance and liability protection. In addition, the project could receive certain incentives from the U.S. Department of the Treasury and IEDC. However, a taxpayer may not receive the credit if one of the following credits was provided for the same project: alternative fuel vehicle manufacturer credit, community revitalization and enhancement district (CRED) credit, enterprise zone investment cost credit, Hoosier business investment credit, and venture capital investment credit.

### Project Approvals



Since the credit was enacted in 1987, it has been awarded to just 48 projects. From 1987 to 2007, the credit was provided to only 31 projects. A total of \$44.7 M in credits have been awarded for \$276.4 M in qualifying investment.

The credits claimed by recipients is low compared to amount of credits awarded. Between 2006 and 2013, \$4.0 M credits were awarded, but \$0.7 M were claimed by taxpayers. At least \$3.1 M in unused credits are yet to be claimed. The taxpayers either do not have sufficient tax liability to redeem the credit, or the statutory requirements to assign

the credit are inhibiting the taxpayer’s ability to transfer the credit to another taxpayer. However, more credits will likely be claimed in the future because the IEDC has awarded more credits in recent years. In 2015 alone, the IEDC authorized \$17.7 M in credits for 11 projects.

The increase in approved credits is likely due to changes in the administration of the credit. Initially, the credit approval process was shared between local officials and the IEDC. That process changed in 2013 when the IEDC became the sole authorizing body. Taxpayers could submit applications and proposals directly to the IEDC. In addition, the statute was modified to explicitly state that pass-through entities could pass credits to their members. These statutory changes streamlined the approval process and clarified how pass-through entities could use the credit.

While the statutory modifications streamlined the approval process and expanded the group of taxpayers that could use the credit, the IEDC is required to evaluate each application based on the following four factors from statute:

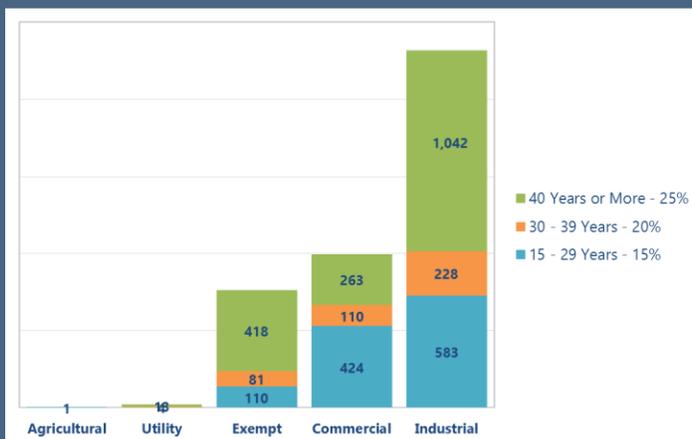
1. The level of distress caused by the loss of the jobs at the industrial recovery site.
2. Evidence of support for the designation by residents, businesses and private organizations in the community.
3. Evidence of a commitment by private or governmental entities to assist in the financing of improvements or redevelopment activities benefiting the industrial recovery site.
4. Whether the site is within an economic revitalization area designated under IC 6-1.1-12.1, and therefore, eligible to receive property tax abatements.

The increase in the approved projects is also a function of a change in philosophy regarding the application of the credit. Local economic development organizations are placing more emphasis on improving the “quality of place” of the community. These large, vacant industrial sites are visible signs of blight, and local governments may not have adequate funds to rehabilitate the site without private investment. The developers and local organizations are looking for more ways to reuse the facilities. Since 2013, about 40% of the projects were mixed-use that contain both a residential and commercial component. About 26% of the projects are dedicated solely to manufacturing use. In addition to enhancing the community’s image, renovating these facilities may bring jobs along with the investment (Howland, 2007).

A business could have a credit disallowed if the IEDC finds the business has substantially reduced operations in another region of the state to relocate them in an industrial recovery site.

### Application of the Credit

**Figure 4. Distribution by Tier and Property Class, Buildings Potentially Qualifying for "Dinosaur Credits".<sup>1</sup>**



Source: Office of Fiscal and Management Analysis Property Tax Database.

<sup>1</sup>There are no data available in the property tax records to indicate whether a building is vacant.

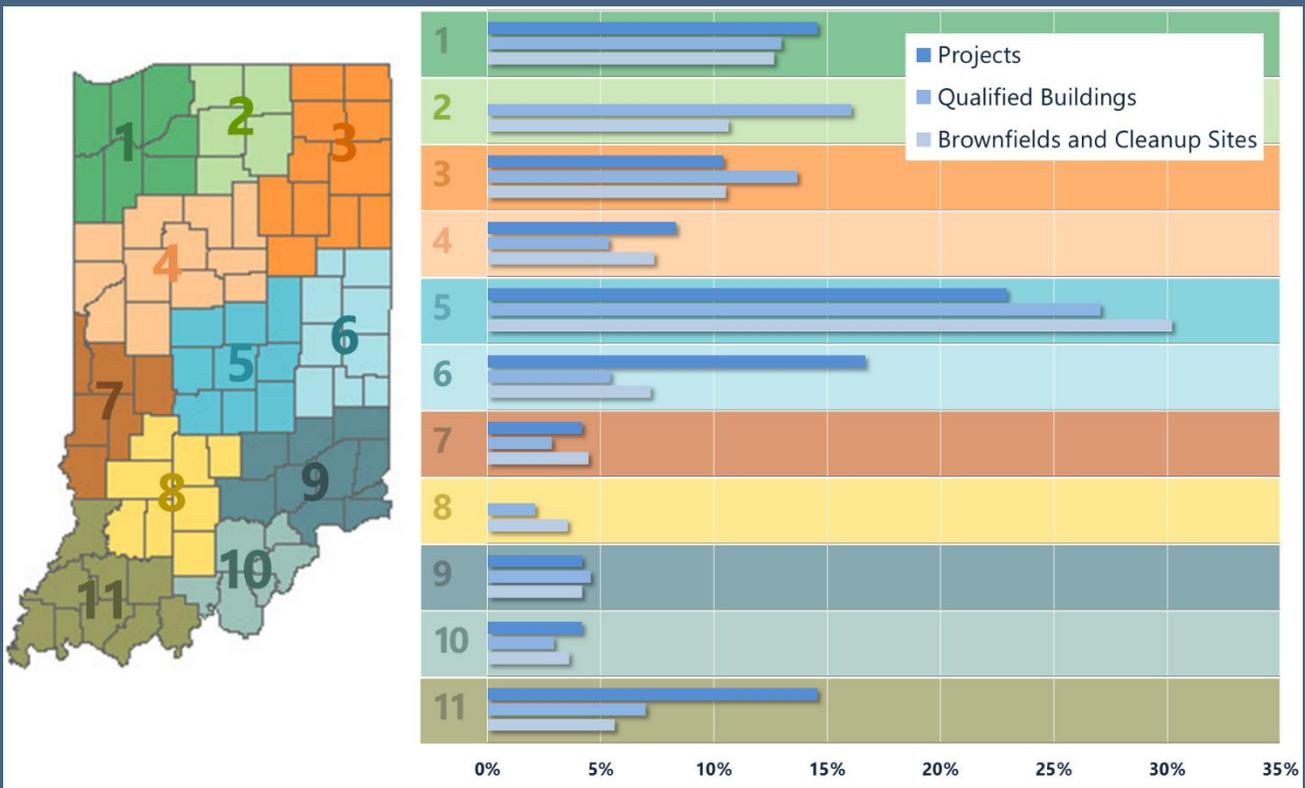
The IEDC maintains a database of the potential development sites to assist businesses in finding a potential business location. A query of this database found approximately 258 buildings that meet eligibility requirements for the credit. The sites listed in the database are submitted by the local development agencies and realtors and may not contain all qualifying facilities. To understand how broadly the credit could be applied, we analyzed the 2013 Legislative Services Agency property tax database. Our research found 229,800 nonresidential buildings and identified 3,277 that met both the size and the age requirement given in Table 3. Figure 4 shows the distribution of facilities by age and property class type. However, the property tax data does not indicate whether a building meets the vacancy

## Industrial Recovery Credit (6-3.1-11)

requirement. Even without the confirmation of the vacancy condition, only 1.4% of the buildings listed in the property tax database could qualify for the credit.

Geographically, a majority of the projects have occurred in central Indiana. This is not surprising because the majority of eligible buildings are also located in central Indiana. According to Figure 5, the other three areas with high concentrations of projects are Northeast (3), East Central (6), and South West (11). The regional distribution of industrial recovery projects is different than the regional distributions of known brownfields and qualifying buildings.

**Figure 5. Distribution of Industrial Recovery Projects, Qualified Buildings, and Reported Brownfields and Cleanup Sites by Economic Region**



Source: Raw data provided by Indiana Economic Development Corporation, Indiana Finance Authority, and Indiana Department of Environmental Management; data analysis by the Office of Fiscal and Management Analysis.

Over the lifetime of the program, the credit has been authorized for 48 projects. That represents less than 2% of the estimated number of nonresidential buildings that meet the size and age requirements. The total qualified investment associated with industrial recovery credit projects is \$276.4 M. Using data published by the U.S. Bureau of Economic Analysis, the estimated investment in private nonresidential fixed structures was \$179,200 M between 1988 and 2015, which spans the entire time the credit has been in place. Overall, the level of investment related to the credit is small compared to the total private investment in nonresidential structures. This suggests the credit had no significant impact on aggregate investment levels in Indiana. However, the credit may have been instrumental for the financing of specific projects.

The facility rehabilitation and improvements from the projects may have had an impact on the local property values. However, the available property tax data and the small number of projects make it difficult to make a general statement on a project's effect on property values. Only eight projects were approved between 2006 and 2013, and the projects were scattered throughout the state. In addition, most industrial recovery projects occur in areas where several other explanatory factors can confound any attempts to isolate the impact of the tax credit on property values. For instance, the renovation of a particular facility may be part of a larger economic development initiative in a community. Consequently, the impact of the credit could be masked by other development in the region.

### Summary

The credit attempts to achieve community development, brownfield remediation, and economic development objectives. It does this by encouraging private investment in large, vacant former industrial facilities which at most comprise 1.4% of the current building stock. While the credit is not employed very often, it was designed to encourage private investment in facilities that may have significant obstacles and a greater risk of hidden costs. The small number of projects combined with the variety of programs available that also provide financial assistance make it difficult to determine whether this credit is effective.

*The majority of Indiana's economic development credits are nonrefundable. If a recipient has an insufficient tax liability, they won't be able to realize the full value provided by the credit. However, if a tax credit is transferable, a taxpayer can sell their unused balance of credits to another entity. This allows the recipient to generate additional cash and avoid losing the entire benefit of the credit. The recipient can either sell the credits on the open market directly to another entity or through a broker. The credits are usually not sold at face value. According to a Wall Street Journal article, the credits are discounted at 5% to 40% of the credit's tax value. In addition, some credits can be transferred to investors through a syndication process. In syndication, a limited partnership is created between the parties. The members of the partnership determine how to allocate the cash flow, credits, etc. among themselves (Chasan, 2014).*

### Community Revitalization Enhancement Districts (IC 36-7-13)

Community revitalization enhancement districts (CREDS) are economic development regions where local units may use the captured tax revenue to improve the value of real property in the district to be more suitable for commercial use. CREDS capture incremental state sales tax, individual income tax, and local income tax revenue from businesses and employees working within the region. In addition to the captured incremental revenue, the local units are authorized to levy a property tax not to exceed \$0.0167 on each \$100 of assessed value of all personal and real property within its jurisdiction. The associated revenue is required to be deposited in the local unit's industrial development fund.

A CRED is either designated by an advisory commission on industrial development or by the legislative body of a county or municipality. The designating body must declare that there are significant obstacles to redevelopment in the region like the following:

- Obsolete or inefficient buildings
- Aging infrastructure or ineffective utility services
- Utility relocation requirements
- Transportation or access problems
- Environmental contamination
- Deterioration of improvements or character of occupancy, age, obsolescence or substandard buildings
- Cessation of growth

The local resolution or ordinance designating a CRED must be reviewed by the State Budget Committee and approved by the State Budget Agency. The appropriate local entity may also adopt a resolution to modify the territory. However, that resolution must go through the state approval process. The distributions of incremental state revenue will not begin until the ordinance is reviewed by the State Budget Committee and approved by the State Budget Agency.

The CREDS have different attributes depending whether it is site-specific or designated under the 1<sup>st</sup> and 2<sup>nd</sup> class cities statute.

#### Site-Specific CREDS

The program was initially created to aid local units in the development of vacant industrial sites. The first CRED was established in 1998 for the revitalization of the former Thomson Consumer Electronics building in Bloomington. The Thompson facility had at least 1 million square feet of floor space and employed over 1,000 people. The program was later expanded to allow CREDS to be designated for specific industrial or retail sites in other cities. There are six site-specific CREDS approved in five counties. Except for Delaware County, the authorizing statute only allows one CRED to be established in those counties. Delaware County was given the authority to designate up to three CREDS. Table 4 contains information on the site-specific CREDS, in order of size.

# Community Revitalization Enhancement Districts (IC 36-7-13)

**Table 4. Site-Specific CREDS**

Area (sq. miles)	County/City	Name	Citation	Approval Year	Revenue Pledge
0.65	Marion	Phase I & II	IC 36-7-13-10.5	2001, 2004	-
0.52	South Bend	Studebaker	IC 36-7-13-12(d)	2002	\$100,000
0.46	Delaware County	ABB	IC 36-7-13-12(c)	2004	-
0.37	Bloomington	Thomson	IC 36-7-13-12(b)	1999	\$100,000
0.28	Delaware County	Delphi (MAGNA)	IC 36-7-13-12(c)	2004	-
0.20	Fort Wayne	Anthony/Tillman	IC 36-7-13-12(e)	2004	\$250,000

Source: State Budget Agency.

Certain communities were required to pledge a minimum amount of money towards the redevelopment of the district before the CRED would be approved. Site-specific CREDS are subject to a \$1 M annual limit on the capture of state tax revenue. However, the total amount of incremental tax revenue distributed to Delaware County is limited to \$2 M annually regardless of the number of CREDS in the county. The CREDS expire 15 years after receiving their first revenue allocation.

## City Classifications

*Indiana statute classifies cities based on their population reported in the most recent decennial U.S. Census. Regardless of the population threshold, a status change to become a 2nd Class city requires action by the legislative body of the city, and court action is required for a reduction in class or to town status. Some cities may have 2nd Class status and not conform to the population thresholds.*

With a Population of...	====>	A City Can Be a...
600,000 or more	====>	First Class City
35,000 to 599,999	====>	Second Class City
Less than 35,000	====>	Third Class City

*The following cities are classified as a 1st or 2nd Class city.*

**1<sup>st</sup> Class City**

- Indianapolis

**2<sup>nd</sup> Class Cities**

- |               |                  |                 |               |
|---------------|------------------|-----------------|---------------|
| • Anderson    | • Fishers        | • Kokomo        | • Muncie      |
| • Bloomington | • Fort Wayne     | • Lafayette     | • New Albany  |
| • Carmel      | • Gary           | • Lawrence      | • Noblesville |
| • Columbus    | • Greenwood      | • Marion        | • Portage     |
| • Elkhart     | • Hammond        | • Michigan City | • Richmond    |
| • Evansville  | • Jeffersonville | • Mishawaka     | • South Bend  |
|               |                  |                 | • Terra Haute |

Source: Local Technical Assistance Program, 2016 Directory of Indiana State, County, City and Town Officials.

# Community Revitalization Enhancement Districts (IC 36-7-13)

## 1<sup>st</sup> and 2<sup>nd</sup> Class City CREDS

The CRED program was expanded in 2003 to allow any 1<sup>st</sup> or 2<sup>nd</sup> class city to designate one CRED. The local unit still has to determine that the proposed region suffers from the same redevelopment obstacles as the site-specific CREDS. In addition, the local units had to pledge at least \$250,000 to the redevelopment of the proposed district. The ordinance must be reviewed by the State Budget Committee and approved by the State Budget Agency before the CRED is authorized. CREDS established under the 1<sup>st</sup> and 2<sup>nd</sup> class cities statute may

**Table 5. 1<sup>st</sup> and 2<sup>nd</sup> Class City CREDS**

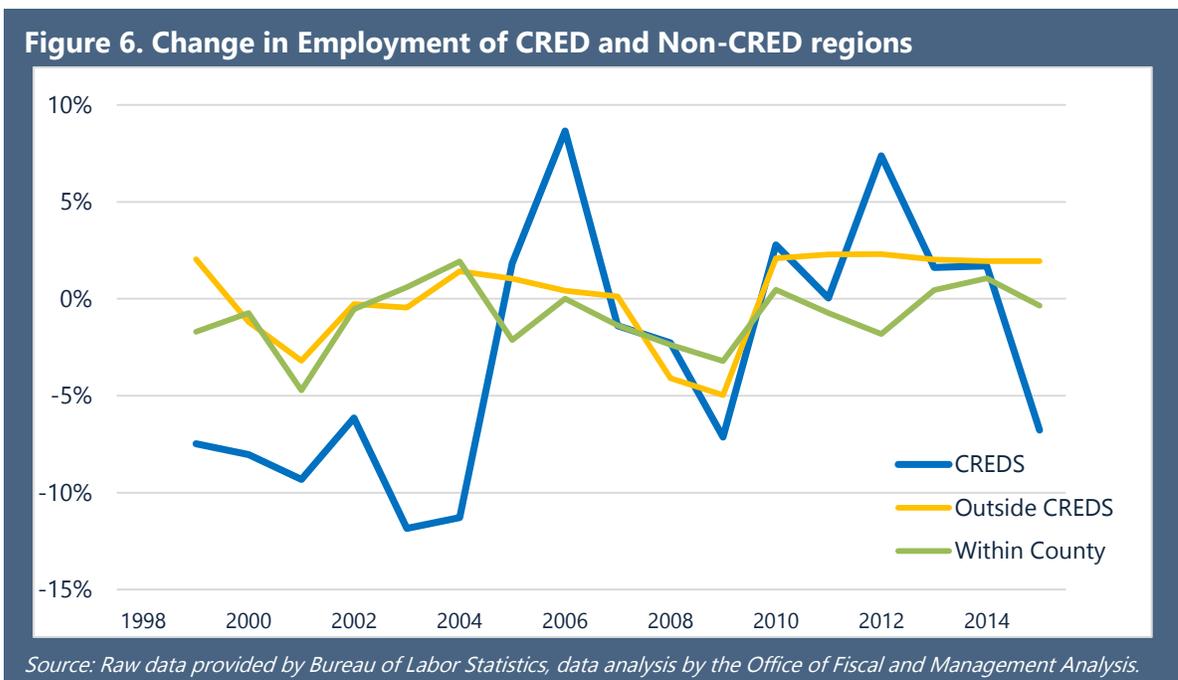
Area (sq. miles)	County/City	Name
0.88	Indianapolis	Lafayette Square
0.52	Fort Wayne	Downtown
0.46	Anderson	Jefferson/GM
0.14	Bloomington	Downtown

Source: State Budget Agency.

only capture up to \$750,000 annually in state revenue. A CRED expires no later than 15 years after it receives the first allocation of incremental tax revenue.

There were four CREDS approved under the 1<sup>st</sup> and 2<sup>nd</sup> class cities statute, IC 36-7-13-10.1, in 2004. The CREDS in Anderson and Indianapolis are similar to the site-specific CREDS because they surround specific industrial or retail areas. The Anderson CRED comprises a former GM facility, while the Indianapolis CRED is focused on repurposing Lafayette Square Mall. The other two CREDS in Bloomington and Fort Wayne are not focused around a specific commercial or industrial site, but encompass a portion of their downtown regions. Two cities submitted applications in 2005 and were not approved. At the time, the State Budget Agency instituted a moratorium on new CREDS. In 2010, the General Assembly adopted new requirements for the designation of a new CRED in one area, but the CRED was not approved by the State Budget Agency.

## Characteristics of CREDS



CREDS are characterized as regions that have experienced substantial job losses with significant obstacles for redevelopment. The total employment in 1997 in the geographic regions that would become the CREDS was

## Community Revitalization Enhancement Districts (IC 36-7-13)

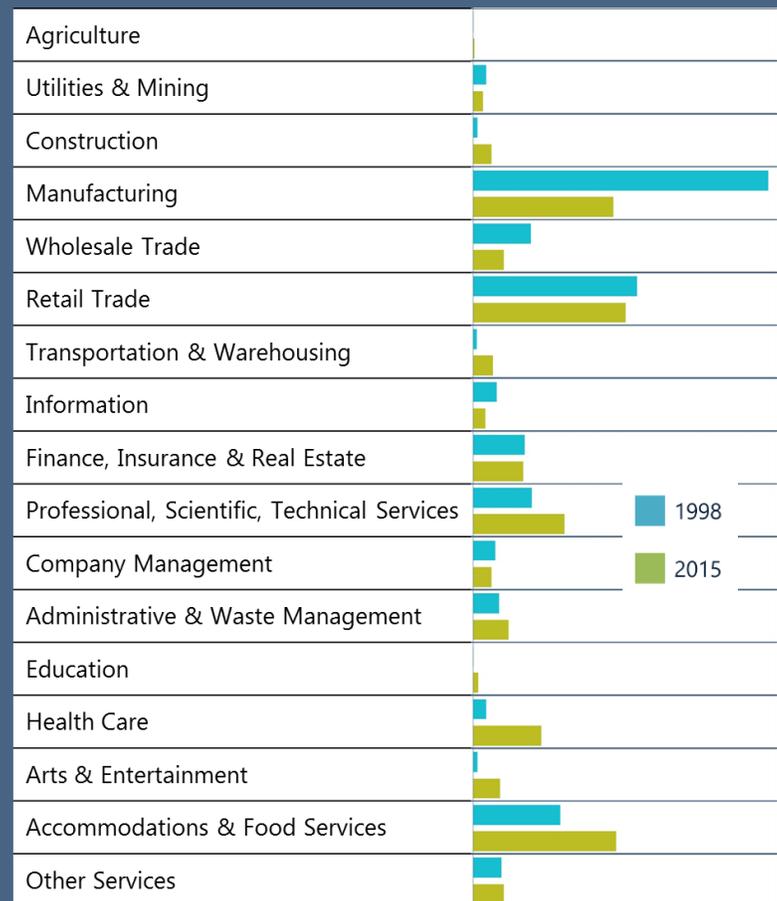
21,200. By the time all the CREDs were approved in 2004, the employment had decreased to 12,000. The aggregate data shows the CREDs reached their lowest level of employment in 2009, which coincides with the low point of the Great Recession. The year with the highest number of jobs since the establishment of the CREDs was 2014 at 13,540. The jobs decreased again in 2015, largely due to a reduction in employment in three CREDs. Figure 6 shows the annual percent change in jobs in CREDs and the rest of the state.

Figure 6 shows CRED employment continued to decline until 2005 when the regions, as a whole, began to rebound. The intervention within the districts was not enough to insulate them from the effect of the recession beginning in 2008. The graph also shows the change in employment of the CREDs compared to the adjacent regions and the rest of the state. The adjacency is determined by the zip code. The adjacent regions more closely follow the statewide trend than the CREDs. This suggests CRED employment trends are distinct within the county, and the economic activity within the districts is different than the rest of the municipalities.

The distribution of jobs provided by industrial sector within the CREDs has changed over time (See Figure 7). In 1997, about 38% of the jobs in the CREDs were manufacturing jobs, with retail trade being the second most common sector of employment. There were over 800 establishments operating inside the regions, and our analysis identified 640 establishments operating in the CREDs as of December 2015. The share of manufacturing jobs decreased because the total number of manufacturing jobs declined in the CREDs, while the number of jobs recovered to the levels prior to the formation of the zones. By 2015, the composition of employment opportunities in the CREDs became more diverse. Retail trade, accommodations, and manufacturing sectors each provide between 16% and 17% of the employment.

The distribution of jobs by industrial sector in the CREDs is different than the entire state. CREDs have less manufacturing, construction, and education jobs compared to the rest of the state. They tend to have a greater share of people employed in retail trade, accommodations, and professional, scientific, and technical services.

**Figure 7. Distribution of Jobs by Industrial Sector, 1998 and 2015, by NAICS**



Source: Raw data provided by Bureau of Labor Statistics, data analysis by the Office of Fiscal and Management Analysis.

**Table 6. Average Wages for Indiana and CREDS**

Year	Average Wages Outside of CREDS	CREDS	
		Average	Range
1998	\$31,500	\$36,000	\$21,500 – \$65,700
2004	\$37,000	\$41,800	\$17,800 – \$49,325
2015	\$46,800	\$40,441	\$28,200 – \$60,400

*Source: Raw data provided by Bureau of Labor Statistics, data analysis by the Office of Fiscal and Management Analysis.*

The differences in the employment opportunities are reflected in average wages. The average annual wage for regions outside the CREDS was \$31,500 in 1998, \$37,000 in 2004, and \$46,800 in 2015. While average wages within the CREDS have declined relative to the rest of the state, there is a significant variation in wages among the CREDS. Table 6 contains the average wages and the first and third quartile of the annual wages.

The CREDS are small in terms of geographic area. All CREDS combined comprise approximately 0.01% of the area of the state. The largest CRED, Lafayette Square, is located in Indianapolis and is 0.88 sq. miles in size. The largest CRED relative to the size of the city is in Marion (Phase I & II) and covers about 4% of the city’s incorporated area.

### Similarity to TIFs

CREDS are essentially tax increment finance areas, or TIFs. Both programs are considered incentive tools used for the purpose of local economic development and operate in a similar manner. The revenue from the growth in the specific taxes paid by the taxpayers in the geographic region are captured and distributed to the overlapping local units. The captured revenue is then used to benefit the region through infrastructure improvements, economic development incentives, and other projects.

The relationship between incentive tools such as CRED or TIF and subsequent economic development is often modeled on the premise of the "but for" question. The "but for" question comes from the expression "would economic development not occur 'but for' the presence of the incentive program?" Consequently, while proponents of CRED and TIF programs claim that economic development would not have occurred "but for" the particular designation of an area, opponents argue that a region would have grown anyway. Of course, the latter viewpoint has implications for whether local units choose to adopt these tools in areas where economic growth is already evident. As such, it is often difficult to assess whether the program itself is responsible for later growth.

Generally, studies that scrutinize the "but for" question tend to estimate more robust results as a result of their careful consideration of characteristic differences between areas that adopt economic development programs and similarly situated areas that do not. Lester (2013) finds that TIF assignment throughout the city of Chicago fails the "but for" question, as TIF implementation had not resulted in any positive net employment benefits for Chicago’s residents. Although Byrne (2006) finds that TIF areas grow about 29% more than their municipalities, he notes the large variation in success across space. Specifically, he shows that TIF adoption is most successful in visibly blighted areas where local officials recognize the need for economic improvement. Similarly, Carroll (2008) finds that properties located within an active TIF area in Milwaukee, Wisconsin, tend to grow more than properties not exposed to TIF policy at any time over a period of 20 years. However, Dye and Merriman (2000) find that municipalities that adopt TIF may grow more slowly than otherwise if the TIF redistributes growth toward blighted areas. In fact, Dardia’s (1998) findings suggest that local governments

## Community Revitalization Enhancement Districts (IC 36-7-13)

lose tax revenue to California TIF areas, which are largely unable to generate much or any property tax increment.

Type of property appears to matter significantly, as Smith (2009) finds that commercial properties located within TIF areas experience higher rates of appreciation than comparable properties in non-TIF areas. On the other hand, Weber et al. (2007) find that proximity to mixed-use TIF areas causes more rapid appreciation of nearby housing and proximity to older, industrial TIF areas causes slower appreciation of property values (presumably due to noise, pollution, and overall lack of appeal). Contrarily, Byrne (2006) establishes that industrial TIF areas experience larger growth than other types of TIF areas.

The existing TIF research is applicable to CREDS because of their similarities. However, CREDS do have a few unique attributes.

- CREDS capture different taxes than TIFs. TIFs are funded only by the incremental property tax. CREDS capture state sales tax, individual income tax, and local income tax.
- The revenue capture for CREDS is capped at either \$0.75 M or \$1.0 M per fiscal year.
- The revenue captured is distributed directly to the region with the understanding the revenue must be used to overcome the development obstacles of the CRED.
- The process to establish a CRED is more involved. The prospective CREDS had to be reviewed by the State Budget Committee and ultimately approved by the State Budget Agency. This process resulted in fewer CREDS than TIFs.

