Indiana Fiscal Policy Institute Session Report No. 3:

Indiana's Regional Cities Program at a Crossroads

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An economic development legacy of Gov. Mike Pence is in peril after the General Assembly removed two critical elements during the first half of this session. There is plenty of time to reinstate the measures, but if lawmakers decide against it, Gov. Pence's Regional Cities plan will be dealt a severe blow while still in its infancy.

In the spring of 2014 the Indiana General Assembly enacted House Bill 1035 charging the Indiana Economic Development Corporation with examining the economic potential of the state's metropolitan areas. This task required the IEDC to determine if certain "quality of life" improvements had been made.[1] In fulfilling the legislative request, the IEDC released *Benchmarking U.S. Regional Cities: A Study and Guide for Transformation* in October 2014.

> "Our cities have been an indispensable source of economic growth and serve as an anchor to a lot of economic activity in our state. For example, our eight largest cities account for more than two-thirds of our state's GDP. That said, we cannot rest on our laurels and expect that the future will be like the past. In order to remain economically competitive in the future, we have to take the economic vitality of our cities seriously. We must ask ourselves what we can do to help our regional cities compete with dynamic, growing regional cities across the country, make them attractive places to locate new enterprises, and make them appealing for talented workers looking for a place to make a living and raise a family."[2] –Gov. Pence

That report explored 11 metropolitan areas of various sizes across the United States that had successfully transformed their economies since 1990. The study found that most, if not all, of these eleven communities shared nine common themes that contributed to their respective success. Among those themes are a bold vision, tenacious leadership, a broad civic infrastructure and regional investment that supports quality of place. Thus, the seeds of Indiana's Regional Cities program were born.

As the 2015 legislative session began, Governor Pence challenged the General Assembly to establish a new state/regional relationship whereas the state would provide matching monies for metropolitan area quality of place projects. The initial budget as offered by Gov. Pence tapped the cash balances in five existing state funds (Enterprise Zone Fund, Department of Insurance Fund, Financial Institutions Fund, 21st Century Research and Technology Fund and the Underground Petroleum Storage Tank Excess Liability Trust Fund) for a total of $85.6 million. Each of these funds had its own constituent base that viewed the proposal as a "raid" on the respective funds. The House Committee on Ways and Means reduced the Regional Cities allocation to $20 million, with all of the allocation being taken from the 21st Century Research and Technology Fund. That level and source survived in the budget as it passed both the full House and Senate. However, in conference committee the governor was successful in convincing legislators to increase the amount to $84 million, with all of the funds coming from the proposed tax amnesty program – to the extent that it would generate

[1] House Enrolled Act 1035 -2014

[2] Cover letter to *Benchmarking U.S. Regional Cities: A Study and Guide for Transformation*

that level of collections. After a session long battle, Gov. Pence had his Regional Cities funding – although from a source that would be non-recurring in subsequent years.

Regional Development Authorities (RDAs) were selected to be the vehicle for channeling the Regional Cities funding to local projects. The General Assembly had previously enacted P.L. 221 in 2007 creating enabling legislation for counties and second-class cities to form RDAs. The original legislation included a "pay-to-play" provision that required counties forming an RDA to financially contribute to the RDA. The 2015 legislative changes in HEA 1403 removed the pay-to-play provision and modified how RDAs could be formed. It also expanded the type of projects an RDA could fund to include "any project that enhances a region with the goal of attracting people or business." This later provision would be a direct link to the Regional Cities initiative.

IEDC intended to select two RDAs for initial funding through the $84 million Regional Cities program but could not separate among the top three proposals – the Northeast Indiana RDA, the North Central Indiana RDA and the Southwest Indiana RDA. As an alternative to dropping one of the three selected RDA plans or splitting the $84 million among the three, Gov. Pence and the IEDC sought an additional $42 million in funding during the 2016 legislative session. Fortunately for the selected RDAs, the tax amnesty program was significantly more successful than had originally been anticipated. More than the needed $42 million was available for funding the additional Regional Cities grant as well as other state financial needs. However, these funds once again were coming from a non-recurring source.

The 2017 session began with two concepts for moving the Regional Cities program forward. Gov. Eric Holcomb's budget proposal included $4 million in Fiscal Year 2018-2019 for Regional Cities planning grants—a significant retreat from the $126 million that Gov. Pence had obtained from the tax amnesty program in 2015-16. The $4 million appropriation was removed in the amended budget passed by the House Committee on Ways and Means. Secondly, Senate Bill 507 included language for a new state "Regional Development Tax Credit," with the credits being approved by the IEDC on a case–by-case basis. The IEDC could approve a credit of up to 25 percent of a qualified investment in the redevelopment of vacant or underused real property. The credit language was subsequently removed from the bill in the Senate Committee on Tax and Fiscal Policy.

As the 2017 session of the General Assembly reaches the half way point, there is neither an appropriation for the Regional Cities program nor a new state tax credit to support regional development projects alive in any bill. Will the tax credit reappear in the last days of the session? There was discussion in the Senate Committee on Tax and Fiscal Policy that there could be some reconsideration of the new credit later in the session. Will the $4 million proposal from the governor make it back into the state budget? This is perhaps less likely given all of the other demands on the limited revenue available. Or will RDAs be left to continue a "quality of place" program only with funding from the local RDA tax or other local government contributions? This could occur in some parts of the state, although enacting a local tax to fund regional initiatives is almost always a difficult task. Will the 2017 session end with the Regional Cities program being a short-lived example of a broad-based state/regional collaboration for funding "quality of place" projects or will Gov. Holcomb be able to breathe new life into the program during the later days of the 2017 session? We will see come late April.

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About the Author

John Stafford is the interim director of the Community Research Institute at Indiana-Purdue University Fort Wayne. He has served in various positions in local government in Elkhart and Allen counties. He received the Ivan Brinegar Municipal Management Award in 1999 given by the Indiana Association of Cities and Towns. Stafford has authored several papers and reports for the Indiana Fiscal Policy Institute.

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