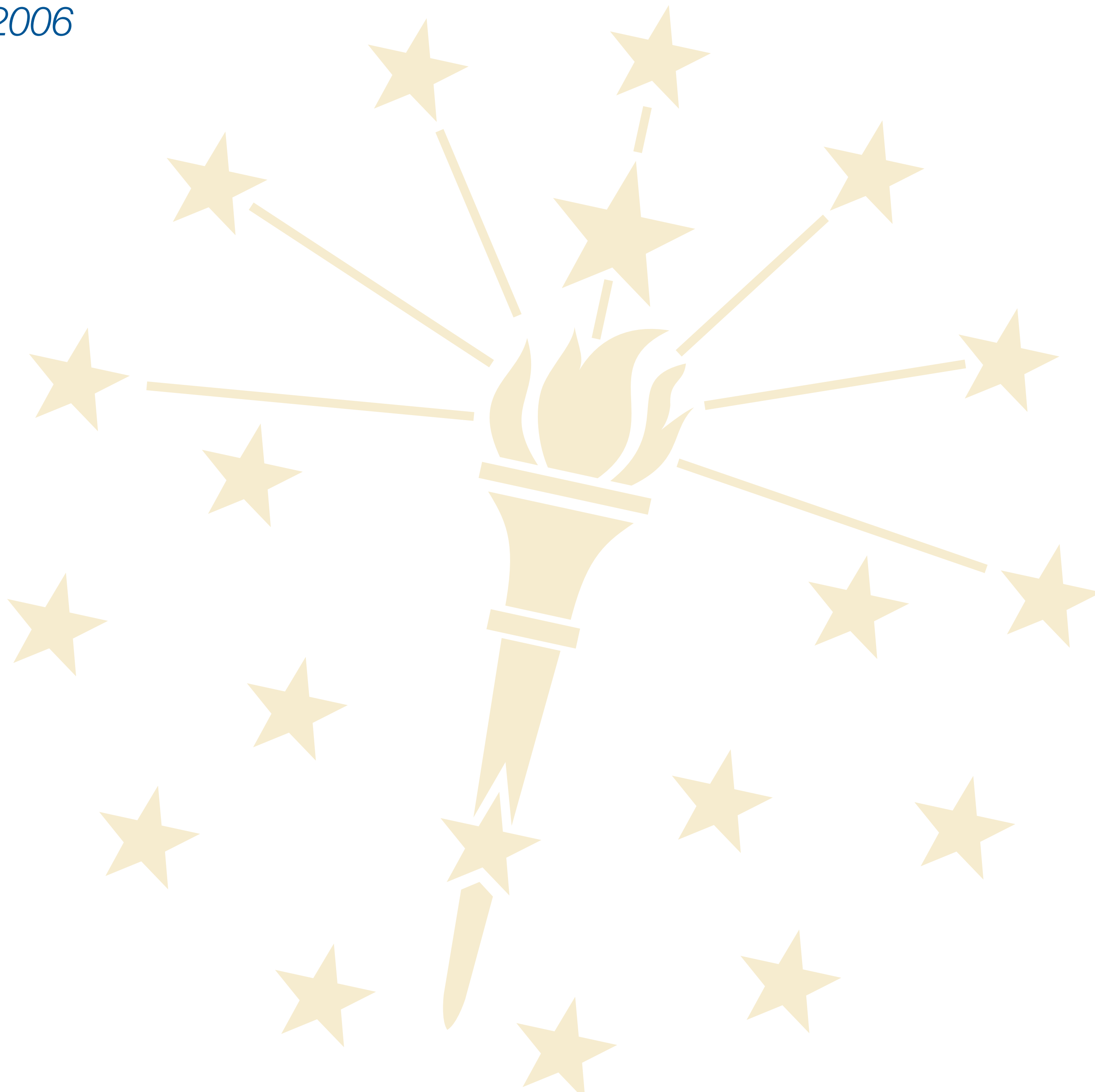
Accelerating Growth

Indiana's Strategic Economic Development Plan

2006



INDIANA

STATE OF INDIANA
Mitchell E. Daniels, Jr.
Governor

A Call to Action

Indiana has a rich history of innovation and entrepreneurship. From Colonel Eli Lilly, who created one of the world's great pharmaceutical companies, to Elwood Haynes, whose backyard tinkering produced the "horseless carriage," the thermostat, and stainless steel, to Madame C.J. Walker, who became America's first African-American female millionaire, Indiana has been home to countless entrepreneurial leaders. By the 1950s, their efforts and legacy, and the rapid growth of the state's manufacturing industries, had made Indiana a wealthy state, with average per capita income exceeding that of the nation as a whole.

Unfortunately, since that high-water mark, Indiana's economy has experienced a protracted and steady decline relative to the rest of the nation. Hoosiers today earn approximately 90 cents for every dollar the average American earns. Meanwhile, we are no longer competing just with other states for business investment opportunities, but with other countries. The global economy now pits Hoosier businesses against an array of international contenders. Today more than ever, it is critical that Indiana have a coordinated and aggressive economic development effort.

From the very first day that I set out on the road in RV-1 to begin my "job interview" for Governor, my overriding priority has been to reverse this decline, to restore hope to Hoosiers, to create an agenda of positive change that would drive economic revival across the small towns and large cities of our great state.