### CREC Revenue Capture

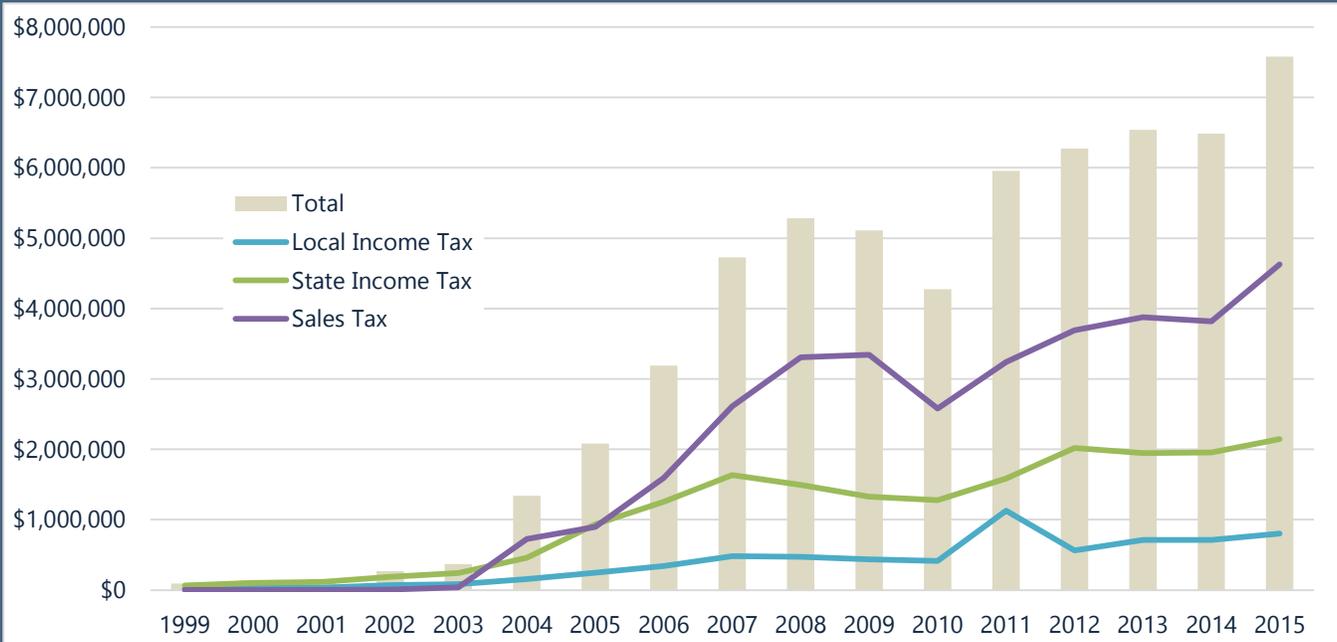
As of FY 2015, the CREDS have captured a total of \$59.8 M. The source of the revenue is 57% sales tax, 32% individual income tax, and 11% local income tax. Sales tax is the primary revenue capture because many of the districts contain high concentrations of retail, food service, and accommodations industries. Table 7 shows the distribution by tax type for each CRED. Darker areas in Table 7 represent greater concentrations. The CREDS can receive a revenue distribution for up to 15 years upon receiving their first allocation. Some CREDS will cease receiving distributions in 2017, while others will continue until 2028. The program has the potential to cost the state an additional \$56 M. Figure 8 shows the total revenue capture of all CREDS by fiscal year.

**Table 7. Total and Source of Incremental Revenue Capture by CRED**

CRED	Local Income Tax	State Income Tax	Sales Tax	Number of Distributions	Total Revenue Capture
Anderson	2.0%	3.8%	94.2%	1	\$750,000
Bloomington - Downtown	6.7%	20.5%	72.8%	10	8,301,018
Bloomington - Thomson	19.3%	63.8%	17.0%	13	8,494,332
Delaware Co - ABB	21.7%	69.9%	8.3%	3	2,282,822
Delaware Co - Delphi	21.6%	70.7%	7.7%	10	3,395,917
Fort Wayne - Anthony/Tillman	2.9%	9.3%	87.8%	9	9,000,000
Fort Wayne - Downtown	2.0%	6.9%	91.1%	5	3,749,999
Indianapolis - Lafayette Square	4.0%	8.4%	87.6%	8	6,000,000
Marion – Phase I & II	14.6%	32.0%	53.4%	14	10,663,733
South Bend	15.9%	36.1%	48.1%	12	7,228,172

*Source: Raw data provided by Department of State Revenue, data analysis by the Office of Fiscal and Management Analysis.*

**Figure 8. Revenue Captured by Revenue Source by CREs, FY 1999-2015**



Source: Raw data provided by Department of State Revenue, data analysis by the Office of Fiscal and Management Analysis. The gray bars represent the total revenue captured each year, while the colored lines represent the tax revenue source.

The law gives the local economic development organizations a broad range of potential uses for the captured revenue. The money may be used to improve infrastructure to make the region more suitable for retail or industrial use. It can be used to pay bond obligations. The local units may also use the funds to acquire property for the development of industrial parks or industrial sites. While these uses were the most common, each CRE has a unique vision of what they are trying to accomplish, and the revenue has been used in creative ways to assist in the redevelopment of these regions. One CRE used a portion of the captured revenue to establish a matching grant program for CRE businesses. Another CRE used the same revenue for training grants and to fund local jobs programs.

The revenue capture is the primary financial component of the CRE program, but it is not the only form of public assistance utilized within CREs. There are a number of other programs local officials have employed to supplement the financing of their incentives. Many CREs are also located within TIFs, so the incremental property tax revenue can be used in conjunction with the state revenue capture to fund infrastructure improvements and to pay bond obligations. Cities have appropriated local income tax revenue and money from other funds to supplement CRE projects. In addition, the local units can apply for federal Community Development Financial Institutions (CDFI) and brownfield assistance.

Businesses that locate and operate in CREs directly and indirectly benefit from the improvements provided by the local units. In addition, an income tax incentive was created specifically to encourage businesses to invest in the district. However, businesses can qualify for other incentives. A preliminary analysis of IEDC transparency portal data found about \$14.9 M in EDGE, skills enhancement funds, and industrial development grants awarded to CRE businesses. Local economic development officials have assisted businesses in

## Community Revitalization Enhancement Districts (IC 36-7-13)

receiving new markets tax credits, federal historic rehabilitation tax credits, façade grants, and property tax abatements. Some CREDs are within EZs, so businesses can also receive assistance through the local urban enterprise association.

### CREDs vs. Comparable Regions

There are 10 distinct CREDs. Those regions cover 35 census block groups. As a whole, CREDs were established in areas that have experienced large job losses and have significant obstacles for redevelopment. Analyzing the employment between 1997 and 2004 found the average job loss among the CREDs to be 960. The intent of the CREDs is to bring economic activity back to regions. Since 2004, the CREDs, on average, have recovered 64 jobs.

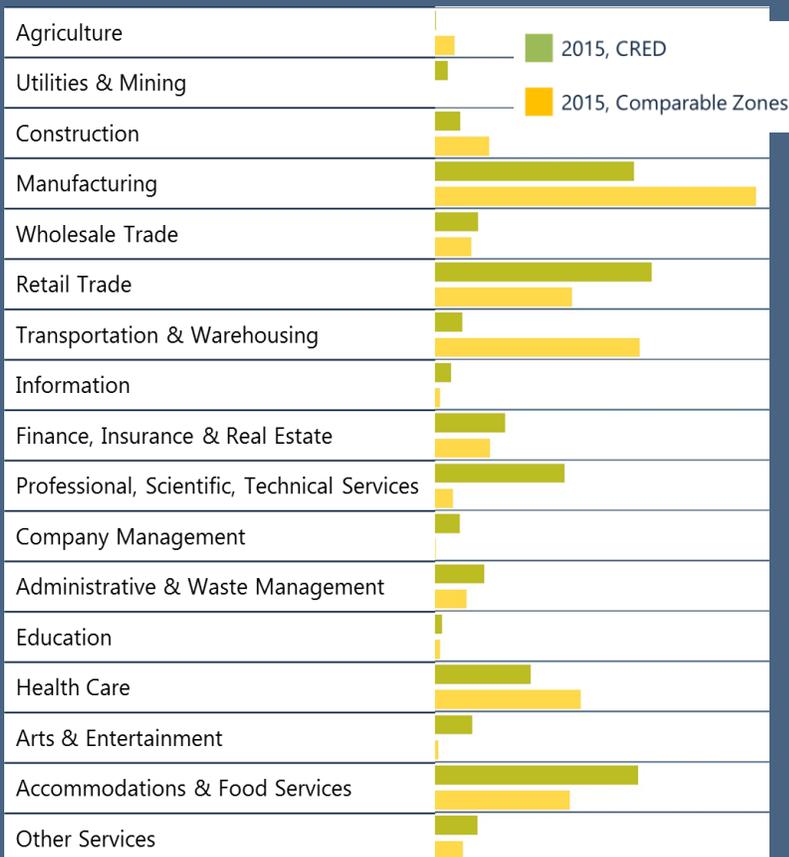
However, this measure does not show a complete picture of the activity in the districts. The employment data shows the regions continued to lose employment after 2004 because the program did not immediately affect the regions upon enactment. It took years for the local units to implement their redevelopment plans and to prepare the sites for future investments. Overall, the CREDs have lost a total of 13,600 jobs since 1997. The Anderson CRED, for example, did not receive its first revenue distribution until FY 2014.

To measure whether the economic developments were effective, we studied the changes in employment after the region reached its lowest level of employment. CREDs on average gained 296 jobs after reaching their lowest level of employment. For the majority of CREDs, the average annual employment growth rates were above the statewide average of 1.8%. The median annual employment growth rate was 20.9%. However, the range of the annual employment rates was between 1.22% and 44.3%. This shows there was significant variation in employment growth among the CREDs. A few CREDs have had a greater job increases compared to the other zones.

Comparing the employment changes in CREDs to the entire state, while illustrative, does not indicate whether the CRED program is effective. CREDs are small geographic regions that are more prone to a single business affecting an entire region. In addition, the selection of CREDs was not done at random. They were chosen because they contained abandoned commercial and industrial facilities and experienced large job losses.

Our analysis of CRED employment trends found they had distinct characteristics compared to the areas adjacent to the districts. To determine whether the CRED designation was responsible for the area's recovery, we looked for other regions that experienced similar reductions in jobs. We identified 40 census block groups that lost over 500 jobs between 1997 and 2004 where that loss represented over a 57% reduction in total employment.

**Figure 9. Distribution of Jobs by Industrial Sector of the CREDs and Similar Parts of the State, 2015**



*Source: Raw data provided by Bureau of Labor Statistics, data analysis by the Office of Fiscal and Management Analysis.*

The average jobs loss among the control blocks was 966. Since 2004, the comparison group gained on average 40 jobs. Just like the CREDs, the comparison group continued to lose jobs after 2004. The average total job loss was 1,106, and the average total recovery was 135. The median average annual job growth rate is 1.87%, but the employment among the comparative blocks ranged between an average of 0% and 5% a year. Generally speaking, the employment in the comparative regions were similar to the state overall. Figure 9 shows the distribution of the jobs by industrial sector in 2015.

### Summary

The CRED designation may have helped, but it should not get all the credit. The geographic regions designated as CRED suffered significant economic losses. While not immediately apparent, the regions, as a whole, have seen increases in jobs and investment. The CREDs have indeed made transformational improvements, and the local organizations have more enhancements

planned. While the CRED revenue capture may have directly contributed to the recovery efforts, it is unlikely the program is solely responsible for the regional development. When economic development incentives are mentioned, there is always talk of 'tools in the toolbox' to describe the selection of incentives available to facilitate a project. In our discussion with the local economic development officials, we learned that the public assistance provided for specific projects came from a combination of programs. There are layers of public financial assistance available for both local governments and businesses to use to reduce the cost of a revitalization project. CREDs have also managed to leverage their unique regional strengths to facilitate revitalization. Industrial agglomeration, existing infrastructure, and taking a long-term approach to developing the districts have contributed to their success.

*The following section describes the CRED credit, which is the only tax incentive established specifically for the CRED program.*

## Community Revitalization Enhancement District (CRED) Credit (IC 6-3.1-19)

The CRED tax credit is intended to encourage businesses to invest within a CRED. The credit equals 25% of the qualified investment in a CRED made by the taxpayer during the taxable year. The credit may be used to offset individual adjusted gross income (AGI) and corporate AGI, financial institutions, insurance premiums, and local income tax. The credit is nonrefundable. Unused credits may be carried forward, but may not be carried back. However, this credit is one of the two credits in statute that are transferable. The entity awarded the credit may transfer any unused credits to a lessee of the property where the qualifying investment is made. The assignment must be made in writing, and both parties must report the assignment on their tax returns.

In order to receive a credit, the taxpayer must provide an investment plan to the local advisory commission on industrial development. The local advisory commission must review and approve the plan. Then, the qualified investment must also be approved by the IEDC before the taxpayer is eligible to claim the credit. Since 2005, the credit was approved for 25 projects, and 16 applications were denied by the IEDC and the Indiana Department of Commerce. The credits were denied for several reasons, including failure to provide additional information and inability to receive other financing.

**Table 8. CRED Credit Claims History, 2007-2013**

<b>Tax Year</b>	<b>Individual Income Tax</b>	<b>Local Income Tax</b>	<b>Corporate Tax</b>	<b>Total</b>
2007	55	96	N/R	151
	\$416,447	\$187,454	\$2,663,171	\$3,267,072
2008	78	67	N/R	145
	\$153,596	\$80,511	\$816,204	\$1,050,311
2009	40	70	N/R	110
	\$83,316	\$51,690	\$4,251,218	\$4,386,224
2010	26	78	0	104
	\$71,064	\$49,740	\$0	\$120,804
2011	23	85	0	108
	\$209,822	\$70,825	\$0	\$280,647
2012	40	75	N/R	115
	\$281,213	\$245,985	\$3,978,615	\$4,505,813
2013	51	146	0	197
	\$213,619	\$0	\$670,077	

*Source: Raw data provided by Department of State Revenue, data analysis by the Office of Fiscal and Management Analysis.*

There are three limitations placed on the credit. First, a taxpayer does not qualify for a CRED credit if one of the following credits was provided for the same project: alternative fuel vehicle manufacturer credit, enterprise zone investment cost credit, Hoosier business investment credit, industrial recovery credit, and venture capital investment credit. Second, the taxpayer may not reduce other Indiana operations to relocate them into a CRED. However, there are exceptions to the condition. The credit can also be disallowed if the business ceases existing operations or substantially reduces its operations. If the credit is assigned to another taxpayer, the

## Community Revitalization Enhancement District (CRED) Credit (IC 6-3.1-19)

new credit recipient is also subject to the same requirements. The responsibility of monitoring the project's compliance rests with the Indiana Department of Revenue. Last, improvements to residential property may not be classified as a qualifying investment beginning in 2016.

Statute prohibits taxpayers from using the CRED credit along with another income tax credit for investments for the same project. But, a project can receive the CRED credit in conjunction with other incentives. In addition, local officials can still offer the property tax abatements and TIF funds to assist businesses that are planning to invest in the CRED. The credit can also be used to offset a local income tax liability. Between 2005 and 2013, a total of \$1.0 M was claimed against local income tax.

The credit is nonrefundable, so the taxpayers without sufficient tax liability are unable to immediately use the credits. Between 2005 and 2013, the IEDC approved \$33.6 M in credits. Taxpayers have claimed \$17.9 M in credits over the same period resulting in approximately \$15.5 M in unclaimed credits that taxpayers are carrying forward. The real value of the credit is less than the amount awarded by the IEDC because taxpayers are still carrying forward credit balances. Consequently, the actual discount the average taxpayer received on a qualifying project is about 13.3%.

However, the credit is transferable, so a taxpayer could leverage the credit to receive additional capital. As of August 2016, no recipient has assigned a credit to another taxpayer. According to the IEDC, this is likely because of the constraints on who is eligible to receive a transfer. If more recipients structure their projects to be able to assign their credits, it will increase the overall cost of the incentive.

**Table 9. CRED Credits, Qualified Investments, and Total Private Investment by CRED between years 2005 and 2015**

CRED	Number of Credits Awarded	Awarded Credit Amount	Qualified Project Investment	Total Private Investment (\$ in Millions)
Anderson	0	\$0	\$0	\$27.0
Bloomington – Downtown	N/R	3,176,505	15,083,508	8.9
Bloomington - Thomson	N/R	10,975,000	82,300,000	272.8
Delaware County- ABB	N/R	1,242,135	7,084,040	100.0
Delaware County– MAGNA	0	0	0	125.0
Fort Wayne – Downtown	9	27,965,530	121,537,452	284.0
Fort Wayne - Anthony/Tillman	0	0	0	55.0
Indianapolis	0	0	0	78.3
Marion - Phase I & II	8	6,678,332	46,067,840	80.8
South Bend	N/R	9,394,575	40,378,300	55.7*
<b>Grand Total</b>	<b>25</b>	<b>\$59,432,077</b>	<b>\$312,451,140</b>	<b>\$1,087.5</b>

Source: Local economic development officials.

\*Investment data as of 2012

### Investment

As shown in Table 9, the total estimated private investment made in the CREDs was approximately \$1,087.5 M. Compared to the rest of the state, that number is quite small. The total statewide investment in private

## Community Revitalization Enhancement District (CRED) Credit (IC 6-3.1-19)

fixed nonresidential structures between 2004 and 2015 is estimated to be about \$442.3 B. The U.S. Bureau of Economic Analysis does not provide private investment data by county, but we can use other data to estimate what share of the private fixed investment occurred in each county. The total private investment in CREDs of \$1,087.5 M represents about 6.1% of the estimated 2015 private fixed investment in nonresidential structures in Allen, Delaware, Grant, Madison, Marion, Monroe, and St. Joseph Counties.

However, the credit was not awarded for every project. The qualified investment applicable to the credit represents a third of the total CRED private investment. The total project investment associated with the CRED credit, \$312.4 M, represents only 1.7% of the estimated 2015 nonresidential private fixed structural investment in those counties. The total qualifying investment for the credit is small compared to the investment in the county.

### Summary

The data suggests the credit was not necessary to encourage all the private investment occurring in the CREDs. The qualified investment associated with the credit represents 28% of the estimated total private CRED investment. The credit was not even used in every CRED. Four CREDs did not contain a business that received a credit for a project. This suggests the IEDC is awarding the credit to only those projects where the assistance is needed. Another possible explanation is that taxpayers are not applying for the incentive. Perhaps, the CRED investment credit is not a good fit for a particular project, or the taxpayers do not perceive the credit as providing any immediate savings.

## Enterprise Zone Program (IC 5-28-15)

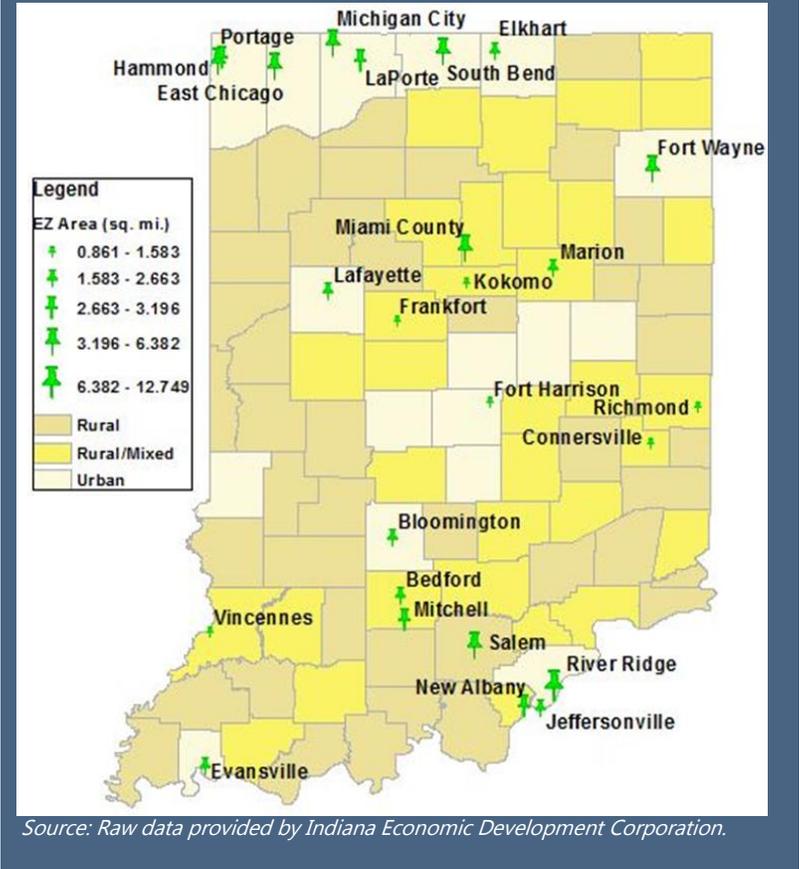
The designation of enterprise zones (EZ) within "distressed" areas across various parts of the United States has burgeoned considerably since its onset during the early 1980s. Used as an economic development tool, EZs have been utilized for the revitalization of traditional downtown areas or old industrial and manufacturing areas that have gone through a protracted period of decline. Businesses within EZs, which are designated largely on the basis of high unemployment and poverty rates, often receive some combination of tax incentives such as property tax abatements, income tax deductions, and credits for employment creation and capital investment.

Indiana's EZ program was established in 1983 and allows EZs to be located in municipalities or on closed military bases. There are currently 22 EZs, and among the first to be designated were Evansville, Fort Wayne, Michigan City, Richmond, and South Bend in 1984. An application by a municipality for designation as an EZ must show the following:

1. At least 25% of the households in the zone below the poverty level.
2. A population of more than 2,000 but less than 10,500 people.
3. An area of more than  $\frac{3}{4}$  of a square mile but less than 4 square miles.
4. Property suitable for economic development.

Each EZ is designated by an urban enterprise association (UEA) comprises 12 members, 2 of whom are appointed by the governor. The executive of the municipality in which the zone is located appoints 5 members, 2 of whom are representatives of businesses located in the zone and 1 of whom is a resident of the zone. The legislative body of the municipality appoints the remaining 5 members. Each member of the UEA serves a four-year term. Ultimately, the board of the IEDC, comprising the governor and 11 individuals appointed by the governor, reviews and approves or rejects all applicants for EZ designation.

Figure 10. Location and Area of Indiana EZs by Rurality



Source: Raw data provided by Indiana Economic Development Corporation.

An EZ expires 10 years after the day on which it is designated by the board of the IEDC. The fiscal body of a municipality may renew an EZ for up to two 5-year periods. Following HB 1215-2015, the fiscal body may extend the expiration of an EZ by an additional year under certain stipulations.

### Location of EZs

Figure 10 shows a large concentration of EZs along the northern, central, and southern parts of the state. Most of the counties with EZs are considered urban based on a population over 100,000 and population density over 200 people per square mile (see Ayres, Waldorf, and McKendree, 2012 for an explanation of the grouping of Indiana's 92 counties into urban, rural/mixed, and rural categories). For example, the northernmost counties from Lake to Elkhart, all considered urban, contain 7 of the 23 EZs in the state. Several EZs are located in rural/mixed areas, which refer to those areas with a population of 40,000 to 100,000 and population density of 100 to 200 people per square mile. Interestingly, only one EZ is located in a rural county (Salem in Washington County). As EZs were originally created to combat blight, one would expect more of them to be concentrated in rural and rural/mixed areas, which generally suffer from increasing depopulation, greater poverty, and slower economic recovery.

The average Indiana EZ is approximately 3.2 square miles in area with approximately 68% of the EZs being smaller. The largest EZs are Hammond at 6.38 square miles and River Ridge at 12.75 square miles. While the relatively large EZs are concentrated in the northern and southern parts of the state, the smaller EZs, with areas of 2.7 square miles or less, are generally located in the central part of the state. Some of the largest EZs (e.g., Fort Wayne, Michigan City, Hammond) were also among the first to be designated in 1984 and 1985. However, none of those EZs are geographically close to each other. Similarly, several small EZs (e.g., Marion, Bloomington, Lafayette) were designated in the early 1990s. None of those EZs are close to each other either, dispelling the notion of spatial spillover, which refers to the idea that one area adopts a program in response to its neighbor's decision to adopt a program. The designation of EZs appears to have been largely case-by-case considerations by local units.

### Funding of the Board and UEAs

Each zone business, characterized as one that accesses at least one tax credit, deduction, or exemption incentive, must file an EZ business registration form (EZB-R) with the IEDC. The IEDC assesses fees from EZ businesses in the amount of 1% of a business's total tax incentives if greater than \$1,000. Those fees are kept in an EZ fund established within the state treasury and used to pay the expenses of administering the fund, pay nonrecurring administrative expenses of the EZ program, provide grants to UEAs for brownfield remediation in EZs, and pay administrative expenses of UEAs. Additionally, each zone business must assist the zone UEA in an amount determined by the legislative body of the municipality in which the zone is located.

Just as the IEDC Board charges a 1% registration fee, all UEAs require zone businesses to submit a percentage of their tax incentive savings for their operations (although some UEAs have granted clemency for certain businesses claiming only one incentive, for example). Fees range from 20% to 35% of a firm's total tax savings, and a UEA is allowed to change its percentage at any time. Those fees are used to fund the vast majority of UEA operations and their programs.

**Table 10. Total Revenues by Select Urban Enterprise Associations, 2014-2016**

UEA	2013-2014		2014-2015		2015-2016	
	Total Revenue	Participation Fee % of Total Revenue	Total Revenue	Participation Fee % of Total Revenue	Total Revenue	Participation Fee % of Total Revenue
Bedford	\$103,000	63%	\$108,000	75%	\$85,000	100%
East Chicago	512,950	20%	235,184	34%	217,718	35%
Evansville	346,834	83%	326,987	98%	371,974	98%
Fort Wayne	419,063	60%	436,556	64%	459,393	68%
LaPorte	179,565	98%	451,263	99%	695,899	99%
South Bend	284,898	98%	62,206	93%	54,000	93%
Vincennes	106,888	100%	110,093	100%	112,289	100%

*Source: Indiana Urban Enterprise Associations*

A survey of revenue distributions by LSA revealed that many local UEAs use these revenues for community development projects. For example, Bedford uses its revenues, which additionally comprise rental income and tax abatement fees, for purchase and repurpose of the downtown JC Penney building, construction of hotels and clinics, and rehabilitation of residential properties, to name a few. East Chicago and Evansville use their revenues for school programs, job training, and brownfield redevelopment. Fort Wayne, which also receives in-kind monies, uses its revenues for a college scholarship program, business incubator, roadway improvements, and workforce development programs. South Bend, which also receives government grants, uses its revenues for employment training, transitional housing development, and demolition of vacant properties. Vincennes uses its revenues for student tutoring, business façade and structural improvements, and home renovation projects. The community development activities of the UEAs provide intangible benefits to the areas.

### Descriptive Statistics

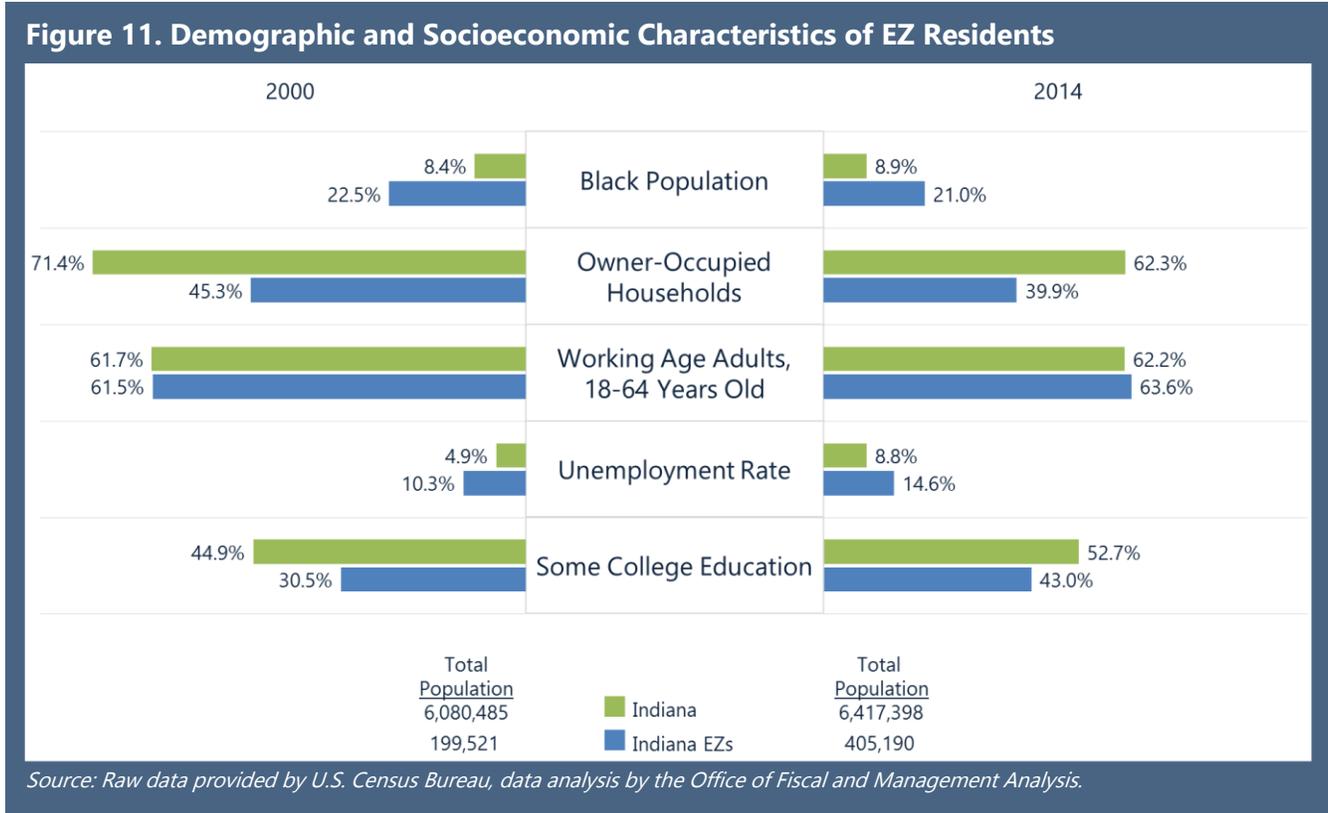
**EZ Residents.** Approximately 405,190 people live in Indiana’s designated EZs, or 6.3% of Indiana’s total population of approximately 6.4 million. Census data confirms that Indiana’s EZs continue to be located in economically distressed areas, as has been highlighted by a prior LSA study (Landers & Faulk, 2005). Figure 11 illustrates a comparison of certain characteristics from Census 2000 to Census 2010 (and 2010-2014 summary files).<sup>1</sup>

Figure 11 also illustrates characteristics of Indiana’s population during the Great Recession and the early years of economic recovery from 2011 through 2014. For all of Indiana and the zone areas, unemployment and poverty rates increased, while home ownership rates declined. Additionally, the share of persons completing some college or attaining a degree is on the rise for the state overall and the zones in particular.

