

# Indiana's Second Round Evaluations

Office of Fiscal and Management Analysis, LSA



The annual review, analysis, and evaluation of tax incentives is required by IC 2-5-3.2-1 and is conducted by the Office of Fiscal and Management Analysis, Legislative Services Agency (LSA). During the first review cycle in 2014 through 2018, 62 tax incentives were studied. 65 tax incentives are being studied between 2019 and 2025. Two incentive programs that have been studied in both review cycles are summarized below.

---

## **Tax Increment Financing (TIF)**

### **Program Summary**

TIF was established to help local governments encourage redevelopment or economic development in specific geographic areas. TIF captures incremental property tax revenue in the specified area to fund redevelopment or economic development projects.

### **First Round Evaluation (2015)**

LSA used parcel-level data to conduct an econometric analysis estimating the effect of TIF on assessed values and employment. LSA found that (1) property values in TIF areas were slightly higher and grew at a slightly higher rate than non-TIF properties; and (2) while employment in TIF businesses was slightly higher than non-TIF businesses, there was no difference in employment growth.

### **Second Round Evaluation (2019)**

LSA examined the reported purposes of bonds issued by TIF districts and divided them into five investment categories: infrastructure, non-infrastructure, government, bond repayment, and miscellaneous. The analysis found differences in assessed value growth based on the type of investment. LSA also conducted data analysis at the township level and observed that properties in TIF districts experienced faster growth in assessed values than non-TIF parcels, but the growth was concentrated in a small subset of properties within TIF districts that changed in property use.

# **Economic Development for a Growing Economy (EDGE) Tax Credit**

## **Program Summary**

The EDGE credit is a discretionary tax incentive established to encourage businesses to either create new jobs or retain existing jobs in the state. The credit equals either a percentage of incremental income tax withholdings attributable to created or retained jobs or a fixed dollar amount.

## **First Round Evaluation (2017)**

LSA analyzed historical employment data for firms receiving the credit and found that most firms that received the credit were large manufacturers or firms involved in wholesale trade or logistics. LSA observed positive short-term employment growth following credit contracts but was unable to determine whether market conditions, one incentive, multiple incentives, or all these factors contributed to the economic activity observed for credit recipients.

## **Second Round Evaluation (2022)**

LSA conducted a break-even analysis using historical project data and the IMPLAN economic analysis software to estimate the level of economic activity attributable to the tax credit that is necessary to recover the amount of state tax revenue forgone from the credit. The models suggested that the risk of Indiana not recovering the amount of forgone revenue from EDGE credit certifications was low.

## **Lessons Learned**

LSA's approach for second round evaluations has generally been to look at each incentive from a different analytical perspective, rather than updating previous analyses or models.

Databases that LSA maintains internally have been key resources for historical analyses in both first and second round reviews.

Communication with other state agencies is crucial. For TIF, LSA used data maintained by the Department of Local Government Finance. For EDGE, LSA used credit certification data from the Indiana Economic Development Corporation.

It has been helpful to stay updated on other states' tax incentive evaluation work. For example, LSA's break-even analysis was inspired by similar analyses done in Oklahoma and Rhode Island.

## **Resources**

All previous Indiana Tax Incentive Reviews can be found at the following link:

<https://iga.in.gov/publications/tax-incentive-reviews>