Consistent with the population characteristics of Indiana’s urban areas, EZs have a higher concentration of racial and ethnic minorities than the statewide average. Blacks make up 21% of the zone population compared

<sup>1</sup> This comparison includes different geographic locales for the zones (i.e., Anderson was not included in the prior analysis, and Gary is not a designated zone included in this analysis).

to the statewide average of 9%, and Hispanics make up 12% of the zone population compared to 6%, statewide. This varies significantly among the 23 zones, as Bedford’s zone population remains 97% White alone, and South Bend is composed of 47% White alone. The proportion of family units as a household type is smaller within EZs, and 18.5% of these are single-mother households compared to 11.8% statewide.



The labor force participation of zone residents is slightly below the state average. The zones make up 6.3% of the state’s population and just 5.8% of the labor force. Approximately 15% of employment in the zones (or 1% of statewide employment) is from businesses claiming tax incentives. The unemployment rate also remained much higher during the five-year period from 2010 to 2014. The EZ unemployment rate was 14.6%, on average, compared to the statewide average of 8.8%. EZ residents are more likely to work part-time, or less than 35 hours per week, with 27% working part-time versus the statewide average of 24%.

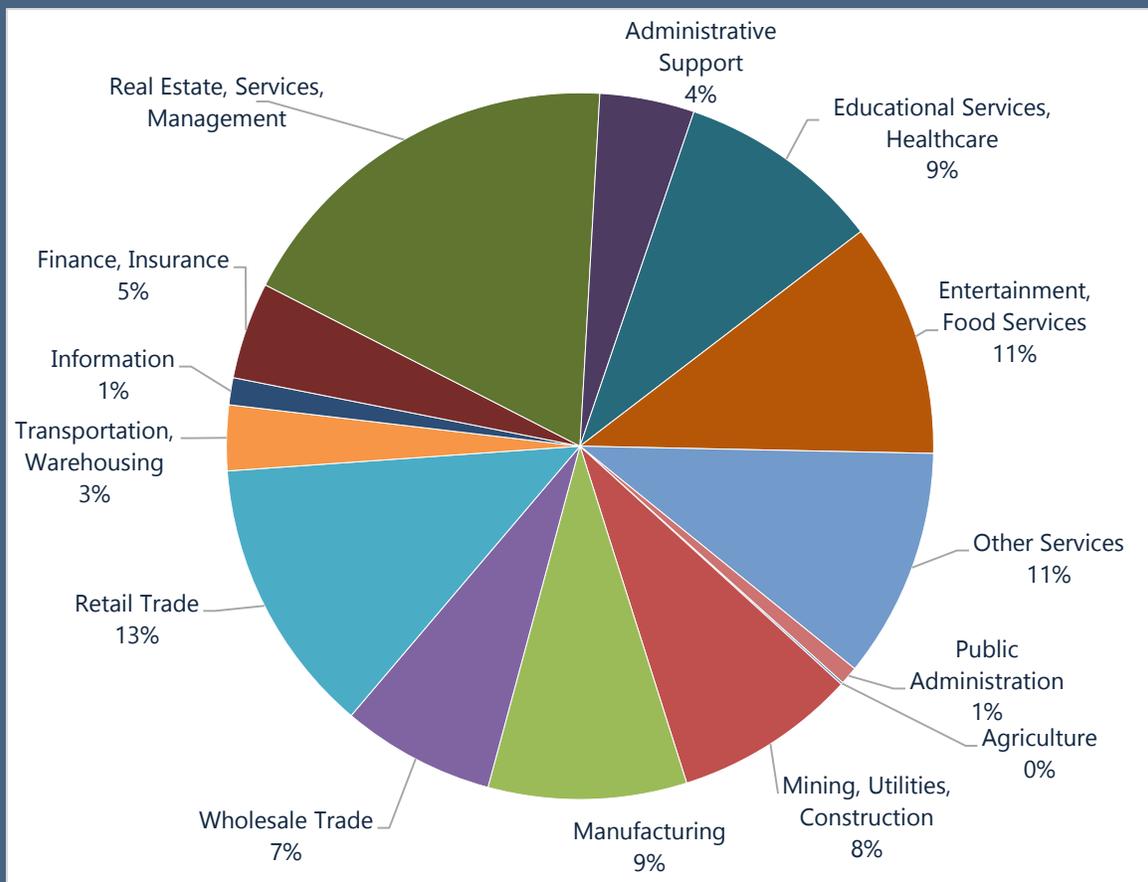
Income and poverty levels vary widely across the state. Approximately 29% of zone residents are living at the poverty level, nearly double the statewide average at 15%. Housing and income levels likewise confirm that the EZ areas continue to suffer economically. Per capita income for the state was \$23,128, on average, in 2010 compared to \$16,649 for the EZ population. Median earnings were also 25% less at \$20,973 within the EZs compared to \$27,913 statewide. Furthermore, the share of owner-occupied housing units within EZs is 40% compared to 62% statewide.

**EZ Establishments.** EZ shapefiles, or geographical data files, are provided by 39 Degrees North, a private firm of GIS developers. These shapefiles contain census block group identifiers, which are matched to census socioeconomic and demographic characteristics. Additionally, Indiana business establishments, provided by

Department of Workforce Development Unemployment Insurance Tax Administrative Records, were geocoded by LSA by their geographical coordinates and physical addresses and matched to the EZ shapefiles in order to identify those establishments located within EZs.

Based on recently available quarterly employer reports filed during 2015, approximately 6,500 establishments are located within EZs. As the EZs are restricted in size and scope, this represents approximately 4% of businesses in the state. The Bloomington EZ contains the largest number of establishments at nearly 600, and the Miami County EZ contains the fewest establishments at below 50. The average wage across all non-EZ establishments is approximately 11% higher than that across all EZ establishments. Similarly, the average monthly employment across all non-EZ establishments is approximately 13% higher.

**Figure 12. Percent of EZ Establishments by Industry**

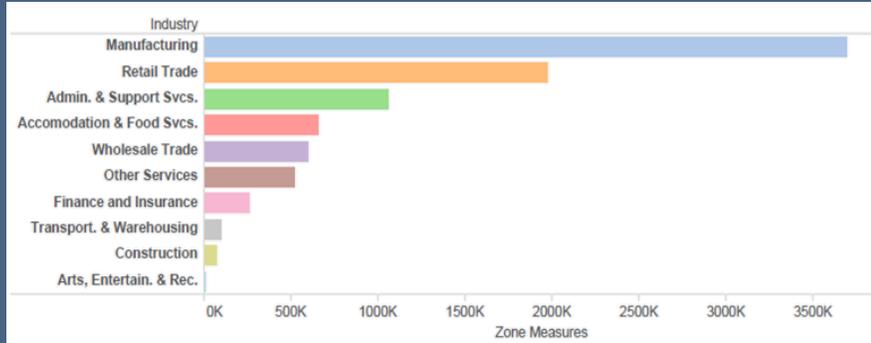


*Source: Raw data provided by U.S. Department of Labor, data analysis by the Office of Fiscal and Management Analysis.*

Figure 12 shows the percent of EZ establishments by industry. Real estate, technical services, and management of companies (NAICS codes 53-55) make up the largest percent of zone businesses. This is followed by retail trade (NAICS codes 44-45). As our previous analyses show, the majority of EZ tax incentives tend to be claimed by manufacturing firms (NAICS codes 31-33; see Figure 13 below for an industry-level breakdown of EZ incentive claims). Yet, they only make up about 9% of all zone establishments. Manufacturing firms also tend

to employ about three times as many workers as other industries, suggesting that large, manufacturing firms are utilizing the tax incentives.

**Figure 13. Incentives by Industrial Sector**



Source: Raw data provided by U.S. Department of Labor, data analysis by the Office of Fiscal and Management Analysis.

**EZ Incentives.** Approximately 4% to 5% of all businesses in an EZ tend to claim tax incentives annually based on historical EZB-R filings. The following incentives are offered to zone businesses: (1) property tax investment deduction; (2) employment expense credit; and (3) loan interest credit (these incentives are discussed in detail later in this report). Table 12 provides a historical overview of the tax savings claimed by zone businesses.

**Table 12. Incentives and Fees for EZ Businesses, 2006 to 2015**

Year	Investment Deduction	Employment Expense Credit <sup>1</sup>	Loan Interest Credit <sup>1</sup>	Capital Investment <sup>2</sup>	Total Tax Incentives as Share of Capital Investment <sup>3</sup>
2006	\$3,023,961.60	\$1,203,593.30	\$123,666.32	\$202.6 M	2.1%
2007	1,840,224.10	1,486,813.30	98,050.44	133.2 M	1.7%
2008	4,587,063.00	1,306,002.30	134,583.40	168.2 M	3.0%
2009	4,317,078.24	1,396,207.15	1,322,806.23	121.5 M	5.8%
2010	9,508,162.46	1,343,278.73	1,131,358.32	234.7 M	5.1%
2011	9,395,852.16	1,136,792.71	1,386,090.76	155.9 M	7.6%
2012	11,479,340.33	1,242,647.69	1,207,353.07	189.3 M	7.4%
2013	14,428,262.21	1,368,568.91	1,150,104.01	235.5 M	7.2%
2014	18,499,965.93	1,552,827.54	1,297,263.02	247.2 M	8.6%
2015	18,563,707.54	1,575,960.54	1,317,925.37	251.3 M	8.5%

Source: Raw data provided by Indiana Economic Development Corporation, data analysis by the Office of Fiscal and Management Analysis.

- Notes.
1. These figures may not match the year-over-year figures presented in the Employment Expense Credit and Loan Interest Credit documents due to the allowance of carry forward (and/or carry back for the Employment Expense Credit).
  2. This includes registration and participation fees paid by businesses to the IEDC and UEAs, respectively.
  3. This calculation is based on businesses that claimed at least one incentive.

The final column presents the dollar amount in tax incentives as a share of capital investment across all EZs in the state. The low share suggests that many zone businesses do not take advantage of tax incentives, bringing to question whether economic development in the form of capital investment would have occurred anyway. While the investment deduction and employment expense credit directly apply to zone businesses, the loan interest credit applies to those banks lending money to zone businesses. As such, one UEA stated that there is little in the EZ program that reduces state taxes paid by zone businesses. The low share also suggests the selective nature of the awarding of tax savings. As discussed in the subsequent sections, businesses must meet certain criteria in order to claim a tax incentive.

### Effectiveness of Program

Prior research finds inconclusive results with respect to the effectiveness of EZs on economic development. In an attempt to bridge the gap among previous studies, we conducted an econometric analysis with establishment data from 2006 to 2015. We studied the effect of EZ tax incentive savings on employment and capital investment given the propensity with which an establishment will receive tax incentive savings of some positive dollar amount.

The following sections provide background and details of this analysis. First, we evaluate the effectiveness of EZs using scholarly research published in peer-reviewed journals. Then, we analyze the impact of EZs on economic development outcomes using establishment data.

### Evaluation of Program Based on Research of EZs

EZs in the U.S. date back to 1980, when individual states initiated the policy rather than the federal government. The idea of EZs evolved from British policy. While Britain has aimed for the betterment of the welfare of local residents through EZ policy, it has been less successful than the U.S. Rubin and Richards (1992) argue this is mainly due to Britain's lack of existing industrial and commercial activity and lack of formal organization and professional management of its zones as is present in the U.S. As of 2012, 43 states have EZ programs with over 3,000 regions designated as EZs. Some states have designated particular areas of the state as zones, while others have designated the entire state.

State EZs function on the basis set by state law. Each state's program is different and specifies criteria for its areas to meet in order to be designated an EZ. While many EZs are generally designated on the basis of high unemployment and poverty rate, some are designated by low income, population decline, high building vacancy rate, or high proportion of aging buildings. A business located within a zone or one that relocates to a zone is often required to create new jobs (sometimes by zone residents) or invest capital in the zone in order to receive tax incentives, also considered entitlement subsidies since any business that meets a state's criteria can collect those incentives.

As subsidies and grants tend to be targeted tools for economic development, there exists a wide literature on their distribution and the effect of firm location choice. Rogers and Tao (2004) do not find any evidence that targeted economic development programs are effective in rural regions or small cities. And in practice, economic development tools such as EZs and tax increment financing areas (TIF) tend to be in urban areas with relatively large populations, suggesting the presence of outside factors.

While many would argue that a positive association between EZs and a given measure of economic development would suggest the success of the program, that is not always the case. Some measures capture the effect better than others. For example, researchers tend to find that property values, in particular, are positively affected by local economic development programs. Engberg and Greenbaum (1999) argue that any wealth created by EZ programs should be capitalized into the housing market. But as properties tend to experience naturally occurring growth in assessed values over time, it is difficult to assess whether property values would have risen in the absence of EZs. The success of EZs is dependent upon the expansion of existing firms and/or the stimulation of new development. Of course, either of those may occur even in the absence

of the program, thereby creating a zero-sum effect resulting from the transfer of investment from one area to another (Rubin & Richards, 1992). This dilemma refers to the "but for" question discussed above and contributes to another distinct feature of EZ studies, the methodology. Generally, studies that scrutinize the "but for" question tend to estimate more accurate results as a result of their careful consideration of characteristic differences between EZ and non-EZ areas.

In addition to "but for", Landers (2006) considers rent-seeking as an unfortunate consequence of an area's designation as an EZ. The author finds that EZ property values rise with EZ designation but that any increase in firm profitability may be diminished by a shift of resources from businesses to landowners. Engberg and Greenbaum (1999) differentiate zone designation by the fraction of the decade during which designation was in effect and by designation of zone at any time during the study period. The authors find that zones generally do not increase housing values. After examining the impact of EZs in six states, Greenbaum and Engberg (2000) find similar results. Hanson (2009) estimates the effect of the federal empowerment zone program on property values, employment, and poverty and finds an overall positive impact. Similarly, Krupka and Noonan (2009) find that property values significantly respond to the federal empowerment zone program. The authors conclude the significant effect may be explained by the breadth of the federal program and the improved measurement of program status due to close matching of EZ boundaries with census geographies, which is more difficult with state EZs.

Recognizing the limitation of property values as an outcome measure, many studies have examined the effect of EZs on employment. For example, Couch et al. (2005) study the effect of EZs on the percent of manufacturing jobs created annually in Mississippi and find that manufacturing job opportunities were created due to EZ legislation. O'Keefe (2004) categorizes EZ status by year of designation and finds that the first six years of designation contribute to employment growth but that the effect does not persist past year six. Ham et al. (2011) study the impacts of state EZs, federal empowerment zones, and federal enterprise community programs on local labor markets measuring unemployment, poverty, wage, and salary income and employment. The authors find that all three programs significantly impact labor markets but particularly that federal programs have larger effects than the state program. Contrarily, Boarnet and Bogart (1996) find the EZ program does not affect municipal employment at any year of zone existence. Similarly, Elvery (2008) finds that EZs do not significantly affect the employment of zone residents, and Whitacre et al. (2015) find that Oklahoma's Quality Jobs program does not affect the economic growth of businesses participating in the program. As such, the Maryland Department of Legislative Services (2013) recommends that training programs be combined with incentives to improve the effectiveness of employing zone residents.

Employment naturally lends itself to a discussion of wages. Jobs are often filled by unemployed individuals within a region, individuals who change jobs within a region (causing worker displacement), or employees from outside a region. EZ jobs, in particular, tend to function differently. As the area is, by function, distressed, there may not be a sufficient skilled labor force to employ. As a result, some zone businesses hire from outside the region and receive a government subsidy for a fraction of the wages paid to those employees. Contrarily, some zone businesses are required by state law to hire from inside the region, which has consequences for wages offered. In fact, Bondonio and Greenbaum (2007) find that EZ policies tend to reduce payroll per employee as a result of new jobs created. Furthermore, employers that replace unsubsidized workers with subsidized workers do more harm than good if they do not use government subsidies to increase their overall employment (Burtless, 1985). This displacement of workers influences a community's wealth, and the higher

it is, the more economically well-off a community is. Bostic and Prohovsky (2006) find that EZ designation positively impacts the wages and adjusted gross income (specifically taxpayers with low initial income compared to those with higher income) of EZ participants. However, Lynch and Zax (2010) conduct extensive analyses of the effects of EZs interacted with previous period monthly employment and find that EZs have no significant effects on current monthly payroll per worker in establishments with greater than 10 employees, implying that positive labor effects tend to accrue to very small firms.

### Estimated Economic Impact of Program

EZs are spatially targeted programs, as their primary goal is to reduce blight and spur economic development. Because they are targeted, they are not random, making statistical techniques such as propensity score matching techniques for reducing estimation biases appropriate for this analysis (Hirano & Imbens, 2004). Table 13 summarizes the pros and cons of the program by measure of economic development.

**Table 13. Summary of Enterprise Zone Analysis Results**

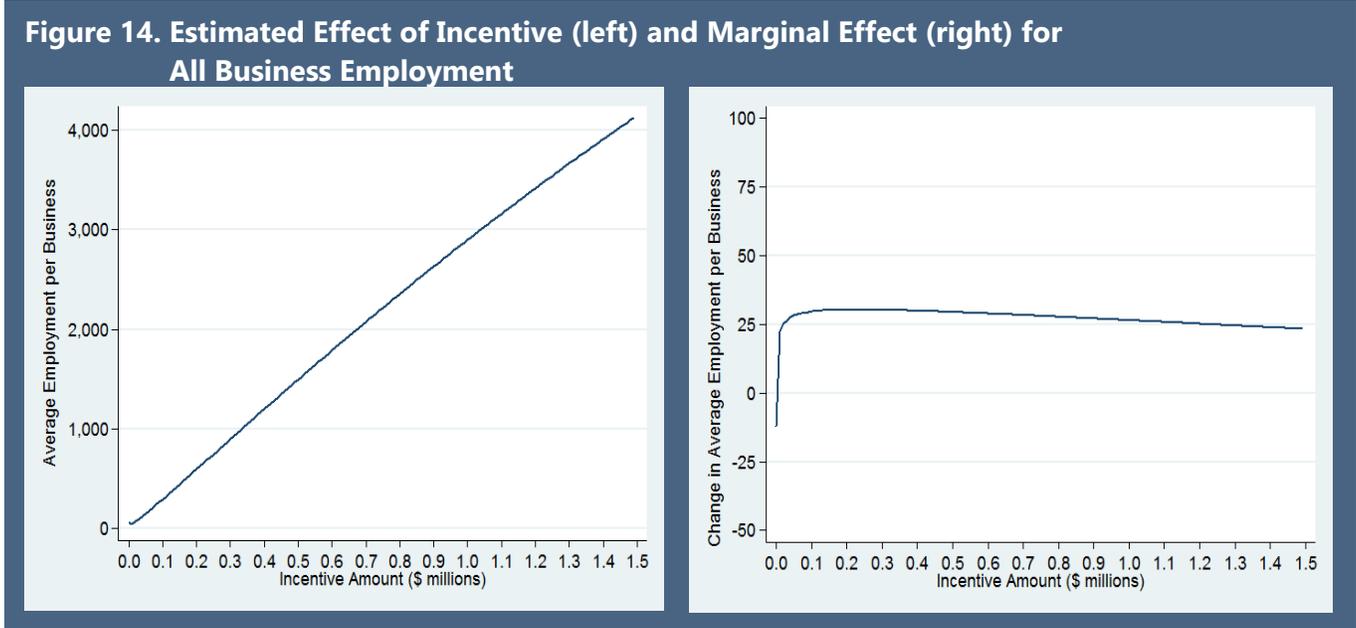
Pros	Cons
<b>Employment</b>	
On average, employment tends to rise for firms receiving < \$20,000 in tax incentives	On average, employment tends to decline for firms receiving > \$20,000
Firms with < 50 employees and receiving < \$100,000 tend to create jobs	Employment tends to decline for firms with < 50 employees and receiving > \$100,000
<b>Wages</b>	
	Wages are not increasing at the same or even comparable rate as firms are receiving tax incentives
<b>Capital Investment</b>	
Capital investment by firms is positively related to tax incentives received	Firms that receive much more in tax incentives do not invest any differently than firms that receive very little
<b>Assessed Values</b>	
Firms that receive \$20,000 tend to experience a 68% higher gross AV than firms that receive \$10,000	This effect starts declining for firms receiving \$30,000, meaning the property values of firms receiving much more in tax incentives do not fare any better than firms receiving very little

**Employment.** Economic development is often measured by job creation, and several papers have examined the effect of monetary aid on this outcome (e.g., Bia & Mattei, 2012). Using quarterly employment reports, we examine the effect of tax savings on average annual employment for those businesses that have claimed at least one tax incentive. After controlling for factors that influence the propensity with which a firm will receive some positive level of tax savings, we find that all firms receiving tax incentives tend to create jobs (see left side of Figure 14). However, there tends to be no employment effect for firms receiving a very high amount (i.e., above \$500,000) based on statistics.

The results also suggest there exists a threshold beyond which tax savings to a firm tend to have little impact, and in fact, cause a decline in employment. Employment tends to rise only for firms receiving up to \$20,000

(see right side of Figure 14). Any tax savings beyond that tends to have a negative effect on employment. As firms are required to show reinvestment of their tax savings into the firm, this suggests that firms may be substituting capital for labor in the form of building renovation or capital equipment purchase.

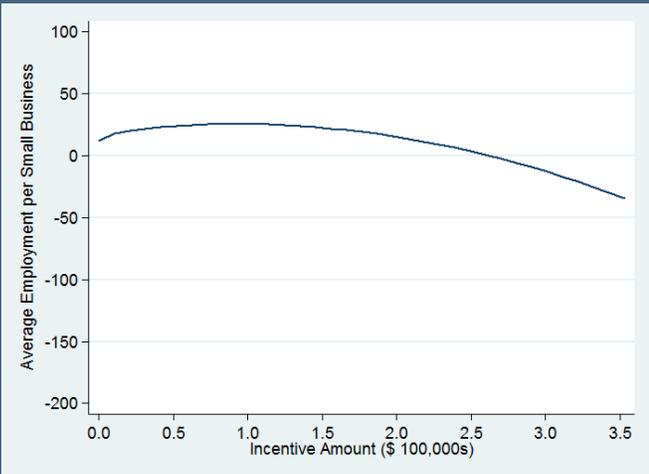
Basic analysis of Bureau of Labor Statistics' Multi-Factor Productivity data suggests that firm decisions are still influenced by the Great Recession, which led to the reversal of previous trends whereby labor costs exceeded capital costs. Since 2009, capital costs have exceeded labor costs. This trend is especially pronounced in the



manufacturing industry. Even as jobs return, wage and employment levels in manufacturing remain below pre-recession levels. The fact that Indiana's zone businesses appear to underutilize all tax incentives, but particularly the employment expense credit, seems to confirm this same notion. Labor costs are still relatively low (compared to pre-recession levels), and this might indicate more of an incentive for firms seeking capital investment.

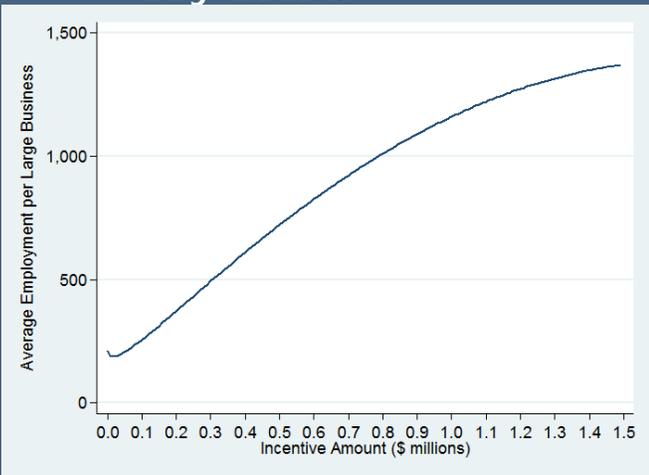
Recognizing that size of the workforce often has implications for a firm's economic behavior, we separate the firms that have received tax incentives over time into small firms, those with fewer than 50 employees (Figure 15), and large firms, those with greater than or equal to 50 employees (Figure 16). Approximately 68% of the businesses from 2006 to 2015 employed fewer than 50 employees (see Table A1.1 for descriptive statistics of firms that received tax incentives). Interestingly, firms with fewer than 50 employees tend to respond very differently to tax savings than all firms combined. In fact, small firms tend to create jobs at tax savings below approximately \$93,000. Any additional tax savings beyond that threshold tend to cause a decline in employment.

**Figure 15. Estimated Effect of Incentive for Small Business**



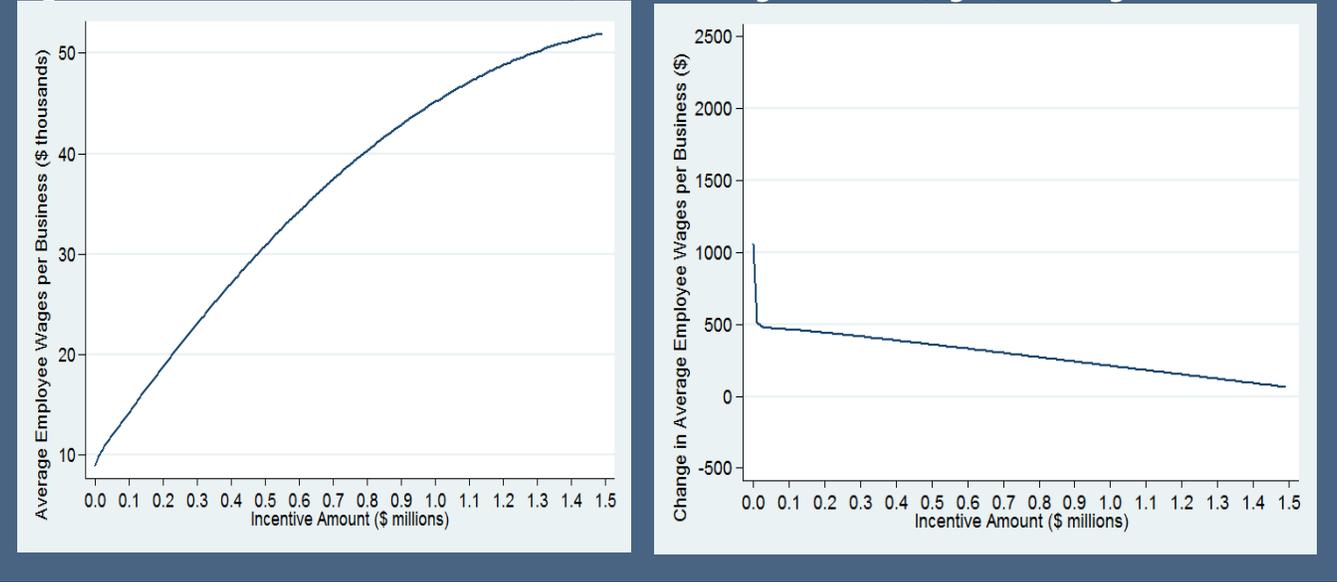
While large firms tend to create a positive number of jobs at tax savings of any level, the results suggest this effect declines over time. For example, a firm that receives \$10,000 in tax savings tends to employ about 187 workers, on average. A firm that receives twice as much, or \$20,000, tends to employ the same number of workers. Since large firms tend to receive more tax incentives than small firms, it makes sense that small amounts may not change their behaviors. The threshold happens to be much higher, around \$230,000, meaning firms that receive tax incentives totaling more than \$230,000 tend to employ fewer workers than firms that receive smaller savings. This suggests that while some large firms tend to benefit from tax incentives, a majority of large firms do not need incentives to maintain their labor forces.

**Figure 16. Estimated Effect of Incentive for Large Business**



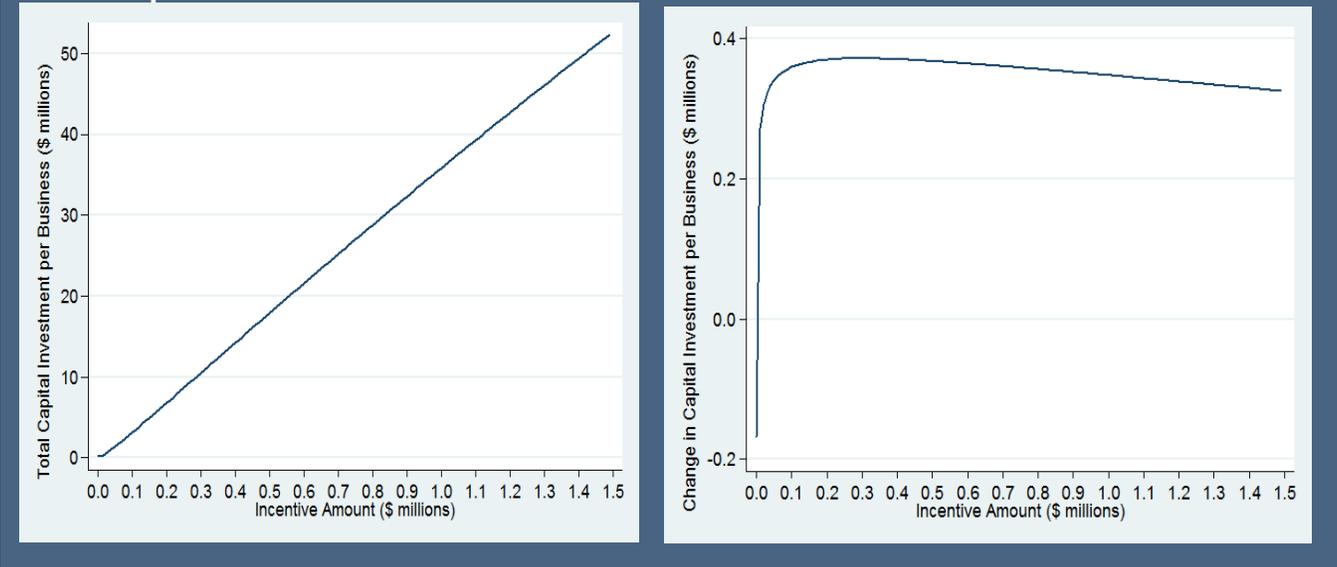
**Wages.** Economic development may also be measured by wages. The average employee wage for firms that receive incentives is \$36,000. Since EZs do not necessarily have to hire new workers to claim the employment expense credit, we do not expect to see a comparable increase in wages as a result of the tax incentives. In fact, we can see that firms receiving \$10,000 in incentives tend to pay only \$1,000 more per employee than firms receiving <\$1. Figure 17 shows that while wages are positively related to tax savings, the marginal effect of a \$10,000 increase in incentives is negative. This suggests that fewer tax savings are being translated into higher wages as firms continue to receive incentives.

Figure 17. Estimated Effect of Incentive (left) and Marginal Effect (right) for Wages



**Capital Investment.** Another way to measure economic development is capital investment. Businesses that claim a tax incentive must show reinvestment of their tax savings back into their business. As a result, a larger capital investment to tax savings ratio would imply greater economic development than a smaller ratio. Of course, since the level of capital investment provided by businesses on EZB-R filings is self-reported, it may

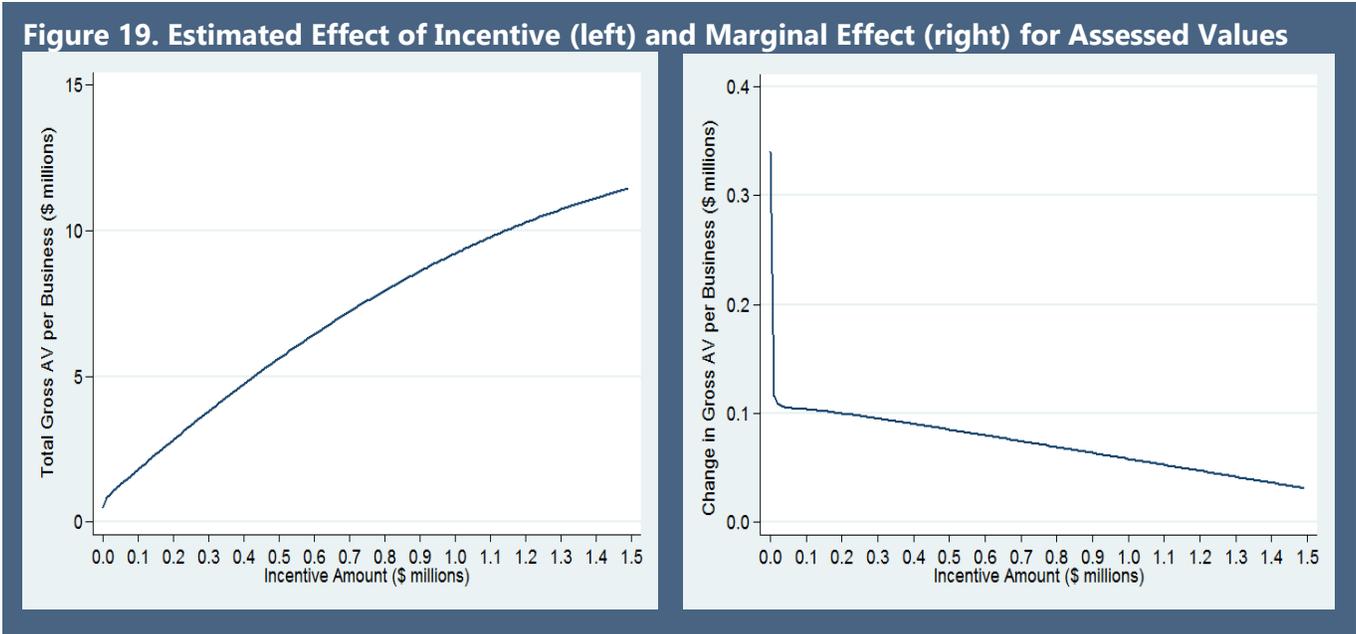
Figure 18. Estimated Effect of Incentive (left) and Marginal Effect (right) for Capital Investment



not be entirely reliable. Nevertheless, this exercise may provide an understanding of whether the state’s return on investment makes its loss of tax revenue worthwhile.

We notice that a firm’s capital investment is positively related to the tax incentives it receives. This makes sense, as a firm is required to show reinvestment of its tax incentives. This is certainly the case for incentives totaling less than \$100,000, and especially the case for incentives totaling less than \$40,000. While firms receiving \$30,000 tend to invest about 184% more than firms receiving \$20,000, firms receiving \$40,000 tend to invest only 73% more than those receiving \$30,000. This decreasing marginal effect continues with each additional \$10,000 in tax incentives up to approximately \$120,000, after which tax incentives appear to have no statistically significant impact on capital investment. This suggests that while there tends to be a positive relationship between tax incentives received and capital invested, firms that receive much more in tax savings do not tend to invest any differently than firms that receive little in tax savings.

**Assessed Values.** The effect is not significant beyond total firm incentives of \$640,000, suggesting that the reinvestment of tax savings by firms into their business does not impact the property values of firms receiving higher-than-average amounts in tax incentives. As previously noted, firms that receive relatively low amounts of tax incentives, generally below \$100,000, tend to benefit more, in terms of higher AV, than firms that receive high amounts. Specifically, firms that receive \$20,000 tend to experience a 68% higher gross AV than firms that receive \$10,000. This figure drops drastically to 14% for firms that receive \$30,000 versus \$20,000 and 11% for firms that receive \$40,000 versus \$30,000.



### Summary

The results of our econometric analysis suggest that, on average, employment tends to rise for firms receiving less than \$20,000 in tax incentives but tends to decline for those receiving more. Specifically, small firms with fewer than 50 employees tend to experience a higher threshold of \$100,000. The results also suggest that firms that receive much more in tax incentives (e.g., more than \$500,000) do not invest any differently or experience any higher property values than firms that receive very little (e.g., less than \$50,000).

## Enterprise Zone Employment Expense Credit (IC 6-3-3-10)

The following sections describe each EZ tax incentive in greater detail. They are discussed in the following order: (1) employment expense credit; (2) employee income deduction; (3) loan interest credit; (4) investment cost credit; (5) investment deduction; (6) obsolescence deduction.

### Enterprise Zone Employment Expense Credit (IC 6-3-3-10)

The enterprise zone employment expense credit was established in 1983 to encourage businesses to hire qualified employees in EZs. The credit equals the lesser of 10% of the qualified increase in wages paid to employees of an EZ business or \$1,500 per qualified employee. For a person to qualify as an eligible employee, they must live in an EZ and work at least 50% of the time in an EZ.

The credit may be used to offset individual AGI, corporate AGI, insurance premiums, and financial institutions tax liabilities. Statute requires the taxpayer to offset the taxes in the order listed above. The credit is nonrefundable. However, the credit may be either carried forward for 10 years or back for 3 years preceding the year the credit was awarded.

A zone business must also pay a registration fee and a participation fee to the local urban enterprise association based on a percentage of its tax savings. The IEDC board may establish additional requirements for the businesses to follow in order to receive the credit.

The qualified increase in wages is computed by taking the difference between the wages paid in the taxable year and the base period wages. The base period wages equal the wages the business paid in the year before the EZ was established. If the business was not operating before the EZ was designated, the base wages equal zero. In addition, the base wages for pass-through entities are always zero regardless of the year the business began operations.

**Table 14. EZ Employment Expense Credit Claims History, 2007-2013**

Tax Year	Claims			Credits		
	Individual	Corporation	Total	Individual	Corporation	Total
2007	235	40	275	\$605,188	\$871,830	\$1,477,018
2008	226	42	268	512,566	720,461	1,233,027
2009	240	29	269	459,912	703,221	1,163,133
2010	246	39	285	598,857	775,363	1,375,220
2011	189	31	220	571,861	590,936	1,162,797
2012	229	32	261	632,170	931,466	1,563,636
2013	242	20	262	778,167	493,387	1,271,554

*Source: Raw data provided by Department of State Revenue, data analysis by the Office of Fiscal and Management Analysis.*

The number of individual claims has remained fairly steady over time, while the number of corporate claims has declined. With respect to all tax incentives claimed by zone businesses, this credit represents a small and declining portion. As zone businesses are required to reinvest their tax savings into their business, it is clear that much of the reinvestment must be from incentives other than the employment expense credit. In fact, the tax savings to capital investment ratio for businesses claiming this credit declined from about 27.7% in

## Enterprise Zone Employee Income Deduction (IC 6-3-2-8)

2006 to just 7.3% in 2015 based on tax filings by zone businesses to the IEDC (referred to as EZ business registration, or EZB-R).

Based on historical EZB-R filings from 2006 to 2015, the average zone business that claimed the employment expense credit employed approximately 103 employees annually at an average wage of \$13,400 and claimed \$2,800 in credits. The average zone business that did not claim any incentives employed approximately 20 employees annually at an average wage of \$10,800.

## Enterprise Zone Employee Income Deduction (IC 6-3-2-8)

The EZ employee income deduction was established to encourage individuals to live and work within an EZ. To qualify for the deduction, the individual must live in an EZ and must perform 50% of their work at an establishment in the same EZ. The employer can be a private firm, nonprofit entity, state or local government, or the federal government. The deduction equals the lesser of 50% of the employee’s earned income for the taxable year or \$7,500. Married couples may each take the deduction if both individuals qualify. The combined maximum deduction for married filers is \$15,000.

Taxpayers receive an IT-40QEC from their employer if they are eligible to claim the deduction. An IT-40QEC shows the amount of money a person earned from a business operating in an EZ. A person qualifies for the deduction if they:

1. Have a principal residence in the EZ where they are employed.
2. Perform services for the employer, 90% of which are directly related to the conduct of the employer’s business activities in the zone.
3. Perform services for the employer for at least 50% of the taxable year in the EZ.
4. Are employed by a business that remains eligible to receive benefits and incentives as provided by EZ legislation.

**Table 15. EZ Employee Income Deduction Claims History, 2007-2013**

Tax Year	Claims	Deduction	Tax Impact
2007	3,989	\$26,156,749	\$889,329
2008	3,829	25,000,865	850,029
2009	3,725	24,211,737	823,199
2010	3,725	24,460,314	831,651
2011	3,676	23,959,034	814,607
2012	3,555	23,598,697	802,356
2013	3,572	23,801,196	809,241

*Source: Raw data provided by Department of State Revenue, data analysis by the Office of Fiscal and Management Analysis.*

claiming the deduction year after year. Three, some residents claiming the deduction may improve their financial capability and move out of the zone, thereby no longer qualifying for the tax incentive.

Generally speaking, the number of claims has waned over time (Table 15). Since 2007, the number of claims declined an average of 2% per year. There could be several reasons for the relatively low number of claims. One, residents of zones may not be aware of the deduction. Two, the same residents may be

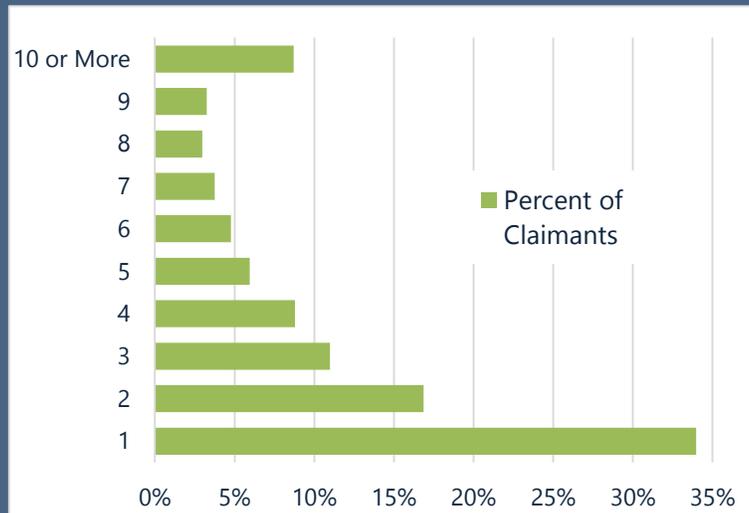
## Enterprise Zone Employee Income Deduction (IC 6-3-2-8)

Based on individual tax returns from 2000 to 2013, approximately 34% of the taxpayers claimed the deduction only once (see Figure 20). More than half (77%) of these taxpayers claimed the deduction less than six times. This provides insight for the retention of employees who both live and work in EZs. Unfortunately, the data does not tell us why they stopped claiming the deduction. Nevertheless, this is not reflective of the employment trends in all EZs. This a reflection on the number of people who both live and work within EZs.

### Individuals

The distribution of taxpayers claiming the deduction is slightly different than the total population of individual taxpayers. Table 16 shows that deduction claimants are clustered around the lower income brackets. Seventy-five percent of the deduction claimants have a federal AGI of less than \$50,000, compared to 67% of all Indiana resident taxpayers.

**Figure 20. Frequency of Same Taxpayer Claiming EZ Employee Deduction**



*Source: Raw data provided by the Department of State Revenue, data analysis by the Office of Fiscal and Management Analysis.*

**Table 16. Income Distribution of EZ Employee Income Deduction Claims for Tax Year 2013**

Federal Adjusted Gross Income Tier	Frequency		Percent of Total	
	All Taxpayers	Deduction Claims	All Taxpayers	Deduction Claims
Under \$1	320,323	64	1.1%	0.2%
\$1 Under \$25,000	11,890,438	14,478	41.8%	38.4%
\$25,000 Under \$50,000	6,871,295	13,700	24.2%	36.3%
\$50,000 Under \$75,000	4,076,233	5,873	14.3%	15.6%
\$75,000 Under \$100,000	2,449,339	2,288	8.6%	6.1%
\$100,000 Under \$150,000	1,812,314	1,006	6.4%	2.7%
\$150,000 Under \$200,000	487,320	149	1.7%	0.4%
\$200,000 Under \$500,000	431,153	109	1.5%	0.3%
\$500,000 or More	95,659	35	0.3%	0.1%

*Source: Raw data provided by Department of State Revenue, data analysis by the Office of Fiscal and Management Analysis.*

While the total claims have steadily decreased, the average claim has remained nearly the same. The average deduction amount is about \$6,563. The deduction claims do vary depending on whether the taxpayer is a single or a joint filer. Approximately 40.5% of the claims are made by joint filers. The average deduction for joint filers is \$7,472 and \$5,943 for single filers. The corresponding average tax impact, adjusting for available income, is \$253 and \$198. Statute allows both taxpayers on a joint return to claim the maximum \$7,500 deduction if the individuals meet all the necessary requirements. An analysis of the tax returns found an average of 217 returns a year were filed with both taxpayers claiming the deduction.

## Enterprise Zone Employee Income Deduction (IC 6-3-2-8)

### Employment by Firms.

Zone employment levels mirrored statewide declines during the recession from 2007 to 2011. Employment has rebounded since then, albeit at a slower pace than the statewide average. Preliminary data from the Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW) indicates a sharper increase among zone employment in 2015 than 2014 due to the rebound of manufacturing-based employment. This is a trend within the zones and statewide, yet many of the zones have a higher-than-average concentration of manufacturing firms. Employment trends specific to zone businesses claiming incentives have shown more variance over the period from 2006 to 2014, due in part to the relatively small number of firms claiming these incentives.

**Table 17. Statewide and EZ Employment, 2006-2015\***

Total All Industries	2006	2014	2015	Change from 2006	Change over the Year
Statewide Employment	2,892,420	2,890,690	2,926,364	1.2%	1.2%
EZ Employment	150,896	141,436	145,544	-3.5%	2.9%
EZ Incentives Employment	22,872	24,918	23,799	4.1%	-4.5%
<i>Incentive Employment within ZONE</i>	<i>15%</i>	<i>18%</i>	<i>16%</i>		

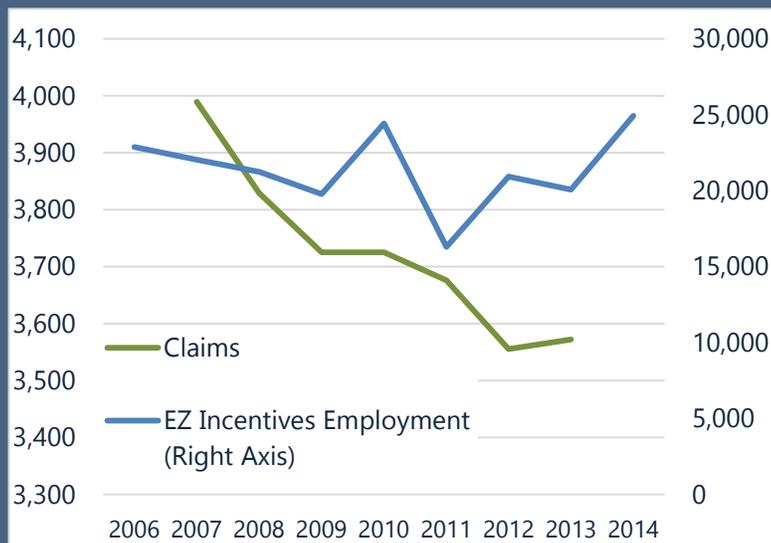
\* Source: Raw data provided by Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW), data analysis by the Office of Fiscal and Management Analysis.

Statewide employment is up 1.2% over the year, and 1.2% since 2006, after falling by over 6% during 2009 and 2010 (See Table 17). On the other hand, EZ employment is up 2.9% over the year, yet remains 3.5% below 2006 levels. The heavy concentration in manufacturing employment among EZs created sharp declines during the Great Recession. However, the manufacturing sector has also seen some of the greatest gains in employment over the last few years during the economic recovery.

For EZ businesses claiming incentives, employment is down by approximately 1,200 jobs over the year (4.5%) yet gained 2,000 jobs (8.9%) from 2006 to 2014. Given the small concentration of businesses utilizing incentives, the employment trends are subject to volatile short-term trends. Figure 21 shows yearly employment for businesses with employees claiming the deduction. Generally speaking, businesses are hiring workers even though claims are going down, suggesting the deduction is not necessary in incentivizing zone residents to work in zone businesses. There are likely several factors impacting this trend: (1) a declining working age population in EZ areas; (2) a mismatch in skills among zone residents that leads employers to seek individuals outside of the zone to fill vacancies; (3) a general lack of awareness among business and individuals of the availability of these incentive programs.

## Enterprise Zone Loan Interest Credit (6-3.1-7)

**Figure 21. Firm-Level Employment by Claims, 2006-2014**



Source: Raw data provided by the Indiana Economic Development Corporation, data analysis by the Office of Fiscal and Management Analysis.

While individuals do not need to file an EZB-R to claim the employee income deduction (since only businesses file the EZB-R), historical filings include data on average employment level and average employment of zone residents, specifically, in a given year. Based on EZB-R filings from 2006 through 2011, approximately 5% of all zone employees tend to be zone residents, on an annual average. This further illustrates that a vast majority of zone businesses are employing workers outside of the zone. As a result, claims for the employee income deduction have not only been relatively low but have also declined year over year.

EZB-R filings also include data on total wages and salaries of all employees, including zone residents. Based on self-reported data by businesses, the average zone resident employee makes approximately \$25,000, while the average non-zone resident employee makes up to \$51,000. This suggests that zone businesses tend to spend up to twice as much to attract employees from outside the zone than from inside the zone. This is also a sign that the skills in demand by zone employers are not met by the zone residents, again leading to other states recommending training programs in conjunction with employment incentive programs targeted at certain populations or geographic areas.

## Enterprise Zone Loan Interest Credit (6-3.1-7)

The enterprise zone loan interest credit was established in 1984 to encourage loans to businesses located within EZs. The credit equals 5% of the interest received from all qualifying loans made in the taxable year. A loan may qualify for the credit as long as the business receiving the loan is located in an EZ. In addition, the proceeds of the loan must be used for the following:

- Purposes directly related to the operations of the business within the EZ.
- Improvements that increase the assessed value of the real property within the EZ.

A qualifying loan may also be made to an individual for the rehabilitation, repair, or improvement of a residence in the EZ.

The credit may be used to offset individual AGI, corporate AGI, insurance premiums, and financial institutions tax liabilities. Statute requires the taxpayer to offset the taxes in the order listed above. The credit is nonrefundable. However, the credit may be carried forward for 10 years after the date the loan was made.

## Enterprise Zone Investment Cost Credit (IC 6-3.1-10)

The business that provides the loan must also pay the registration fee charged to the EZ businesses receiving incentives and pay the participation fee to the local urban enterprise association.

The number of individual claims remained fairly steady until about 2011, after which it rose sharply in 2012 and declined sharply the year after (See Table 18). This is not necessarily representative of year-over-year loan activity, as the loan interest credit may be carried forward. Instead, it is more informative to look at the total sum across all years, which indicates that approximately \$14 M in state revenue was foregone between 2007 and 2013 as a result of the loan interest credit.

**Table 18. EZ Loan Interest Credit Claims History, 2007-2013**

Tax Year	Claims			Credits		
	Individual	Corporation	Total	Individual	Corporation	Total
2007	72	20	92	\$76,630	\$2,490,933	\$2,567,563
2008	65	20	85	22,394	2,252,269	2,274,663
2009	86	21	107	54,753	1,793,485	1,848,238
2010	74	25	99	61,205	1,279,321	1,340,526
2011	78	21	99	73,142	1,669,274	1,742,416
2012	93	21	114	129,192	2,449,023	2,578,215
2013	26	21	47	79,617	1,694,913	1,774,530

*Source: Raw data provided by Department of State Revenue, data analysis by the Office of Fiscal and Management Analysis.*

As with the employment expense credit, this represents a relatively small portion of all tax incentives (approximately 6% based on 2015 EZB-R filings) reported by zone businesses. In fact, a majority of zones have never claimed the loan interest credit. This could be due to a lack of tax liability for many banks making loans to zone businesses. This suggests that only a small portion of EZs are benefiting from the loan interest credit.

## Enterprise Zone Investment Cost Credit (IC 6-3.1-10)

The EZ investment cost credit was enacted in 1986 to encourage individuals to purchase ownership interests in businesses located in EZs. The credit is nonrefundable and may be used to offset an individual AGI tax liability. Taxpayers are allowed to carry forward unused credits. The credit has a narrow definition of a qualifying taxpayer. An investment in a business located in any EZ made by an individual could potentially qualify for the credit. However, investments made by pass-through entities are only eligible for the credit if they invest in an EZ business located in Vigo County. Corporations are not eligible to receive this credit.

The credit is computed by multiplying the amount of the qualifying investment by the credit percentage determined by the IEDC based on the criteria and percentages specified in the Table 19. The credit percentage is the sum of the factors or 30%, whichever percentage is lower.

## Enterprise Zone Investment Cost Credit (IC 6-3.1-10)

**Table 19. EZ Investment Cost Credit Criteria and Percentages**

Credit Criteria	Percentage
Business needs equity financing as demonstrated by the inability to obtain debt financing	10%
Business's primary SIC designation is: <ul style="list-style-type: none"> <li>• Retail, professional, or warehouse distribution</li> <li>• Manufacturing</li> </ul>	2% 5%
Business is engaged in certain high-technology operations	5%
Number of jobs created within the first year of purchasing ownership is: <ul style="list-style-type: none"> <li>• 10 and under</li> <li>• 11 to 25</li> <li>• 26 to 40</li> <li>• 41 to 75</li> <li>• More than 75</li> </ul>	1% 2% 3% 4% 5%
If half of the new jobs created in the first year are reserved for residents of the zone	5%
Amount of investments made in real or depreciable personal property is: <ul style="list-style-type: none"> <li>• \$25,000 and under</li> <li>• \$25,001 to \$50,000</li> <li>• \$50,001 to \$100,000</li> <li>• \$100,001 to \$200,000</li> <li>• More than \$200,000</li> </ul>	1% 2% 3% 4% 5%

Like other investment credits, the investment cost credit cannot be awarded if the project has already received one of the following income tax credits: alternative fuel vehicle manufacturer credit, capital investment credit (repealed in 2013), CRED credit, Hoosier business investment credit, industrial recovery credit, military base investment cost credit (repealed in 2013), military base recovery credit (repealed in 2013), and venture capital investment credit.

An individual must submit a request to the IEDC before a purchase is made in order to qualify for the credit. The IEDC will review the application to determine whether the investment qualifies and compute the credit percentage. The statute lists several factors for the IEDC to consider. For example, the business must be viable, and the investment is critical to the business operations in the EZ and will not merely transfer ownership. The investment must be used only for business operations within the EZ. A zone business must also pay a registration fee and a participation fee to the local urban enterprise association based on a percentage of its tax savings.

## Enterprise Zone Investment Deduction (IC 6-1.1-45)

**Table 20. EZ Investment Cost Credit Claims History, 2007-2013**

Tax Year	Claims			Credits		
	Individual	Corporation	Total	Individual	Corporation	Total
2007	40	N/R	40	\$171,502	\$1,358	\$172,860
2008	23	0	23	140,294	0	140,294
2009	29	0	29	84,829	0	84,829
2010	12	N/R	12	107,699	5,136	112,835
2011	18	N/R	18	105,586	15,969	121,555
2012	51	0	51	137,575	0	137,575
2013	18	0	18	84,696	0	84,696

*Source: Raw data provided by Department of State Revenue, data analysis by the Office of Fiscal and Management Analysis.*

The number of individual claims has remained fairly low year over year (See Table 20). As corporations are not eligible to claim this credit, these claims could have been filed in error. The Department of State Revenue has procedures in place to handle such errors. Based on the relatively low number of claims, the incentive does not appear to be effective in encouraging individuals to purchase ownership interests in zone businesses.

## Enterprise Zone Investment Deduction (IC 6-1.1-45)

The EZ investment deduction was enacted in 2005 to encourage the occupancy of and investment in real and personal property located in an EZ. In order to receive the deduction from the assessed value of the EZ property, the taxpayer must file a certified application for the deduction with the county auditor and make one or more of the following qualified investments:

1. The purchase of a building
2. The purchase of new manufacturing or production equipment
3. Costs associated with the repair, rehabilitation, or modernization of an existing building and related improvements
4. Onsite infrastructure improvements
5. The construction of a new building
6. Costs associated with retooling existing machinery

The deduction amount is equal to the increase in real and personal property assessed value at the EZ location, as compared to the value in the calendar year before a qualified investment was made. A taxpayer can claim the deduction for up to 10 years. Table 21 presents the claim history from 2011 to 2015. Total claims have generally increased over time and the investment deduction is the most popular EZ incentive since the inventory tax credit was eliminated in 2004.

## Enterprise Zone Investment Deduction (IC 6-1.1-45)

**Table 21. EZ Investment Deduction Claim History, 2011-2015**

Pay Year	Number of Claims*			Deduction Amount		
	Personal Property	Real Property	Total	Personal Property	Real Property	Total Tax Impact
2011	188	104	292	\$202,650,197	\$111,578,826	\$7,835,843
2012	209	132	341	199,033,060	150,682,906	9,549,652
2013	264	151	415	233,369,343	165,509,760	11,065,326
2014	239	157	396	271,703,542	215,758,564	13,731,496
2015	263	172	435	324,537,298	268,223,019	16,725,727

*Source: County auditor abstracts; Raw data provided by county auditors, analysis by the Office of Fiscal and Management Analysis.*

*\*Note that some businesses have not claimed the investment deduction as a result of personal choice or failure to recognize the eligibility of their investment in building renovation or purchase of new equipment.*

The total tax impact shown in Table 21 is the property tax savings realized by the taxpayers receiving the deduction. Not only has the total tax savings increased year over year, but the tax savings has increased at a higher rate than tax bills for deduction recipients. In 2015, the total net property tax paid by deduction recipients would have been just over \$34 M had they not received the deduction. The deduction reduced their tax bills by approximately 49%. If one assumes the investment would have been made regardless of the incentive, the majority of the total tax impact reflects a shift in taxes from the deduction recipients to other taxpayers. A smaller portion reflects an unrealized increase in property tax revenue for certain funds with static tax rates.

Table 22 contains the distribution of claims by EZ. Among zone businesses that do claim the investment deduction, Fort Wayne has the highest number of claims, followed by Evansville. Taxpayers in the River Ridge EZ, however, realized the greatest tax savings, followed by taxpayers in the Bloomington EZ.

**Table 22. Zone Distribution of EZ Investment Deduction Claims for Pay Years 2014 and 2015**

Location	2013 Pay 2014				2014 Pay 2015			
	Total Claims	Personal Property Deduction	Real Property Deduction	Tax Impact	Total Claims	Personal Property Deduction	Real Property Deduction	Tax Impact
Bedford	13	\$4,569,514	\$4,378,900	\$268,452	14	\$5,223,250	\$4,605,200	\$294,854
Bloomington	42	42,547,560	47,472,475	1,868,478	54	33,567,470	71,986,375	2,200,144
Connersville	23	8,557,100	268,700	264,774	22	7,948,710	109,400	241,743
East Chicago	15	28,562,228	2,035,410	917,929	15	28,862,614	2,761,200	948,714
Elkhart	8	4,276,603	500,400	143,310	9	5,073,490	534,500	168,240
Evansville	54	21,706,382	6,484,560	845,728	58	24,683,046	8,899,260	1,007,469
Fort Wayne	82	38,260,246	5,272,586	1,305,985	80	43,357,231	5,351,065	1,461,249
Frankfort	-	-	-	-	-	-	-	-
Hammond	36	50,827,798	2,653,223	1,604,431	41	54,013,244	7,445,523	1,843,763
Jeffersonville	20	8,790,576	14,372,055	694,879	19	12,723,947	14,677,907	822,056
Kokomo	-	-	-	-	-	-	-	-
LaPorte	-	-	-	-	1	68,700	-	2,061
Lafayette	6	456,790	-	11,309	8	6,172,850	-	156,585
Marion	-	-	-	-	-	-	-	-

## Enterprise Zone Obsolescence Deduction (IC 6-1.1-12-40)

**Table 22. Continued**

Location	2013 Pay 2014				2014 Pay 2015			
	Total Claims	Personal Property Deduction	Real Property Deduction	Tax Impact	Total Claims	Personal Property Deduction	Real Property Deduction	Tax Impact
Michigan City	-	-	-	-	-	-	-	-
Mitchell	2	170,390	450,100	18,615	2	183,870	450,100	19,019
New Albany	17	4,191,040	3,682,670	215,448	20	4,401,562	3,587,974	226,016
Portage	-	-	-	-	-	-	-	-
Richmond	12	3,169,695	2,316,200	164,577	18	5,051,294	2,619,000	230,109
Salem	3	-	1,801,085	46,398	2	-	856,095	25,683
South Bend	28	15,393,696	2,220,700	528,432	24	20,954,569	1,702,500	679,712
Vincennes	12	5,286,550	6,790,400	362,309	14	1,194,364	7,535,120	261,885
Fort Harrison	-	-	-	-	-	-	-	-
Grissom Aeroplex	6	-	1,882,400	27,019	9	1,165,985	1,882,400	44,012
River Ridge	16	34,937,364	113,176,700	4,443,422	25	69,929,802	133,150,700	6,092,415

*Source: County auditor abstracts; Raw data provided by county auditors, analysis by the Office of Fiscal and Management Analysis.*

Large firms, considered those with at least 50 employees, tend to claim the investment deduction. Based on historical EZB-R filings from 2006 to 2015, the average firm that claimed the deduction employed approximately 78 workers annually. Approximately 59% of all firms that annually claimed the deduction, on average, belonged to the manufacturing sector (corroborating research by Greenbaum & Engberg, 2004; Couch et al., 2005; Zhang, 2015). On average, approximately 9% of EZ firms were in the manufacturing sector, so these firms tend to receive the investment deduction much more frequently than other EZ firms.

## Enterprise Zone Obsolescence Deduction (IC 6-1.1-12-40)

The EZ obsolescence deduction was enacted in 2001 to permit Marion County to allow an obsolescence adjustment to continue, but be phased out, on real property that is sold. In order to receive the enterprise zone obsolescence deduction, each of the following criteria must be met:

1. The property is located in an EZ in Marion County.
2. The obsolescence depreciation adjustment for either functional or economic obsolescence was allowed for the property for property taxes assessed in the year before the owner purchased the property.
3. The owner submits an application requesting the deduction to the fiscal body of the county.
4. The fiscal body approves the deduction.

## **Enterprise Zone Obsolescence Deduction (IC 6-1.1-12-40)**

The deduction can be claimed for up to four years. The deduction amount is equal to the amount of the obsolescence depreciation adjustment allowed for the property for property taxes assessed in the year before the owner purchased the property multiplied by:

1. 100% for property taxes assessed in the year in which the owner purchased the property
2. 75% for property taxes assessed in the second year of ownership
3. 50% for property taxes assessed in the third year of ownership
4. 25% for property taxes assessed in the fourth year of ownership

This deduction targeted a specific property when it was established in 2001. This deduction is now defunct because the Indianapolis EZ has expired.

## Appendix 1. Enterprise Zone Program

Below are descriptive statistics of firms that received a positive level of EZ incentives over the period 2006 to 2015. During that period, approximately 1,622 small firms (those with fewer than 50 employees) and 779 large firms received incentives based on EZB-R filings kept and recorded by the IEDC. Note that due to some misidentified firms and some unverified EZ boundaries, these figures are not inclusive of the complete set of small and large firms that received incentives between 2006 and 2015.

**Table A1.1 Descriptive Statistics for Firms that Received EZ Incentives**

Variable	Small firms		Large firms	
	Mean	Std. Dev.	Mean	Std. Dev.
<b>Business Characteristics</b>				
Average employment	19.56	13.13	198.87	340.61
Average wages	\$0.20 M	\$0.18 M	\$2.72 M	\$7.55 M
Total expected savings	\$0.01 M	\$0.03 M	\$0.06 M	\$0.15 M
Total capital investment	\$0.16 M	\$0.46 M	\$1.24 M	\$5.04 M
<b>Business Type</b>				
Corporation	0.49	0.50	0.43	0.50
Partnership	0.04	0.20	0.06	0.24
Sole Proprietorship	0.35	0.48	0.38	0.49
<b>Industry</b>				
Mining, Utilities, Construction	0.06	0.23	0.04	0.20
Manufacturing	0.41	0.49	0.64	0.48
Wholesale/Retail Trade, Transportation, Warehousing	0.25	0.43	0.17	0.37
Information, Finance, Real Estate, Management, Administrative Support	0.16	0.37	0.07	0.26
Educational Services, Healthcare	0.01	0.10	0.02	0.13
Entertainment, Food Services	0.05	0.22	0.04	0.19
Other Services	0.06	0.23	0.02	0.14
Public Administration	5E-03	0.07	3E-03	0.05
<b>Census characteristics</b>				
Per capita income (1,000s)	\$17.654	\$7.584	\$19.451	\$8.547
% Unemployment	24.55	17.74	23.68	17.72
% Nonwhite	28.07	24.50	26.58	25.01
% Over 65	12.42	6.85	12.87	7.11
% Bachelor's +	19.17	14.32	20.63	14.10
<b>ED Efforts</b>				
CRED	0.01	0.10	0.03	0.17
TIF	0.27	0.44	0.22	0.41

## Appendix I. Enterprise Zone Program

We use the generalized propensity score or GPS technique (Hirano and Imbens, 2004) to eliminate any biases associated with EZ tax incentive claim amounts and employment. GPS generalizes the binary propensity score matching technique (Rosenbaum and Rubin, 1983; Imbens, 2000) by permitting the treatment group to have nondiscrete values. The continuous nature of educational expenditures makes GPS suitable for this research.

We follow Hirano and Imbens' primary assumption of weak unconfoundedness, which does not require joint independence of all potential outcomes (measures of economic development) but instead requires conditional independence of each value (i.e., firms indexed by  $i = 1, \dots, N$ ) of the treatment (i.e., tax savings to each EZ business) given the vector of covariates  $X_i$  (i.e., county characteristics). This assumption implies that all variables which affect both tax incentives and economic development are observed.

GPS further requires the balancing property, which ensures the mean differences of the covariates in one treatment level do not statistically significantly differ from the mean differences of the covariates across the other treatment levels. The balancing property, in combination with unconfoundedness, implies that assignment to treatment is unconfounded given the GPS (see Hirano and Imbens, 2004 for their proof of weak unconfoundedness). Note that the assignment to treatment interval is user-specified and used to verify the balancing property of the GPS.

Hirano and Imbens (2004) use two steps to prove that GPS can be used to eliminate any biases associated with differences in the covariates. First, they estimate the conditional expectation of the outcome as a function of the treatment level and the GPS. Second, they average the conditional expectation over the GPS at a particular level of the treatment to estimate the dose-response function (see Hirano and Imbens (2004) for their proof of bias removal with GPS).

Table A1.2 presents the results from the estimation of the treatment equation, which measures the total expected savings to each firm from the following tax incentives: investment deduction, employment expense credit and loan interest credit.

**Table A1.2 Estimation Results of Treatment Equation**

	<b>Est.</b>		<b>z-value</b>
<b>Business Type</b>			
Corporation	-2.061	***	-6.580
Partnership	-1.596	**	-3.190
Sole Proprietorship	-2.354	***	-7.420
<b>Industry</b>			
Mining, Utilities, Construction	-3.570		-0.820
Manufacturing	0.216		0.050
Wholesale/Retail Trade, Transportation, Warehousing	-1.916		-0.440
Information, Finance, Real Estate, Management	-0.653		-0.150
Educational Services, Healthcare	-3.512		-0.790
Entertainment, Food Services	-0.184		-0.040
Other Services	-3.823		-0.880
<b>Census Characteristics</b>			

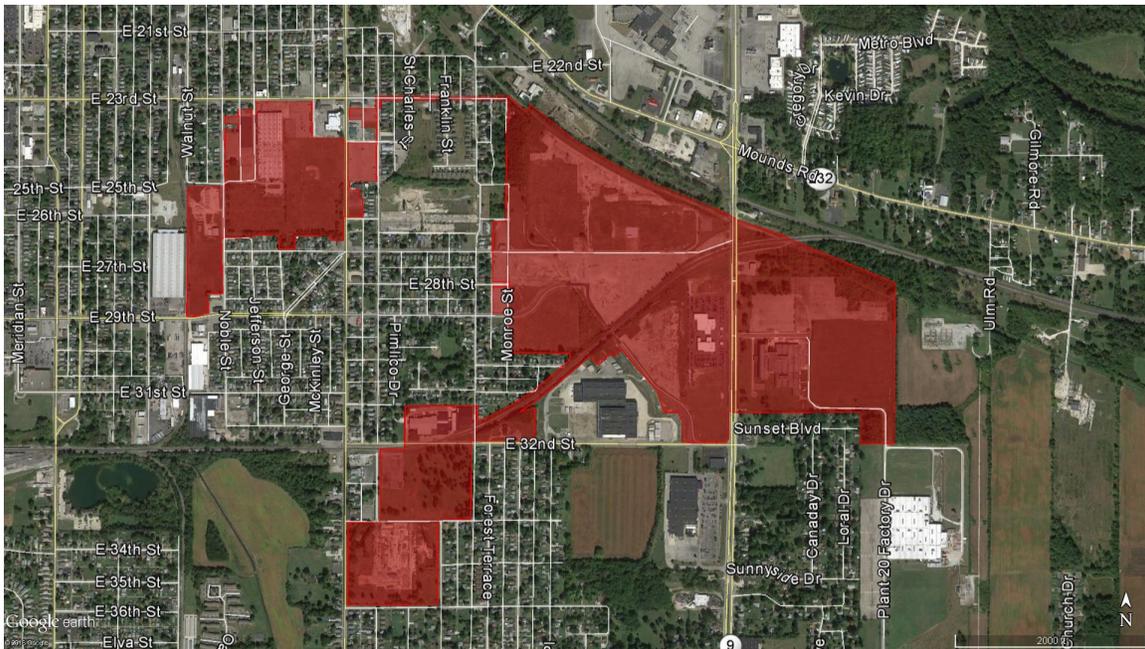
## Appendix I. Enterprise Zone Program

Per capita income	0.000	***	4.820
% Unemployment	-0.017	**	-2.080
% Nonwhite	0.017	**	2.980
% Over 65	-0.003		-0.210
% Bachelor's +	-0.002		-0.150
<b>Economic Development Efforts</b>			
CRED	4.864	***	6.870
TIF	-1.137	***	-5.080
N	2411		
Log Likelihood	-6802.166		

## Appendix 2. Community Revitalization Enhancement Districts (Maps)

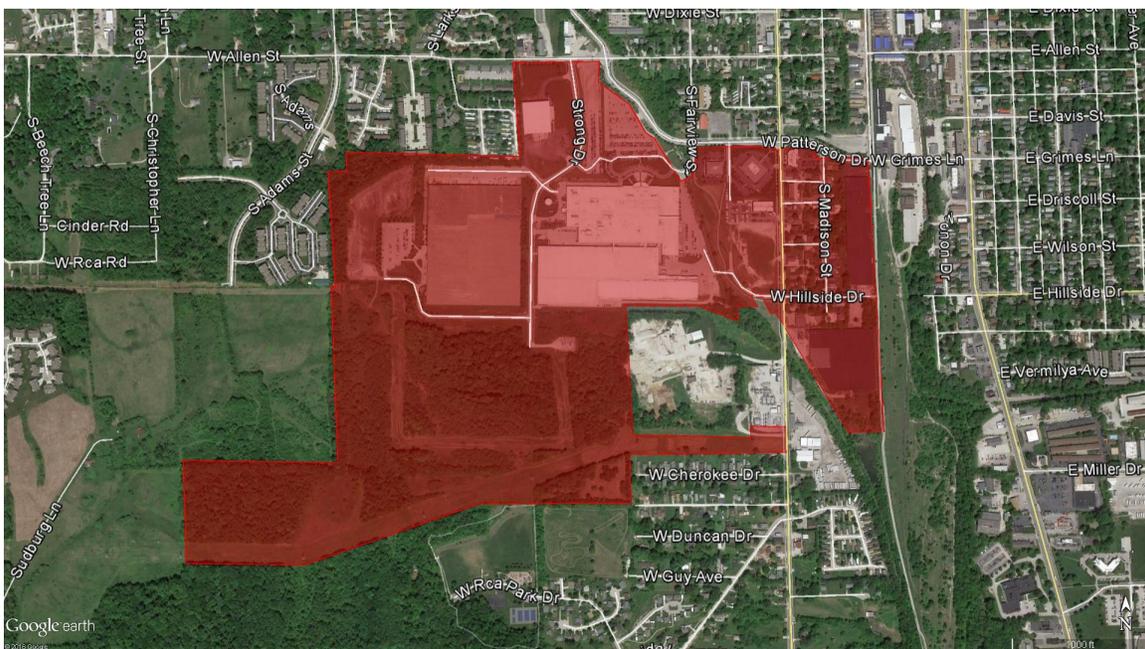
### Community Revitalization Enhancement Districts (Maps)

#### Anderson CRED (established 2004)



Source: Indiana Economic Development Corporation

#### Bloomington-Thomson CRED (established 1999)

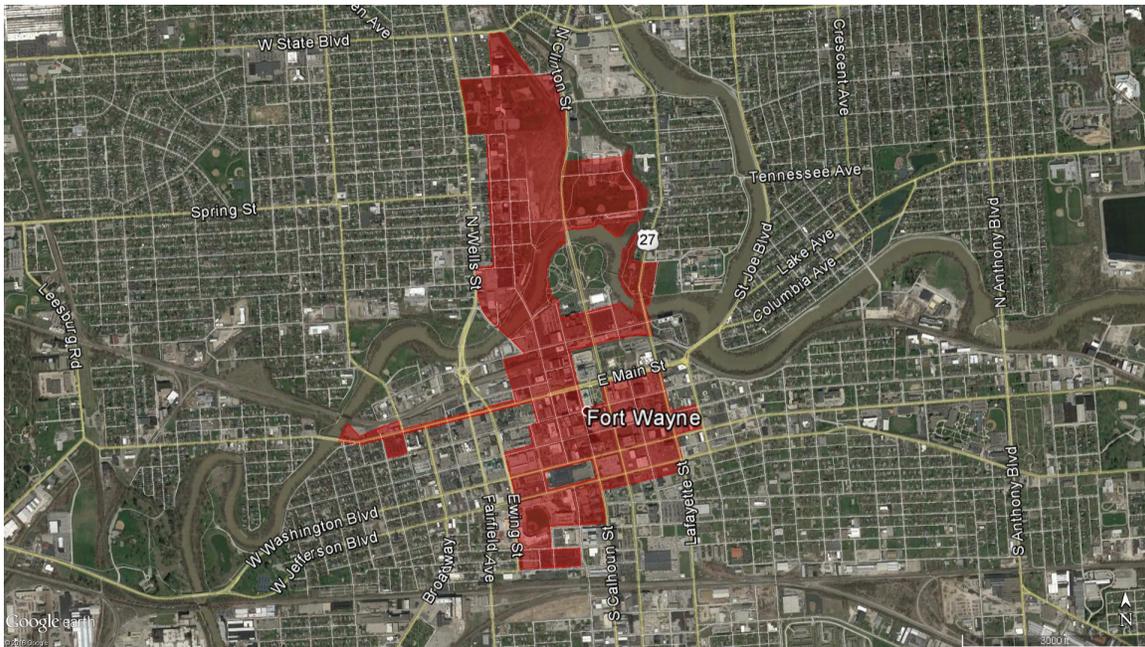


Source: Indiana Economic Development Corporation



## Appendix 2. Community Revitalization Enhancement Districts (Maps)

### Fort Wayne Downtown CRED (established 2004)



Source: Indiana Economic Development Corporation

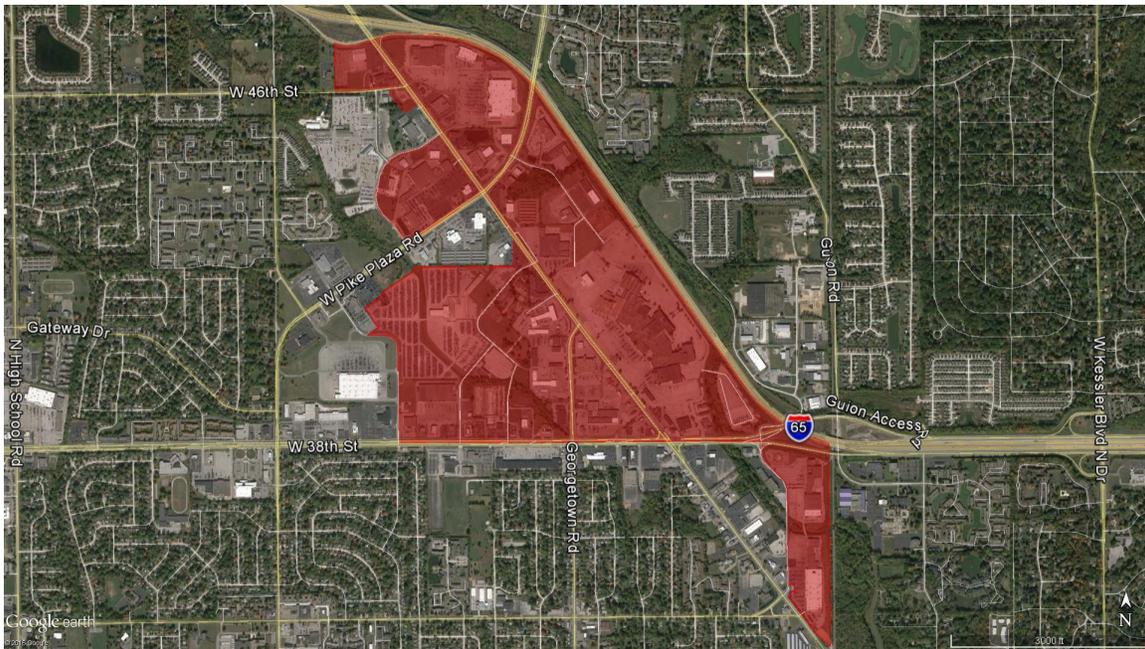
### Fort Wayne Tillman/Anthony CRED (established 2004)



Source: Indiana Economic Development Corporation

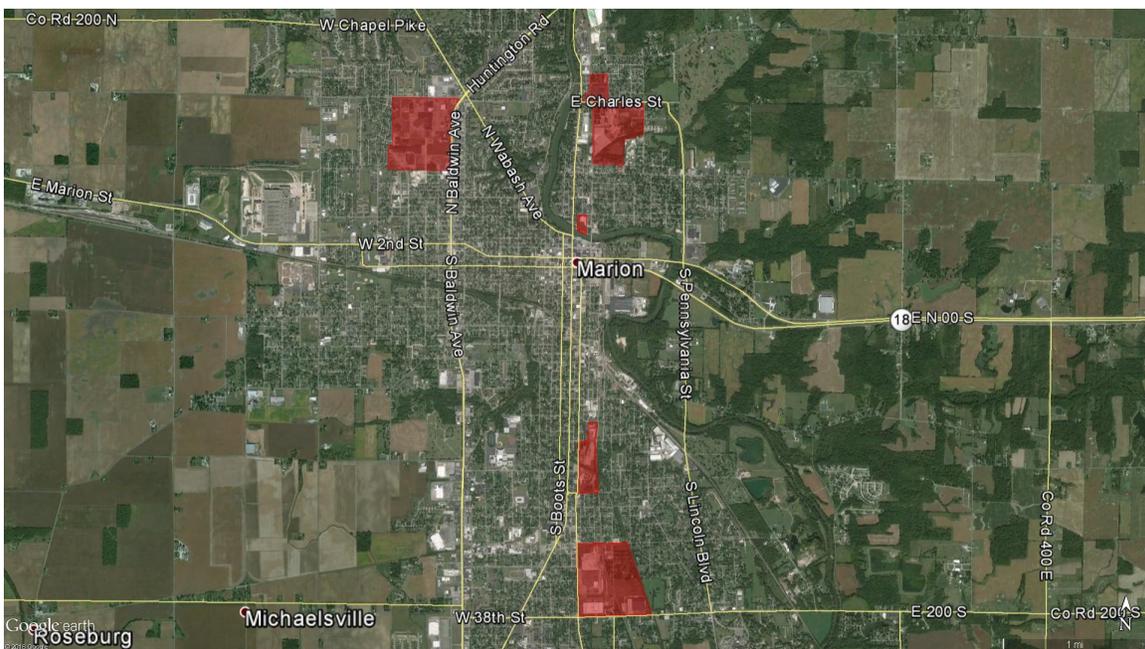
## Appendix 2. Community Revitalization Enhancement Districts (Maps)

### Indianapolis Lafayette Square (established 2004)



Source: Indiana Economic Development Corporation

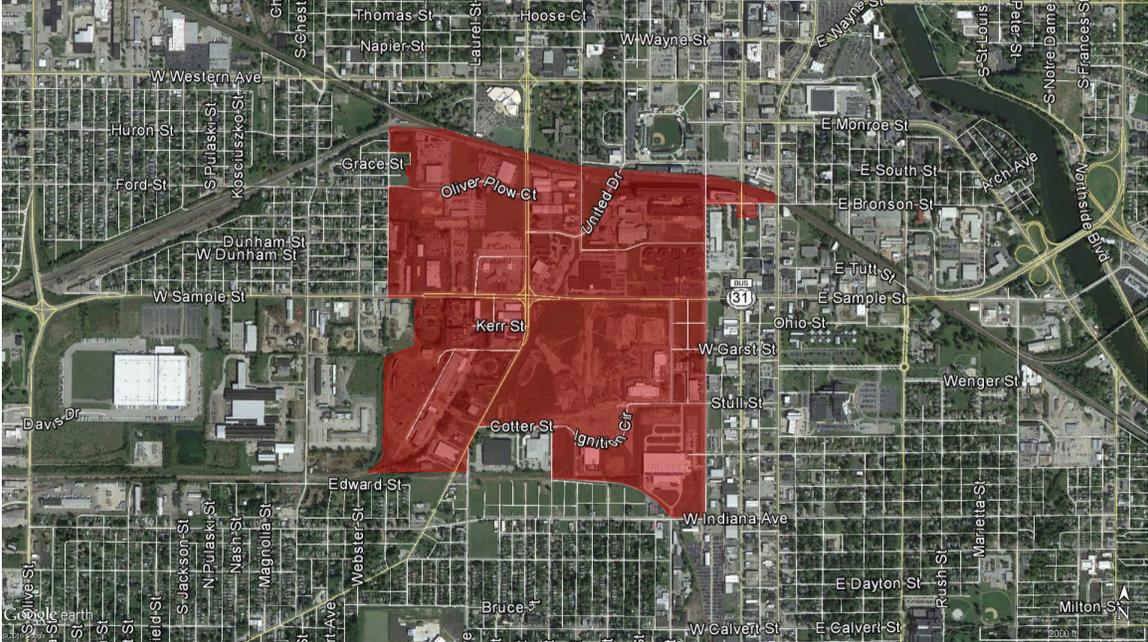
### Marion Phase I and Phase II (established 2001 and 2004)



Source: Indiana Economic Development Corporation

# Appendix 2. Community Revitalization Enhancement Districts (Maps)

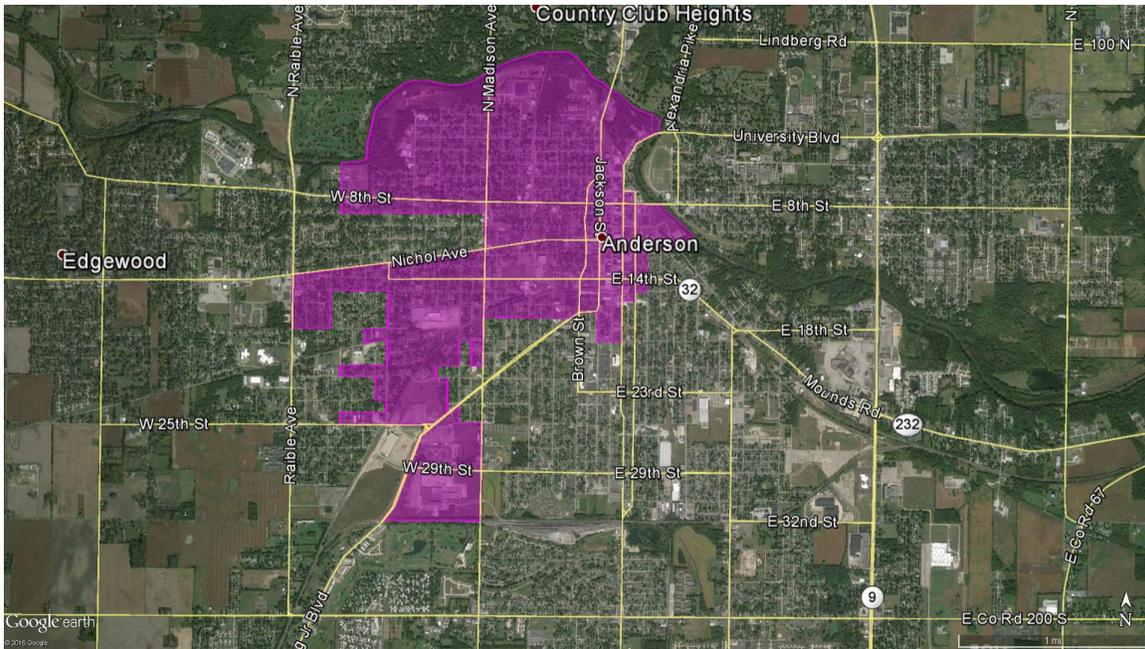
## South Bend (established 2002)



Source: Indiana Economic Development Corporation

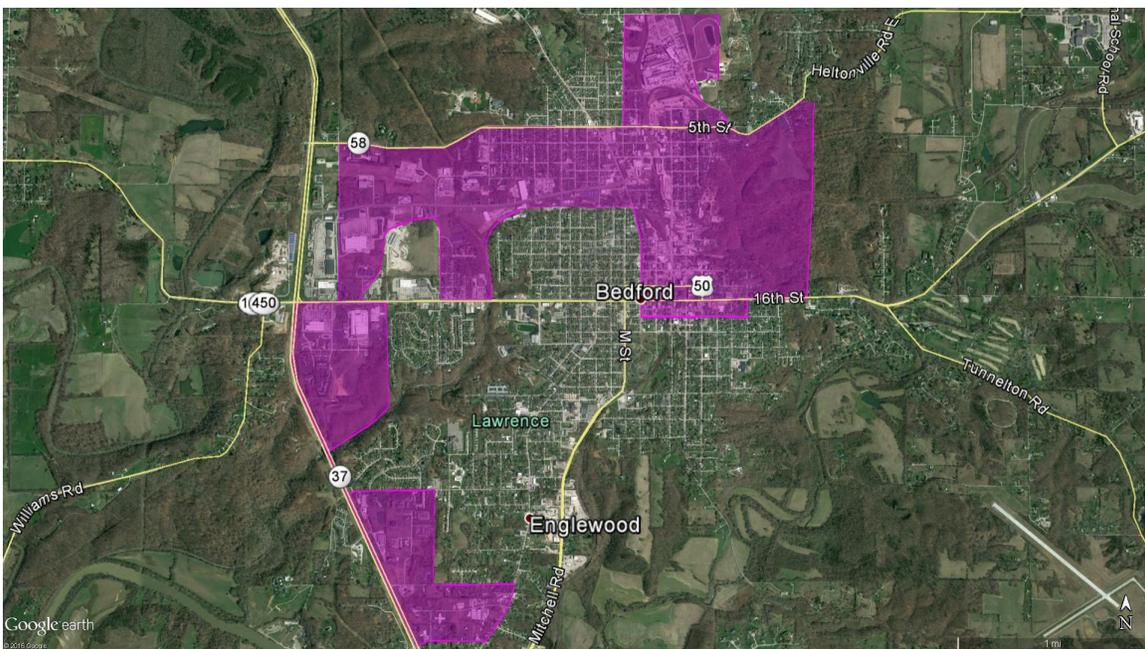
## Enterprise Zones (Maps)

**Anderson** (established 1984; expired)



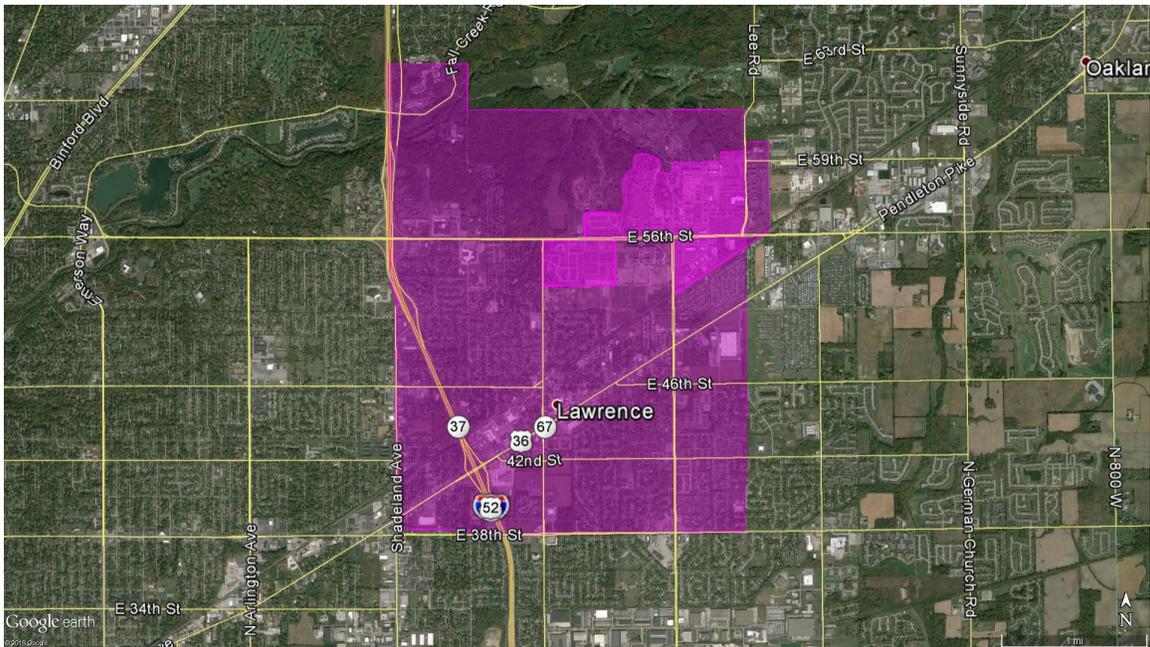
Source: Indiana Economic Development Corporation

**Bedford** (established 1993)



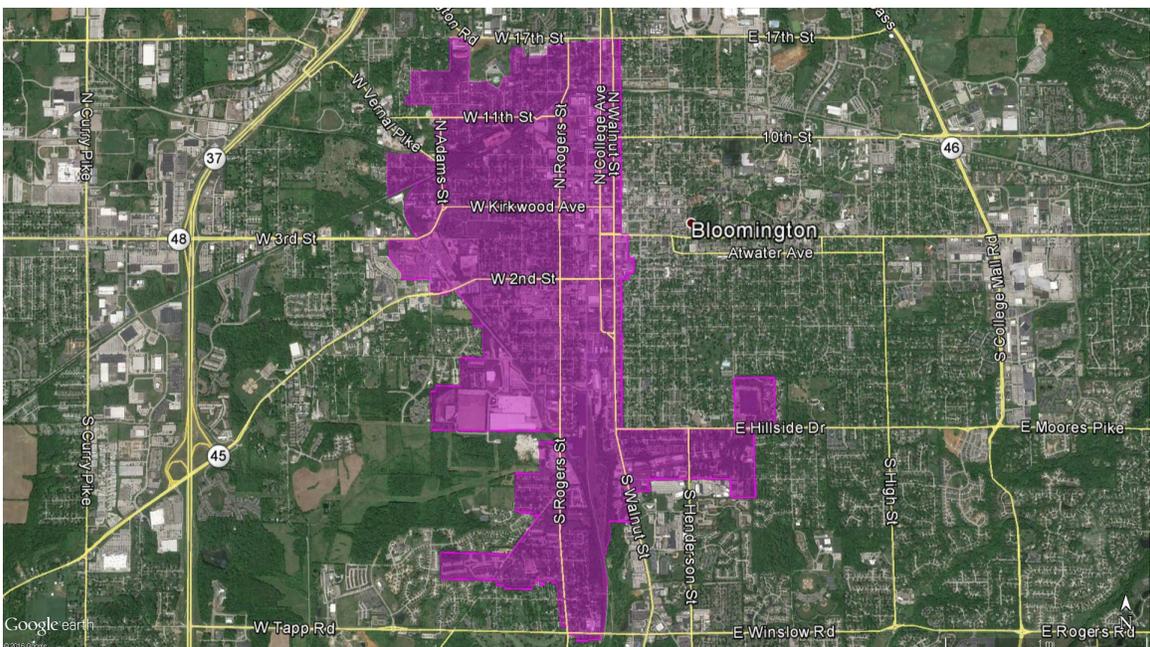
Source: Indiana Economic Development Corporation

**Fort Benjamin Harrison and Ft. Ben** (established 1997)



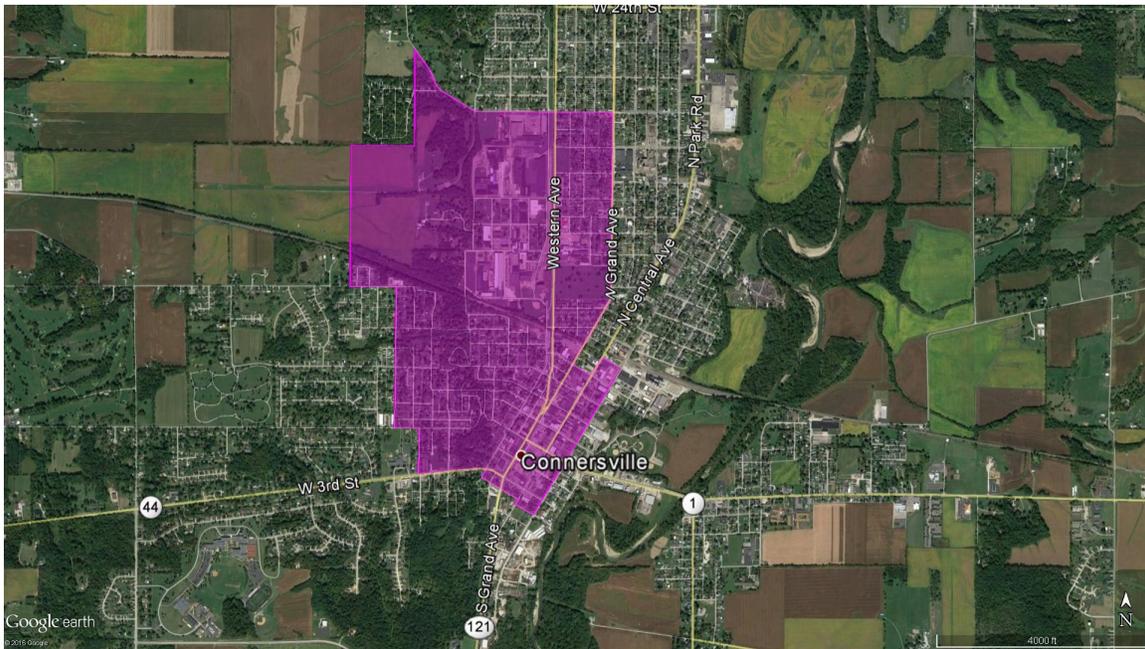
Source: Indiana Economic Development Corporation

**Bloomington** (established 1992)



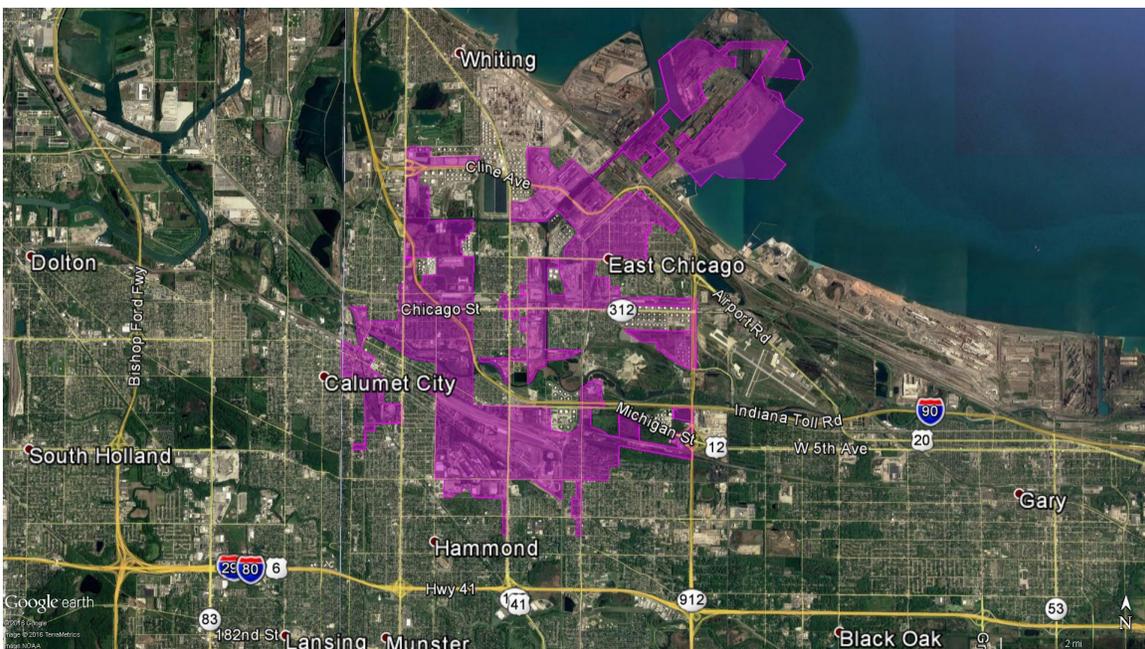
Source: Indiana Economic Development Corporation

**Connersville** (established 1995)



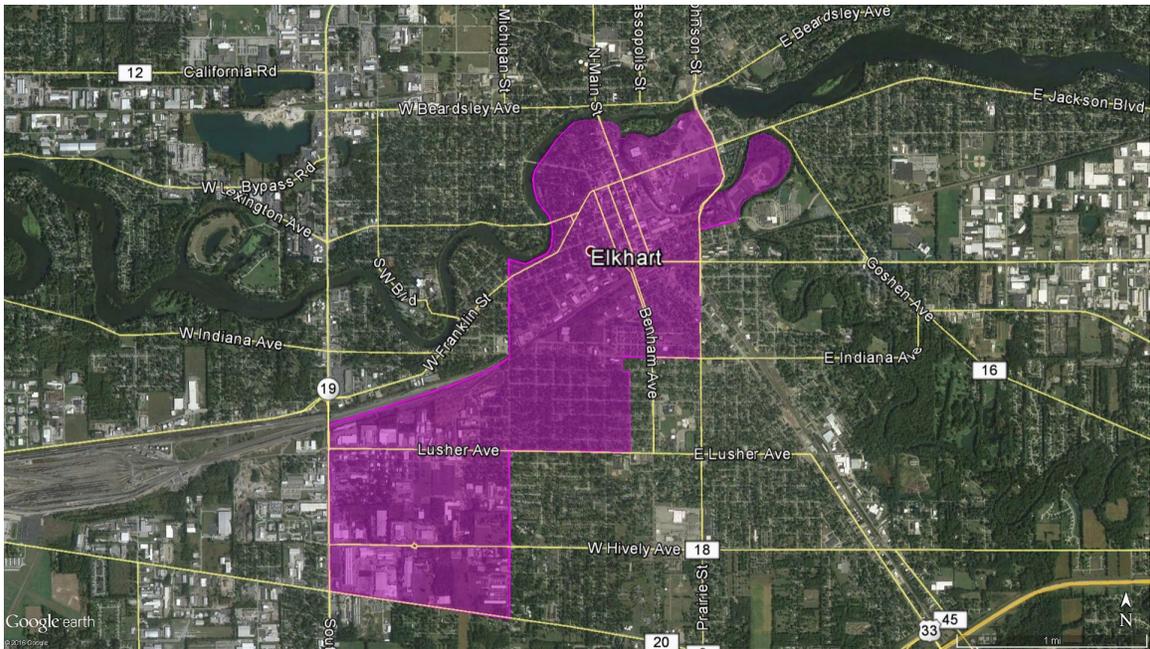
Source: Indiana Economic Development Corporation

**East Chicago** (established 1989) and **Hammond** (established 1985)



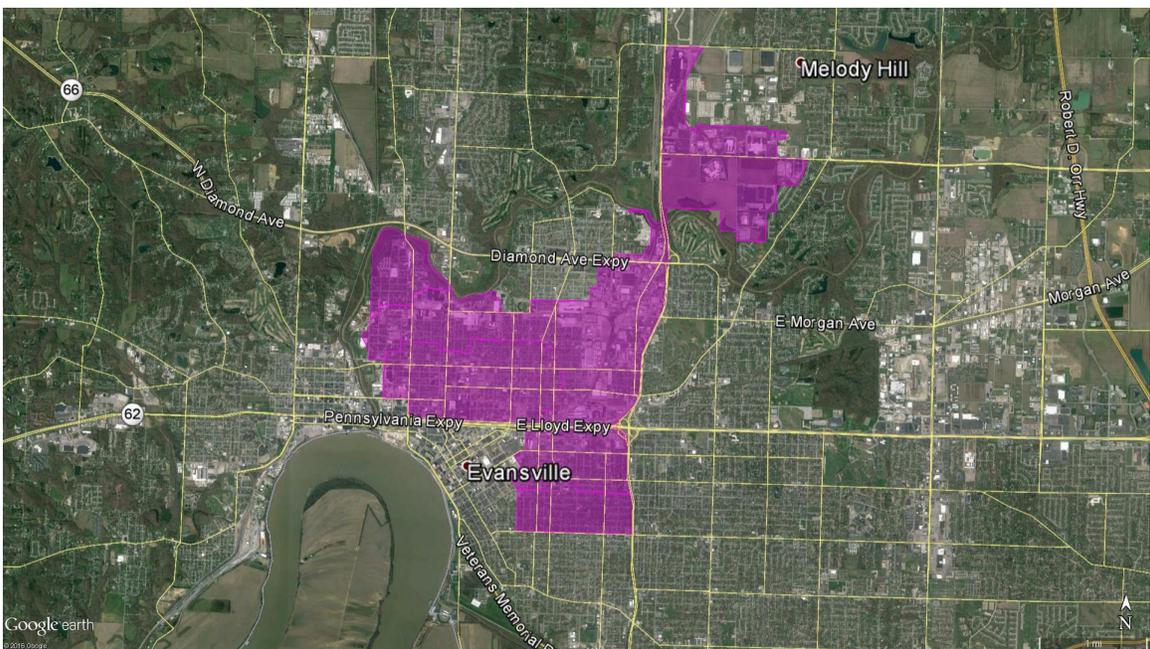
Source: Indiana Economic Development Corporation

**Elkhart** (established 1999)



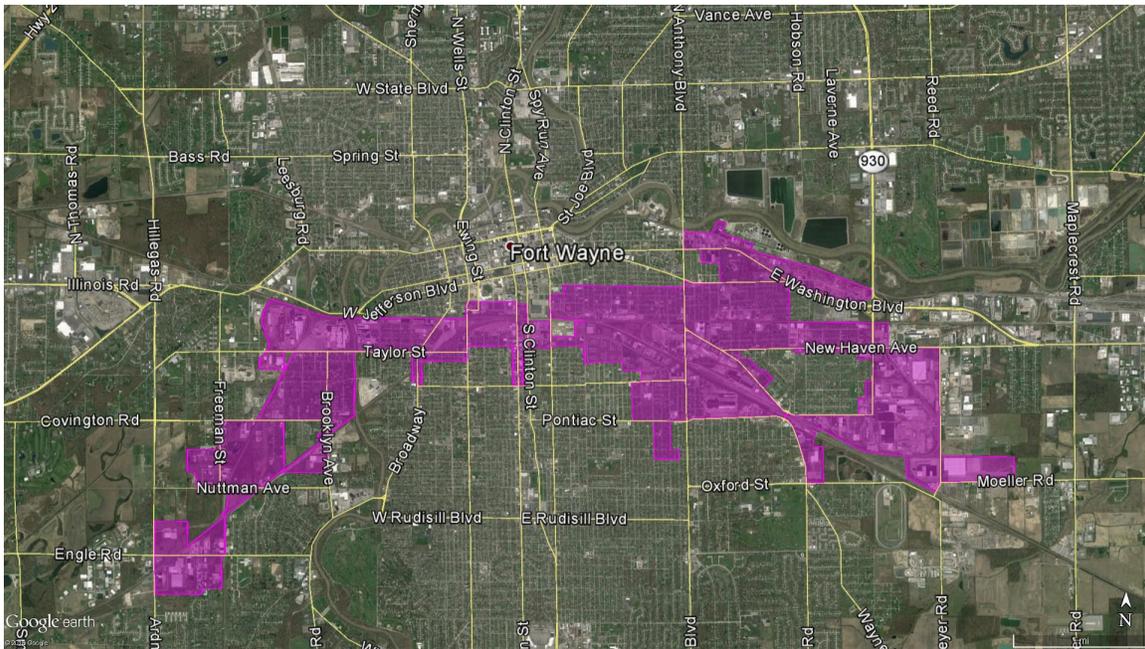
Source: Indiana Economic Development Corporation

**Evansville** (established 1984)



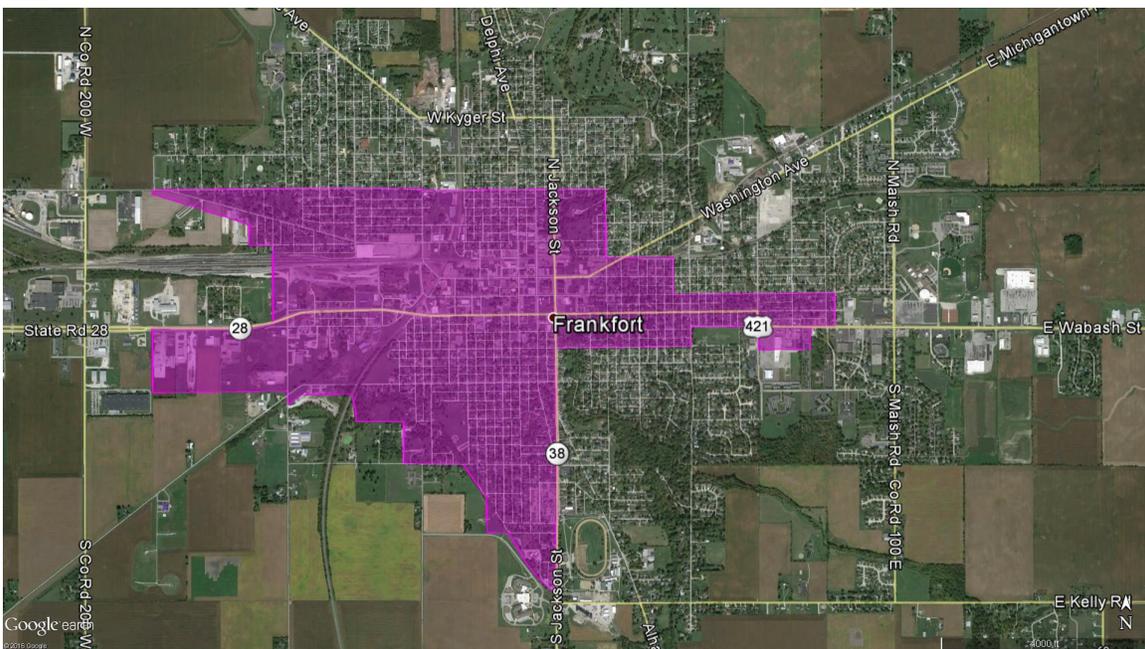
Source: Indiana Economic Development Corporation

**Fort Wayne** (established 1984)



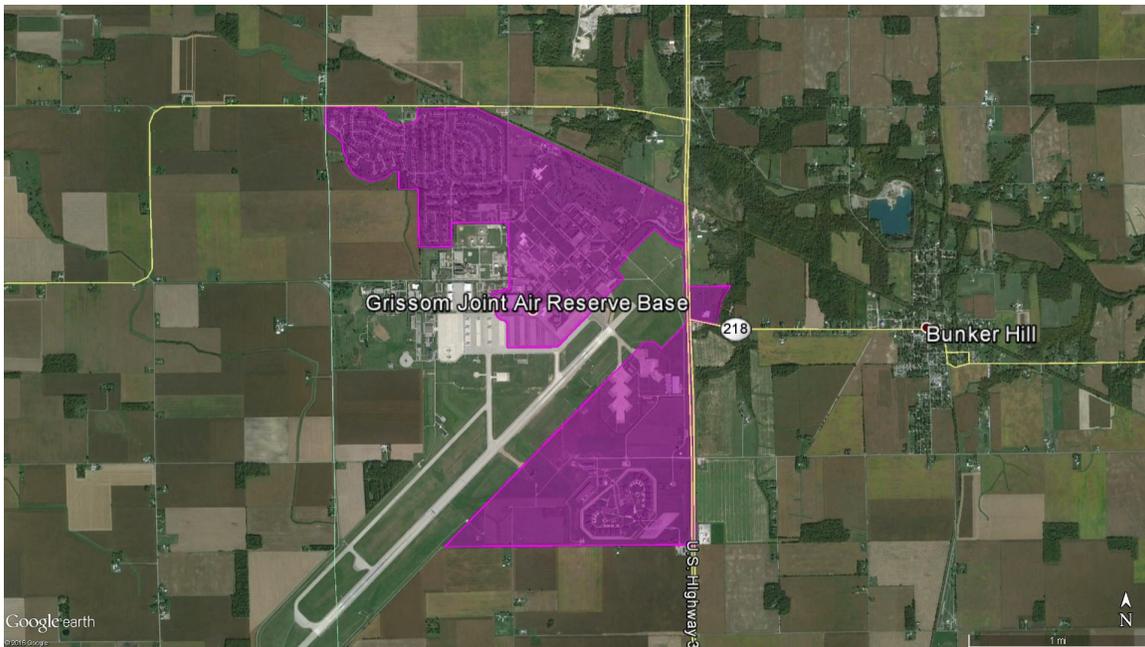
Source: Indiana Economic Development Corporation

**Frankfort** (established 2003)



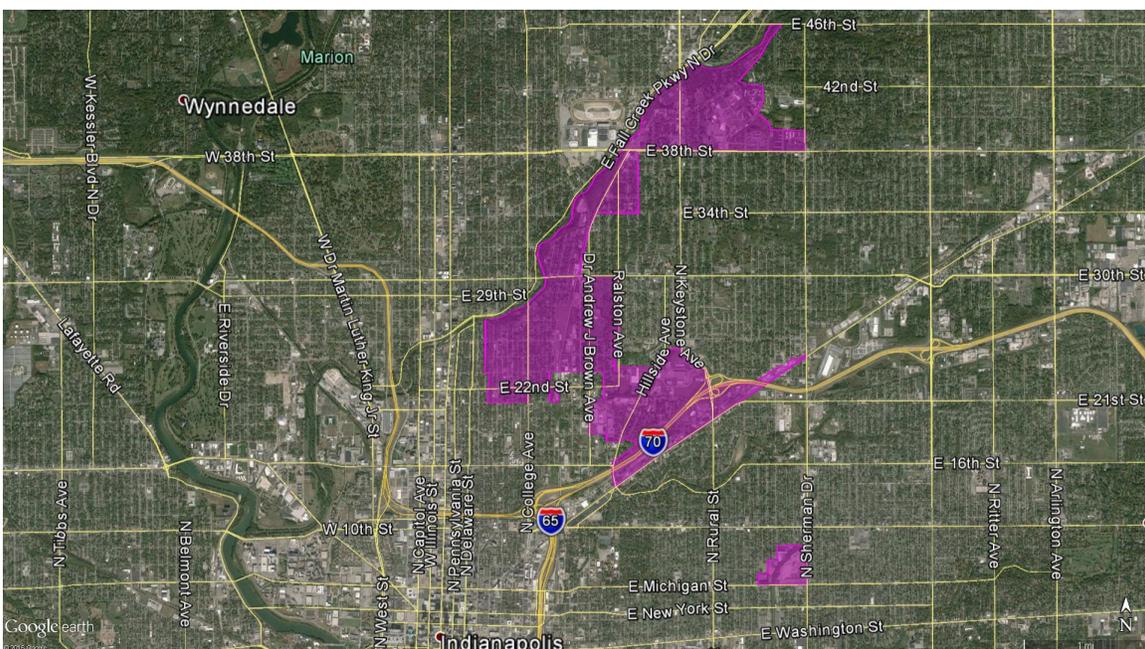
Source: Indiana Economic Development Corporation

**Grissom Aeroplex** (established 1996; expired)



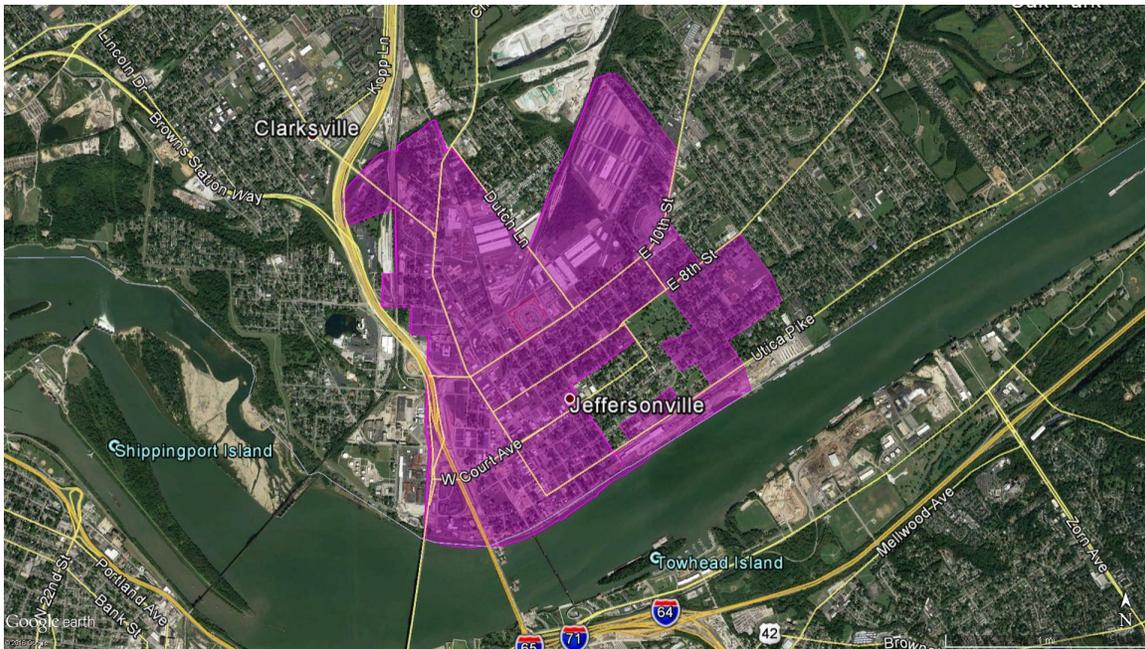
Source: Indiana Economic Development Corporation

**Indianapolis** (established 1990; expired)



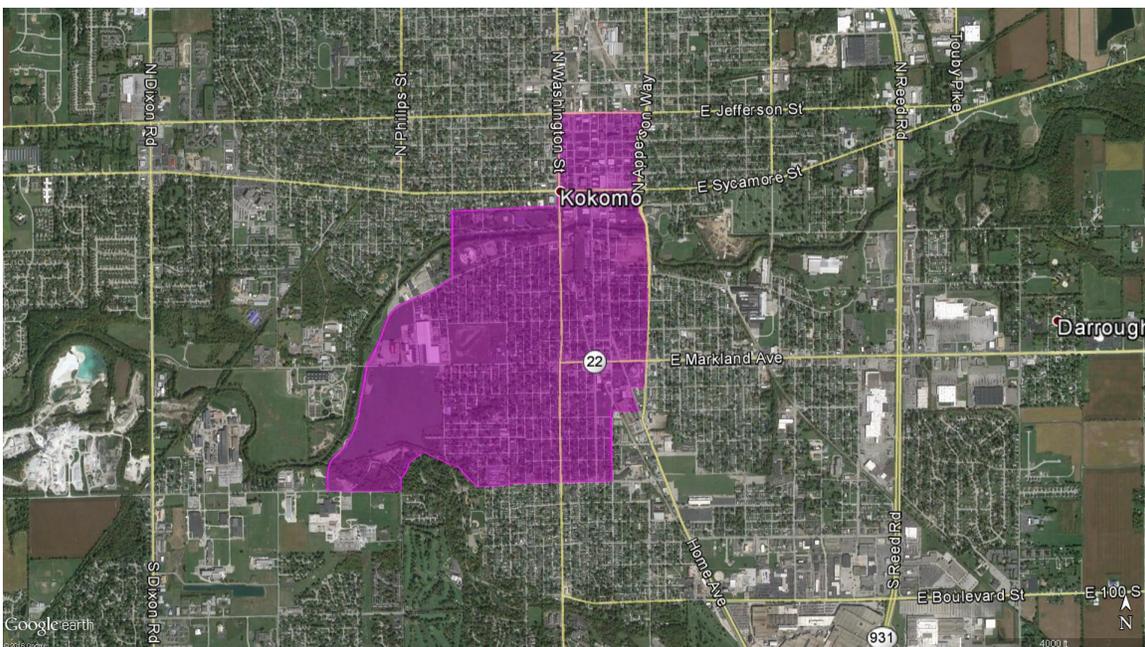
Source: Indiana Economic Development Corporation

**Jeffersonville** (established 2000)



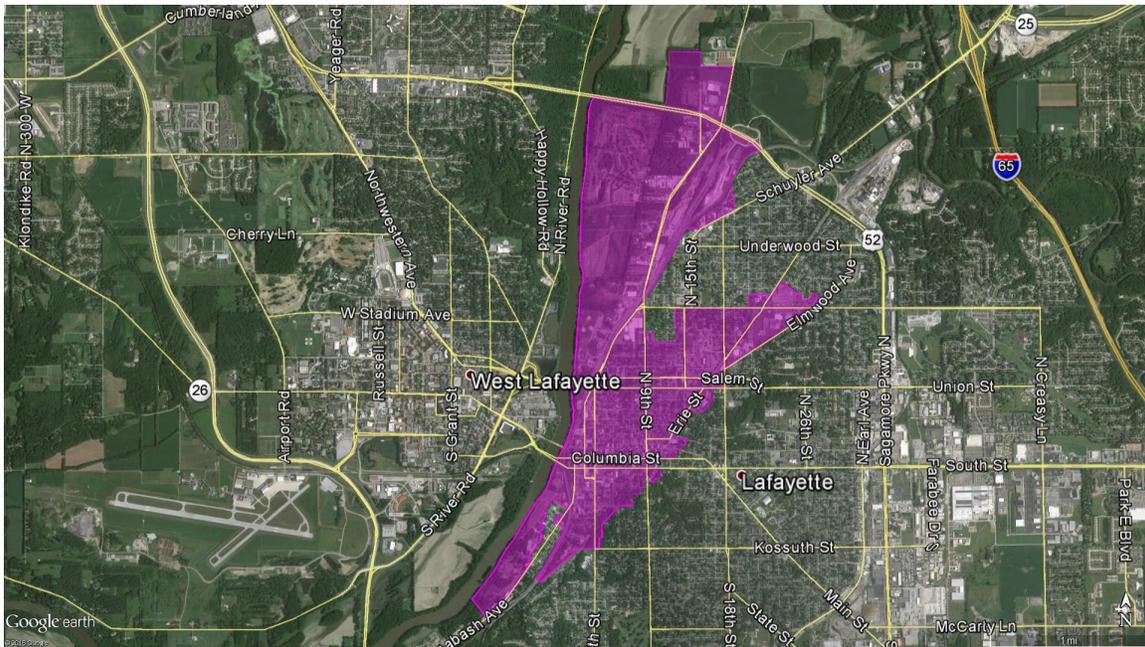
Source: Indiana Economic Development Corporation

**Kokomo** (established 1990; expired)



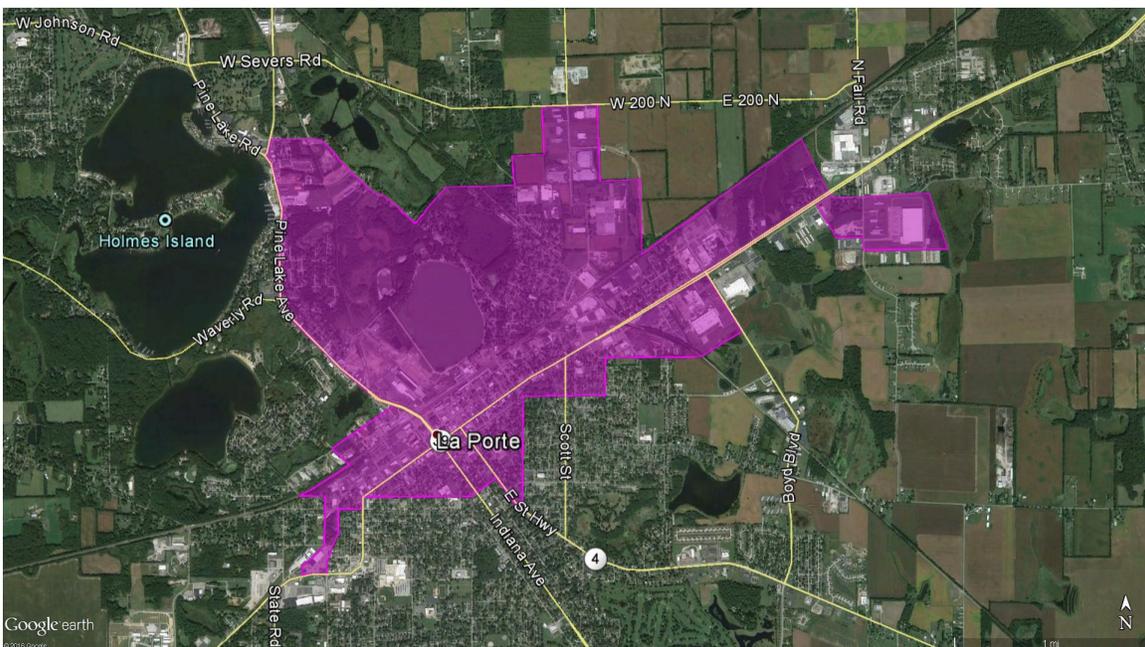
Source: Indiana Economic Development Corporation

**Lafayette** (established 1993)



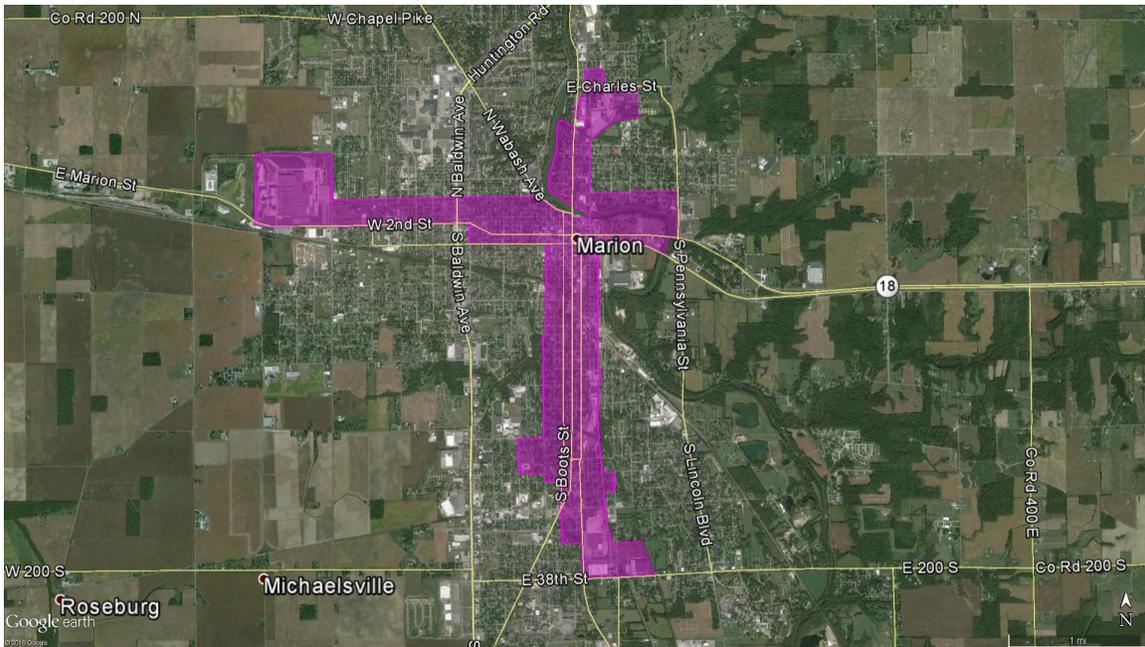
Source: Indiana Economic Development Corporation

**LaPorte** (established 2002)



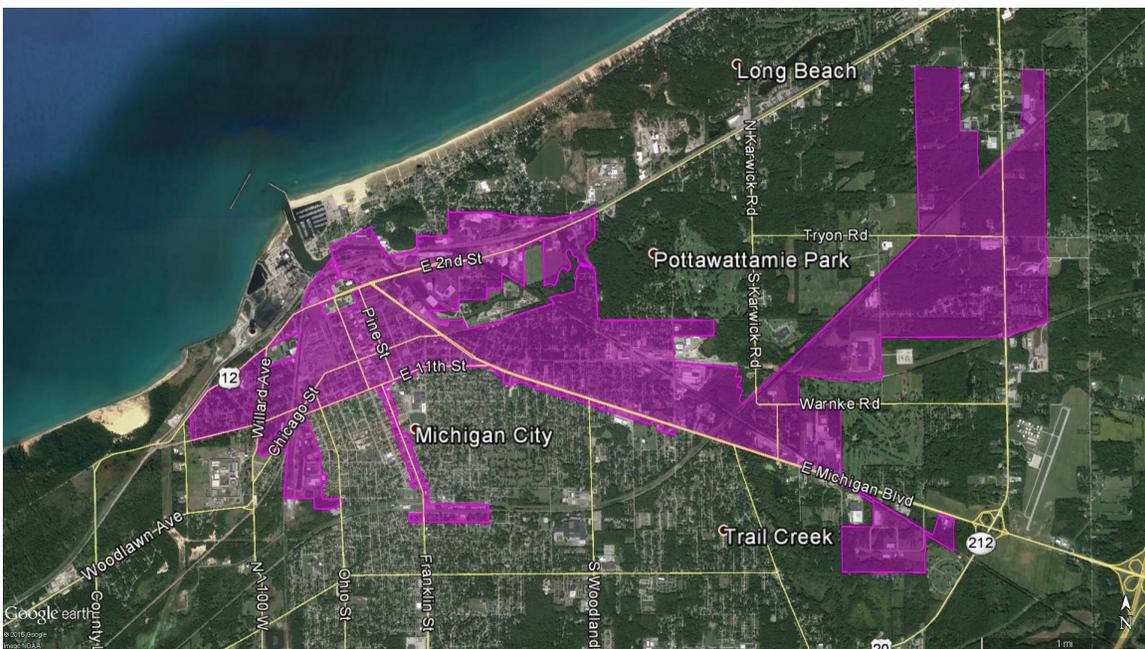
Source: Indiana Economic Development Corporation

**Marion** (established 1992; expired)



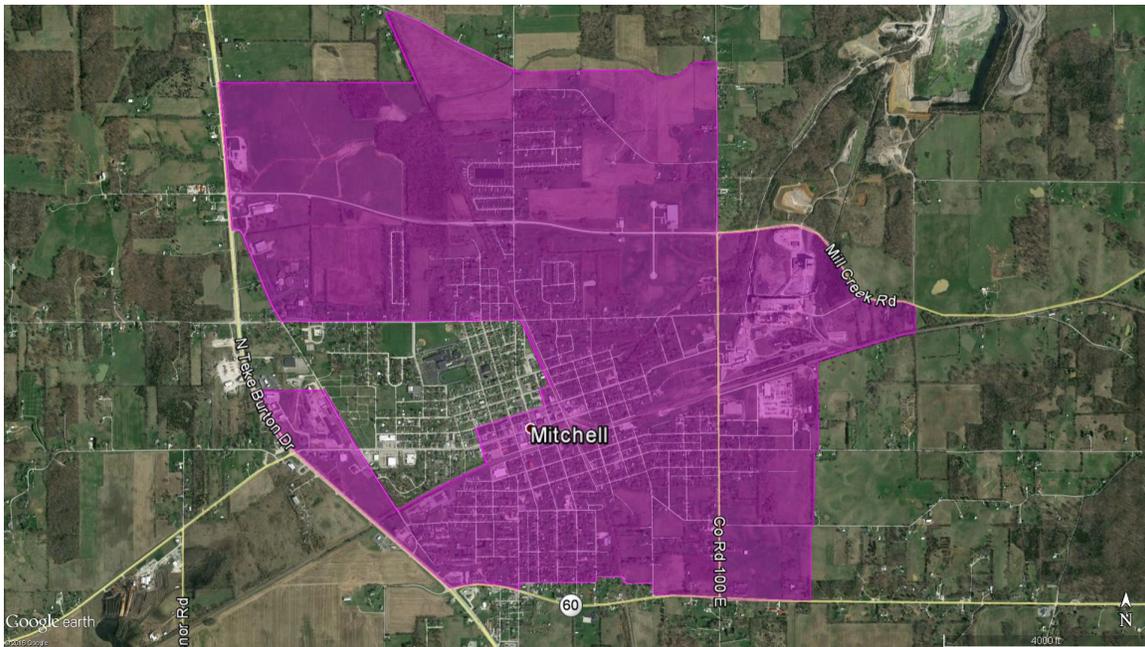
Source: Indiana Economic Development Corporation

**Michigan City** (established 1984)



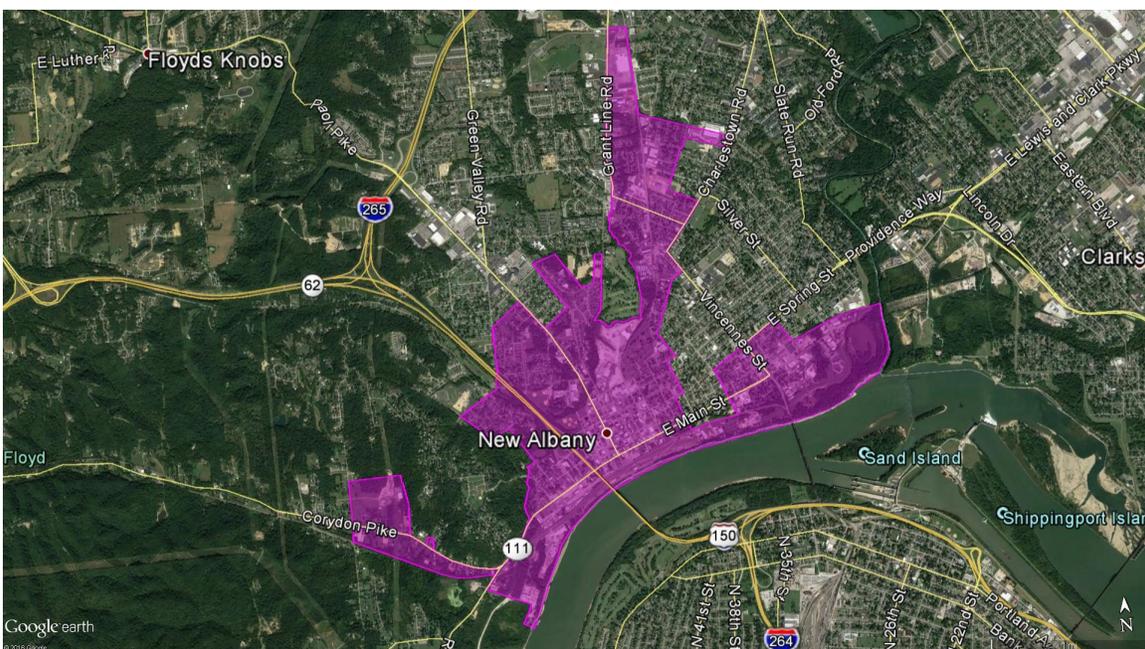
Source: Indiana Economic Development Corporation

**Mitchell** (established 2001)



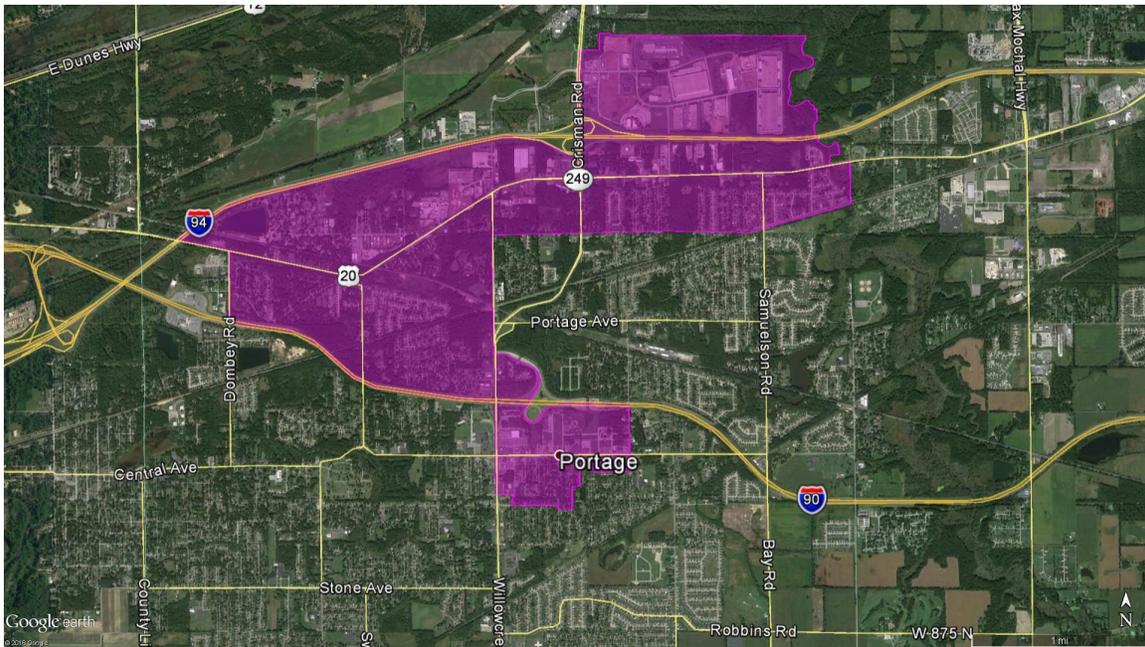
Source: Indiana Economic Development Corporation

**New Albany** (established 2000)



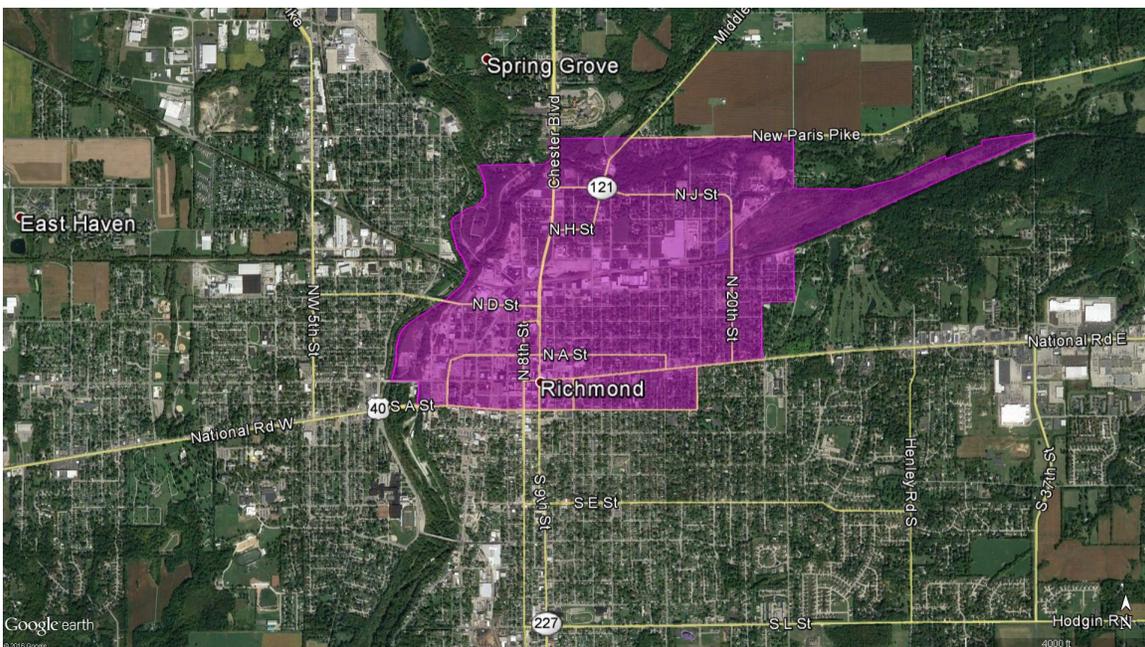
Source: Indiana Economic Development Corporation

**Portage** (established 2001)



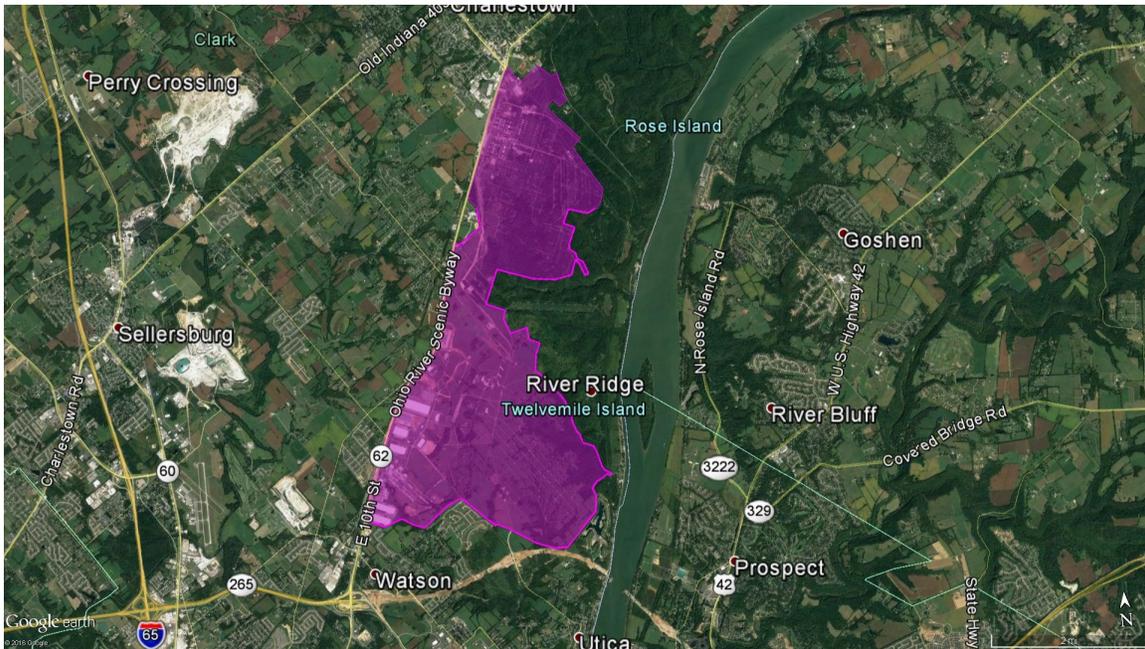
Source: Indiana Economic Development Corporation

**Richmond** (established 1984)



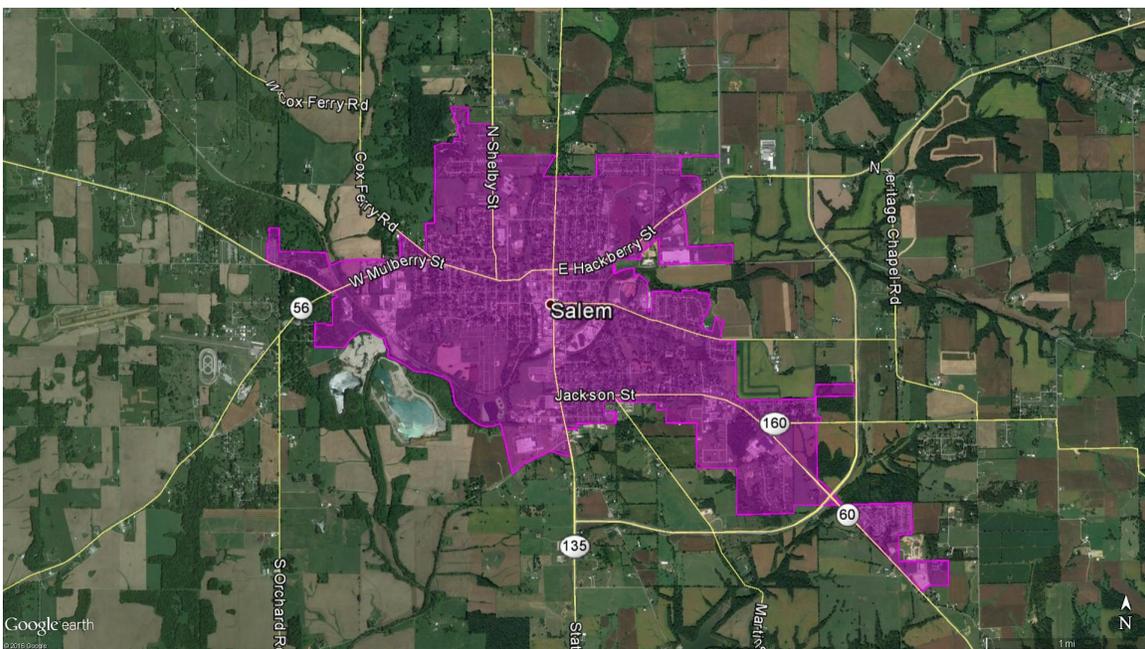
Source: Indiana Economic Development Corporation

**River Ridge** (established 1998)



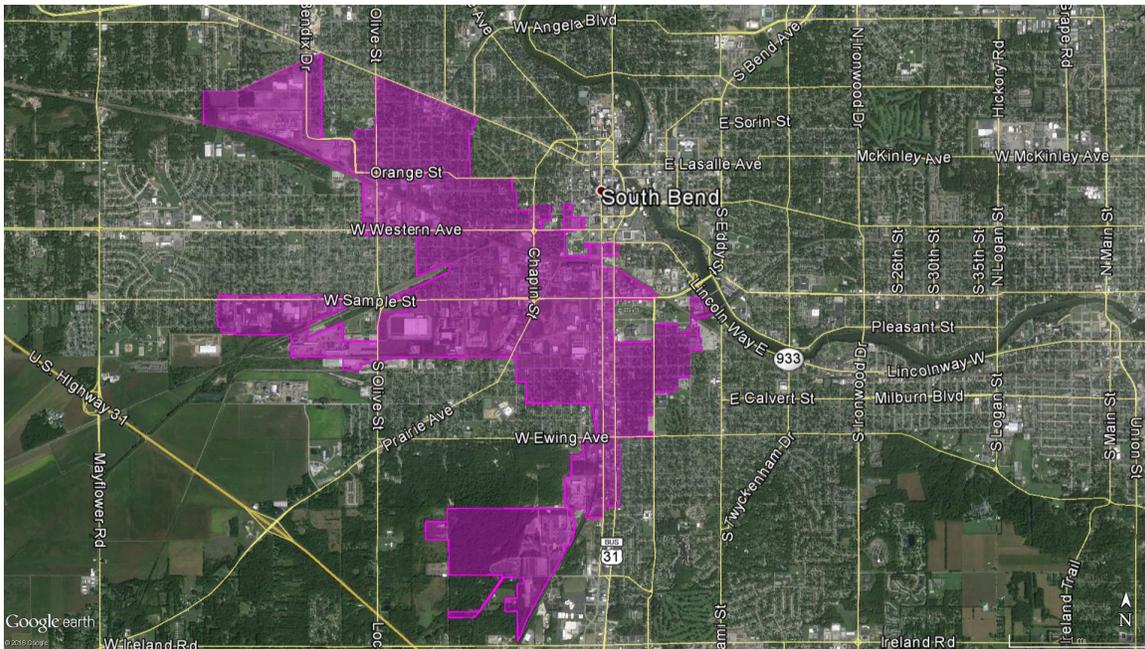
Source: Indiana Economic Development Corporation

**Salem** (established 2003)



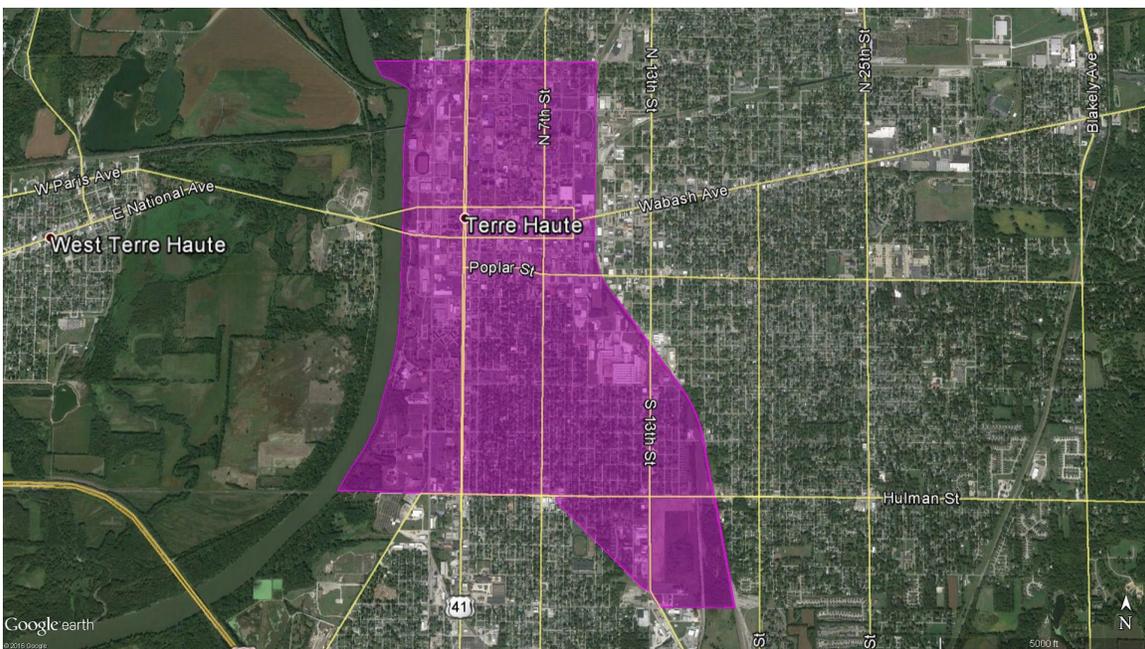
Source: Indiana Economic Development Corporation

**South Bend** (established 1984)



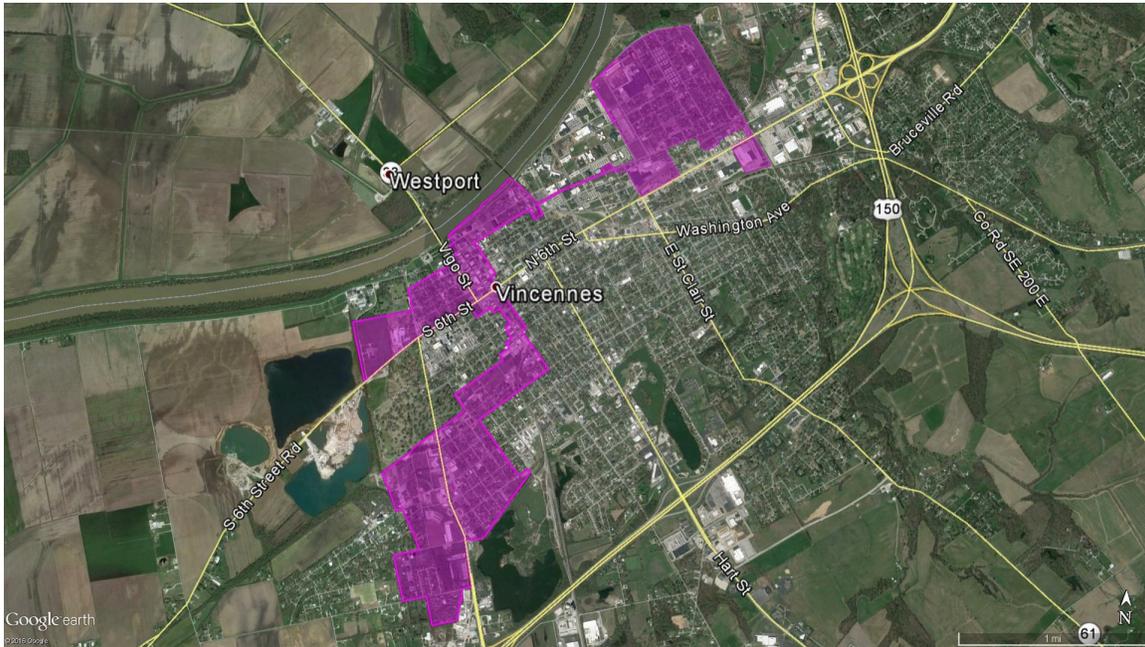
Source: Indiana Economic Development Corporation

**Terre Haute** (established 1994; expired)



Source: Indiana Economic Development Corporation

**Vincennes** (established 2002)



Source: Indiana Economic Development Corporation

### Appendix 4. Tax Incentive Review Statute (IC 2-5-3.2-1)

#### Chapter 3.2. Review, Analysis, and Evaluation of Tax Incentives

2-5-3.2-1

Year Enacted 2014; Year Amended 2015

Sec. 1. (a) As used in this section, "tax incentive" means a benefit provided through a state or local tax that is intended to alter, reward, or subsidize a particular action or behavior by the tax incentive recipient, including a benefit intended to encourage economic development. The term includes the following:

(1) An exemption, deduction, credit, preferential rate, or other tax benefit that:

(A) reduces the amount of a tax that would otherwise be due to the state;

(B) results in a tax refund in excess of any tax due; or

(C) reduces the amount of property taxes that would otherwise be due to a political subdivision of the state.

(2) The dedication of revenue by a political subdivision to provide improvements or to retire bonds issued to pay for improvements in an economic or sports development area, a community revitalization area, an enterprise zone, a tax increment financing district, or any other similar area or district.

(b) The general assembly intends that each tax incentive effectuate the purposes for which it was enacted and that the cost of tax incentives should be included more readily in the biennial budgeting process. To provide the general assembly with the information it needs to make informed policy choices about the efficacy of each tax incentive, the legislative services agency shall conduct a regular review, analysis, and evaluation of all tax incentives according to a schedule developed by the legislative services agency.

(c) The legislative services agency shall conduct a systematic and comprehensive review, analysis, and evaluation of each tax incentive scheduled for review. The review, analysis, and evaluation must include information about each tax incentive that is necessary to achieve the goals described in subsection (b), which may include any of the following:

(1) The basic attributes and policy goals of the tax incentive, including the statutory and programmatic goals of the tax incentive, the economic parameters of the tax incentive, the original scope and purpose of the tax incentive, and how the scope or purpose has changed over time.

(2) The tax incentive's equity, simplicity, competitiveness, public purpose, adequacy, and extent of conformance with the original purposes of the legislation enacting the tax incentive.

(3) The types of activities on which the tax incentive is based and how effective the tax incentive has been in promoting these targeted activities and in assisting recipients of the tax incentive.

(4) The count of the following:

(A) Applicants for the tax incentive.

(B) Applicants that qualify for the tax incentive.

(C) Qualified applicants that, if applicable, are approved to receive the tax incentive.

(D) Taxpayers that actually claim the tax incentive.

(E) Taxpayers that actually receive the tax incentive.

(5) The dollar amount of the tax incentive benefits that has been actually claimed by all taxpayers over time,

## Appendix 4. Tax Incentive Review Statute (IC 2-5-3.2-1)

including the following:

- (A) The dollar amount of the tax incentive, listed by the North American Industrial Classification System (NAICS) Code associated with the tax incentive recipients, if an NAICS Code is available.
  - (B) The dollar amount of income tax credits that can be carried forward for the next five (5) state fiscal years.
- (6) An estimate of the economic impact of the tax incentive, including the following:
- (A) A return on investment calculation for the tax incentive. For purposes of this clause, "return on investment calculation" means analyzing the cost to the state or political subdivision of providing the tax incentive, analyzing the benefits realized by the state or political subdivision from providing the tax incentive.
  - (B) A cost-benefit comparison of the state and local revenue foregone and property taxes shifted to other taxpayers as a result of allowing the tax incentive, compared to tax revenue generated by the taxpayer receiving the incentive, including direct taxes applied to the taxpayer and taxes applied to the taxpayer's employees.
  - (C) An estimate of the number of jobs that were the direct result of the tax incentive.
  - (D) For any tax incentive that is reviewed or approved by the Indiana economic development corporation, a statement by the chief executive officer of the Indiana economic development corporation as to whether the statutory and programmatic goals of the tax incentive are being met, with obstacles to these goals identified, if possible.
- (7) The methodology and assumptions used in carrying out the reviews, analyses, and evaluations required under this subsection.
- (8) The estimated cost to the state to administer the tax incentive.
- (9) An estimate of the extent to which benefits of the tax incentive remained in Indiana or flowed outside Indiana.
- (10) Whether the effectiveness of the tax incentive could be determined more definitively if the general assembly were to clarify or modify the tax incentive's goals and intended purpose.
- (11) Whether measuring the economic impact is significantly limited due to data constraints and whether any changes in statute would facilitate data collection in a way that would allow for better review, analysis, or evaluation.
- (12) An estimate of the indirect economic benefit or activity stimulated by the tax incentive.
- (13) Any additional review, analysis, or evaluation that the legislative services agency considers advisable, including comparisons with tax incentives offered by other states if those comparisons would add value to the review, analysis, and evaluation.

The legislative services agency may request a state or local official or a state agency, a political subdivision, a body corporate and politic, or a county or municipal redevelopment commission to furnish information necessary to complete the tax incentive review, analysis, and evaluation required by this section. An official or entity presented with a request from the legislative services agency under this subsection shall cooperate with the legislative services agency in providing the requested information. An official or entity may require that the legislative services agency adhere to the provider's rules, if any, that concern the confidential nature of the information.

- (d) The legislative services agency shall, before October 1 of each year, submit a report to the legislative

## Appendix 4. Tax Incentive Review Statute (IC 2-5-3.2-1)

council, in an electronic format under IC 5-14-6, and to the interim study committee on fiscal policy established by IC 2-5-1.3-4 containing the results of the legislative services agency's review, analysis, and evaluation. The report must include at least the following:

- (1) A detailed description of the review, analysis, and evaluation for each tax incentive reviewed.
- (2) Information to be used by the general assembly to determine whether a reviewed tax incentive should be continued, modified, or terminated, the basis for the recommendation, and the expected impact of the recommendation on the state's economy.
- (3) Information to be used by the general assembly to better align a reviewed tax incentive with the original intent of the legislation that enacted the tax incentive.

The report required by this subsection must not disclose any proprietary or otherwise confidential taxpayer information.

(e) The interim study committee on fiscal policy shall do the following:

(1) Hold at least one (1) public hearing after September 30 and before November 1 of each year at which:

- (A) the legislative services agency presents the review, analysis, and evaluation of tax incentives; and
- (B) the interim study committee receives information concerning tax incentives.

(2) Submit to the legislative council, in an electronic format under IC 5-14-6, any recommendations made by the interim study committee that are related to the legislative services agency's review, analysis, and evaluation of tax incentives prepared under this section.

(f) The general assembly shall use the legislative services agency's report under this section and the interim study committee on fiscal policy's recommendations under this section to determine whether a particular tax incentive:

- (1) is successful;
- (2) is provided at a cost that can be accommodated by the state's biennial budget; and
- (3) should be continued, amended, or repealed.

(g) The legislative services agency shall establish and maintain a system for making available to the public information about the amount and effectiveness of tax incentives.

(h) The legislative services agency shall develop and publish on the general assembly's Internet web site a multi-year schedule that lists all tax incentives and indicates the year when the report will be published for each tax incentive reviewed. The legislative services agency may revise the schedule as long as the legislative services agency provides for a systematic review, analysis, and evaluation of all tax incentives and that each tax incentive is reviewed at least once every five (5) years.

(i) This section expires December 31, 2023.

## Appendix 5. Tax Incentive and Incentive Program Descriptions

### Appendix 5. Tax Incentive and Incentive Program Descriptions

#### Corporate Income Tax/Individual Income Tax

Tax Provision	Description
<b>21st Century Scholars Program Credit (Reviewed in 2015)</b>	50% of contributions to the 21st Century Scholarship Support Fund. The maximum credit is \$100 for individuals and \$200 for joint filers. Repealed effective January 1, 2017.
<b>Adoption Tax Credit</b>	10% of the federal adoption tax credit claimed for the year. The maximum credit equals \$1,000 per eligible child. The credit goes into effect beginning January 1, 2015.
<b>Alternative Fuel Vehicle Manufacturing Investment Credit</b>	15% of qualified investments made between 2007 and 2016 to manufacture and assemble alternative fuel vehicles. Credits are approved by the IEDC. New credits not awarded after December 31, 2016.
<b>Coal Gasification Technology Investment Credit</b>	10% of the first \$500 M in qualified investment in an integrated coal gasification power plant (7% if the investment is in a fluidized-bed combustion unit) and 5% of the qualified investment exceeding \$500 M (3% if the investment is in a fluidized-bed combustion unit). Credits are approved by the IEDC Board.
<b>Community Revitalization Enhancement District Credit</b>	Percent of qualified investments made in these areas as approved by the IEDC Board.
<b>Community Revitalization Enhancement District Credit (Local)</b>	Percent of qualified investments made in these areas as approved by the IEDC Board.
<b>Earned Income Tax Credit (Reviewed in 2015)</b>	A refundable tax credit for certain families that have a modified adjusted gross income less than \$44,550. The credit amount depends on the number of qualifying children and family income. The maximum credit for 2015 was \$499.
<b>Economic Development for a Growing Economy (EDGE) Credit</b>	Incremental income tax withholdings of new or retained employees as approved by the IEDC Board.
<b>Enterprise Zone Employee Income Deduction</b>	The lesser of 50% of earnings or \$7,500 if the individual lives and works within an enterprise zone.
<b>Enterprise Zone Employment Expense Credit</b>	Allowed for increased employment expenditures, equal to the lesser of 10% multiplied by the increased wages or \$1,500 multiplied by the number of qualified employees.
<b>Enterprise Zone Investment Cost Credit</b>	Percent of qualified investment approved by the IEDC in a business located in an enterprise zone.

## Appendix 5. Tax Incentive and Incentive Program Descriptions

Tax Provision	Description
<b>Enterprise Zone Loan Interest Credit</b>	Allowed for interest received from qualified loans.
<b>Headquarters Relocation Credit</b>	Up to 50% of the costs incurred by an eligible business to relocate its headquarters, division or subdivision principal office, or research center to Indiana.
<b>Historic Rehabilitation Credit (Reviewed in 2015)</b>	20% of qualified expenditures as approved by the DNR. The maximum statewide credit may not exceed \$450,000 annually. New credits may not be awarded after June 30, 2016.
<b>Home Insulation Deduction (Reviewed in 2014)</b>	Up to \$1,000 for the purchase and installation of home insulation, weather stripping, storm doors, storm windows, and double-pane windows. Repealed effective January 1, 2016.
<b>Hoosier Business Investment Credit</b>	Up to 10% of qualified nonlogistics business investments directly related to expanding the workforce in Indiana, not to exceed the taxpayer's state tax liability. For logistics investments, the credit equals 25% of the additional qualified investment made during the taxable year. The total nonlogistics credit for all taxpayers is capped at \$10 M per year, while the total logistics credit for all taxpayers is capped at \$50 M per year. Credits are approved by the IEDC Board. New credits not awarded after December 31, 2020.
<b>Indiana 529 College Savings Account Contribution Credit (Reviewed in 2015)</b>	20% of annual contributions to an Indiana College Choice 529 investment plan savings account. The maximum credit per taxpayer is \$1,000.
<b>Indiana Colleges and Universities Contribution Credit (Reviewed in 2015)</b>	50% of contributions to institutions of higher education, up to \$100 (\$200 if filing a joint return).
<b>Indiana Partnership Long-Term Care Insurance Premiums Deduction (Reviewed in 2014)</b>	Amount of premiums paid during the year on a qualified long-term care policy.
<b>Individual Development Accounts Credit (Reviewed in 2015)</b>	50% of the amount contributed to a fund if the contribution is not less than \$100 and not more than \$50,000.
<b>Industrial Recovery Credit</b>	Percent of qualified investments as approved by the IEDC Board.
<b>Natural Gas-Powered Vehicles</b>	50% of the difference between the price of the qualified vehicle and a similar vehicle that is powered by a gasoline or diesel engine, up to \$15,000. The maximum credit per taxpayer is \$150,000 per taxable year. The total amount of credits per year may not exceed the lesser of \$3 M or the sales tax revenue attributable to natural gas fuel used in providing public transportation.

## Appendix 5. Tax Incentive and Incentive Program Descriptions

Tax Provision	Description
<b>Neighborhood Assistance Credit (Reviewed in 2014)</b>	50% of contributions to approve projects that assist economically disadvantaged areas or to employ, train, or provide technical assistance to people who reside in these areas. The maximum credit is \$25,000. Total tax credits statewide may not exceed \$2.5 M in a fiscal year.
<b>Patent-Derived Income Deduction</b>	Up to \$5 M in income from plant or utility patents issued beginning in 2008 to businesses or organizations domiciled in Indiana.
<b>Research Expense Credit</b>	For certain qualified research expenses incurred.
<b>Residential Historic Rehabilitation Credit (Reviewed in 2015)</b>	20% of qualified expenditures as approved by DNR for the preservation or rehabilitation of the taxpayer's principal residence. The maximum statewide credit may not exceed \$250,000 annually.
<b>School Scholarship Contribution Credit (Reviewed in 2015)</b>	50% of contributions to nonprofit K-12 school scholarship-granting organizations. Total tax credits may not exceed \$7.5 M in FY 2015, \$8.5 M in FY 2016, and \$9.5 M each fiscal year thereafter.
<b>Solar-Powered Roof Vent/Fan Installation Deduction (Reviewed in 2014)</b>	Up to \$1,000 deduction if a solar-powered roof vent or fan is installed on a building owned or leased by the taxpayer. Repealed effective January 1, 2016.
<b>Special Rate for Income Derived Inside a Military Base</b>	Rate is 5% of AGI that is derived from sources within a qualified area if the corporation locates its operations in the qualified area. Special rate applies during the year in which the corporation located in that area and the four succeeding years.
<b>Venture Capital Investment Credit</b>	20% of annual qualified venture capital investment up to \$1 M. Total new credits awarded may not exceed \$12.5 M annually. New credits not awarded after December 31, 2020.

## Appendix 5. Tax Incentive and Incentive Program Descriptions

### Sales Tax

Tax Provision	Description
<b>Aircraft Parts</b>	Materials, parts, equipment, and engines used in the repair, maintenance, refurbishment, remodeling, or remanufacturing of an aircraft or avionics system of an aircraft.
<b>Aviation Fuel</b>	Aviation gasoline, jet fuel, and fuel used as a substitute for aviation gasoline or jet fuel.
<b>Cargo Trailers/RVs Sold to Certain Nonresidents</b>	Sales of RVs and trailers to a resident of another state that has a reciprocal exemption.
<b>Certain Aircraft</b>	Aircraft purchased for rental or leasing if the annual amount of gross lease revenue is greater than or equal to 7.5% of the book value or net acquisition price. Any aircraft rented or leased for predominant use in public transportation. Aircraft sold to a person who is not an Indiana resident.
<b>Certain Racing Equipment</b>	Tangible personal property that comprises any part of a professional motor racing vehicle or a two-seater Indianapolis 500-style race car, excluding tires and accessories.
<b>Research and Development Property</b>	Tangible personal property that has not previously been used in Indiana for any purpose and is acquired for the purpose of experimental laboratory research and development for new products, new uses of existing products, or improving or testing existing products.

## Appendix 5. Tax Incentive and Incentive Program Descriptions

### Property Tax

Tax Provision	Description
<b>Aircraft Deduction</b>	Aircraft that seat up to 90 passengers or that are used to transport only property. The aircraft must be owned by a taxpayer with an Indiana corporate headquarters or its subsidiary. The deduction equals 100% of the property's AV.
<b>Brownfield Revitalization Zone Deduction</b>	The designating body may grant a 3-, 6-, or 10-year abatement for real and personal property located in a brownfield revitalization zone. The deduction equals the increase in the property's AV multiplied by a percentage based on year and duration.
<b>Certified Technology Park Deduction</b>	Personal property located in a certified technology park and used to conduct high-technology activity. The deduction equals 100% of the property's AV. The term of two to ten years is determined by the county fiscal body.
<b>Coal Combustion Product Deduction</b>	Building designed and constructed to use qualified materials throughout the building. Qualified materials must consist of at least 60% coal combustion products by weight. The deduction is available for three years and equals 5% of the building's AV.
<b>Deduction for Purchases of Investment Property by Manufacturers of Recycled Components</b>	Personal property used to manufacture recycled components composed of at least 15% coal combustion waste generated in Indiana. The deduction equals 15% of the investment property's AV only in the first year that the investment property is subject to assessment.
<b>Enterprise Zone Investment Deduction</b>	Qualified investments including buildings, manufacturing or production equipment, retooling, and infrastructure within an enterprise zone. The deduction equals the increase in AV of the enterprise zone property as compared to the AV in the base year.
<b>Enterprise Zone Obsolescence Deduction (Marion County)</b>	Newly purchased real property in an enterprise zone in Marion County if an obsolescence depreciation adjustment was allowed for the property in the year preceding the year in which the owner purchased the property. The deduction equals the amount of the former owner's obsolescence adjustment multiplied by 100% in year one, 75% in year two, 50% in year three, and 25% in year four.
<b>Geothermal Energy Heating or Cooling Device Deduction</b>	Real property or mobile home equipped with geothermal heating, cooling, hot water, or electricity production. The deduction equals the device's AV.
<b>Hydroelectric Power Device Deduction</b>	Real property or mobile home equipped with a hydroelectric power device. The deduction equals the device's AV.
<b>Infrastructure Development Zone Deduction</b>	Gas storage, transmission, and distribution facilities; broadband and advanced service transmission facilities; and water treatment, storage, and distribution facilities in an infrastructure development zone. Eligible property in the zone is 100% exempt.

## Appendix 5. Tax Incentive and Incentive Program Descriptions

Tax Provision	Description
<b>Intrastate Aircraft Deduction</b>	Aircraft used for service between qualifying Indiana airports that seat at least nine passengers or that are used to transport only property. The deduction equals 100% of the property's AV.
<b>Low-Income Housing Exemption (Reviewed in 2015)</b>	All or part of real property is exempt from property taxation if (1) the improvements on the real property were constructed, rehabilitated, or acquired for the purpose of providing housing to income-eligible persons, (2) the property is subject to an extended use agreement, and (3) the property owner has entered into an agreement to make payments in lieu of taxes.
<b>Marine Opportunity District Deduction</b>	New manufacturing equipment installed in a maritime opportunity district. The deduction equals 100% of AV in years 1 to 6; 95% in year 7, 80% in year 8, 65% in year 9, and 50% in year 10. The deduction may not reduce a taxpayer's total personal property net assessment in the first year below the previous year's net assessment. The deduction is subject to approval by Ports of Indiana.
<b>Personal Property Abatements in an Economic Revitalization Area</b>	New manufacturing, research and development, logistical distribution, and information technology equipment located in an economic revitalization area. The local designating body determines the length of the deduction from 1 to 10 years. The designating body must specify an abatement schedule.
<b>Real Property Abatements in an Economic Revitalization Area</b>	Improvements made to real property located in an economic revitalization area. The local designating body determines the length of the deduction from 1 to 10 years. The designating body must specify an abatement schedule.
<b>Rehabilitated Property Deduction (Reviewed in 2015)</b>	Buildings and structures at least 50 years old if the owner paid at least \$10,000 for the rehabilitation. The deduction is available for five years and equals 50% of the increase in AV (limited to \$124,800 for a single-family dwelling or \$300,000 for other property).
<b>Rehabilitated Residential Property Deduction (Reviewed in 2015)</b>	Residential real property that has been rehabilitated. The pre-rehabilitation AV may not exceed \$37,440 for a single-family dwelling, \$49,920 for a two-family dwelling, or \$18,720 per unit if more than two dwelling units. The deduction is available for five years and equals the increase in AV (limited to \$18,720 per rehabilitated unit).
<b>Resource Recovery Systems Deduction</b>	Tangible property directly used to dispose of solid waste or hazardous waste by converting it into energy or other useful products. The deduction equals 95% of the system's AV. This deduction currently applies to only one property, located in Marion County.
<b>Resource Recovery/Coal or Oil Shale System Deduction</b>	Tangible property used to convert coal into a gaseous liquid fuel or charcoal. The deduction equals 95% of the system's AV multiplied by the fraction (Indiana coal converted/total coal converted).

## Appendix 5. Tax Incentive and Incentive Program Descriptions

Tax Provision	Description
<b>Solar-Energy Systems Deduction</b>	Real property or mobile home equipped with solar energy heating or cooling system. The deduction equals system's cost.
<b>Wind-Powered Devices Deduction</b>	Real property or mobile home equipped with wind-powered equipment designed to provide mechanical energy or produce electricity. The deduction equals the device's AV.

## Appendix 5. Tax Incentive and Incentive Program Descriptions

### Other

Tax Provision	Description
<b>Certified Technology Park</b>	Special zones established by local units that capture state and local tax revenue for high-technology business development in the zones.
<b>Community Revitalization Enhancement Districts</b>	Special district established by local units that may capture state and local tax revenue for development purposes in the districts.
<b>Enterprise Zones</b>	Special zone established by municipal units where tax incentives are provided for development in the zones.
<b>Lower Rates for Smaller Riverboats</b>	Special lower wagering tax rates for riverboat casinos that generate less than \$75 million in annual gross revenue.
<b>Motorsports Investment District</b>	Geographic area including the Indianapolis Motor Speedway. Revenue is captured from certain incremental sales tax, individual income tax, and admissions fee revenue.
<b>Professional Sports Development Areas</b>	Special areas established by local units that may capture state and local tax revenue for sports and convention development purposes in the areas.
<b>Promotional Free-Play Deduction</b>	Wagering tax deduction for wagers made by casino patrons using noncashable vouchers, coupons, electronic credits, or electronic promotions provided by the casino.
<b>Tax Increment Financing (Reviewed in 2015)</b>	Special district established by local units that capture incremental property tax revenue for development purposes in the districts.

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