We've balanced the state budget. We've made state government an ally of growth, and not an obstacle to it. We've replaced a failed government bureaucracy with a new public-private job-seeking agency that has secured commitments for over 20,000 new jobs for Hoosiers, including: 1,000 new jobs from Toyota in Lafayette, 750 new jobs from Sallie Mae in Muncie, 500 new jobs from Sysco in Hamlet and 450 new jobs from Pfizer in Terre Haute. In all, some 91,000 more Hoosiers were working in January 2006 than a year earlier.

And just recently, I signed into law two bills that will transform key elements of our state's infrastructure, promoting investment and job growth for years to come. ***Major Moves*** is truly most important jobs bill of this generation. This landmark plan will enable the state to complete more than 200 vital transportation projects, creating tens of thousands of new jobs and a modern road network that will enable Indiana to maintain its strategic position as the "Crossroads of America." I also signed the nation's most far-reaching telecommunications law, enabling more Hoosier businesses and consumers to connect to the invisible infrastructure of fibers and frequencies through which so much of today's most vital and valuable commerce is transacted.

But these steps are just the beginning. Achieving sustained economic improvement requires a marathon effort, not a sprint. Such a long-term effort must be guided by a clear vision and an ambitious action agenda that is both achievable and empowering. Our new state economic plan, *Accelerating Growth*, provides this strategic guidance to the Indiana Economic Development Corporation (IEDC) and other state agencies that will drive its implementation, as well as to regional and local leaders whose support and cooperation are critical to its success.

Accelerating Growth is the result of an extensive planning process that engaged more than 600 people from around the state, representing a wide range of stakeholders in the state's economic future. As this plan is presented and implemented, IEDC will continue to seek out the best thinking of Hoosiers from around the state about how the plan can best be tailored to the needs of their locales and how it can be improved as time and circumstances change.

Accelerating Growth is intended to help revive Indiana's remarkable history of pragmatic entrepreneurship and economic dynamism. By focusing on ***innovation***, ***talent***, and ***investment*** – the key themes of our plan – we can build for the future by rediscovering the excitement of Indiana's innovative past. To achieve this goal, *Accelerating Growth* will depend first and foremost on the collective efforts of Hoosiers from across the state. We must all work together to effectively leverage our great state's substantial assets – its central geographic location, its great universities, its productive factories and fields, and, most importantly, its enduring culture of hard work, can-do optimism and commitment to excellence – to create a better economic future for ourselves and for future generations.

We've set some ambitious goals for ourselves in this plan…but I know we can meet them. Our duty to our children requires that we do.

Sincerely,

Mitch Daniels
Governor

Accelerating Growth

Indiana's Strategic Economic Development Plan

ACCELERATING GROWTH

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Accelerating Growth: Revamping Indiana's Economy for the 21st Century

As soon as Mitch Daniels took office as Indiana's 49th governor, he began implementing his campaign promise to revamp the state's economy. He disbanded the former Department of Commerce and, in February 2005, established the Indiana Economic Development Corporation (IEDC) as the leader of the state's economic development efforts. Operating more as a well-run business than a traditional government agency, the IEDC is designed to respond quickly and definitively to economic opportunities and challenges while moving the state's economy into the 21st century.

This document is a strategic economic development plan, which provides a framework for moving Indiana's economy forward. Its recommendations are focused on giving Indiana's regions and communities the direction, support and flexibility they need to be competitive in today's global economy. Some of these recommendations are already in place, others have been proposed for legislative action, and still others are being prepared for introduction in 2007 and beyond.

The successful development and implementation of a statewide economic development plan requires extraordinary levels of collaboration among state, regional and local public institutions, as well as the strong support of leaders from the civic, business and academic communities. Therefore, building such collaboration has been at the forefront of the planning process from the outset. In developing this plan, the IEDC worked with the leadership of all state agencies that impact economic development including senior members of the governor's staff involved in economic development. In addition, input from more than 600 people from around the state, representing a wide range of stakeholders in Indiana's economic future, has been incorporated into the plan. The implementation of this plan will focus at the regional and local levels, with incentives provided by the state to achieve the collaboration necessary for success.

Accepting the Challenge

The economic realities are daunting. For the past 50 years the state's economy has been in stealth decline, losing ground slowly enough to be off most radar screens. Per capita income, considered the best all-around measure of a state's economic health, has slipped from 106.4 percent of the national average in 1953 to 91.4 percent today -- the ninth steepest decline in the nation. Indiana now ranks 35th out of 50 states in overall economic performance according to the 2005 Indiana Chamber of Commerce Vision 2010 Report Card.

This plan is focused on reversing Indiana's decline in per capita income and moving Indiana into a pre-eminent position in the nation's economy. The overarching vision is:

Vision

To meet the national average in per capita income and average annual wages by 2020

This goal may not seem particularly bold or aggressive. However, reaching it presents significant challenges.

First, to achieve this vision the state's economy will need to grow significantly faster than the nation's economy as a whole. Challenging? Certainly, especially in light of the economic realities facing Midwest states. Achievable? Absolutely. Since 1990, a number of states have experienced annual per capita income growth of at least 10 percent above the national average. In fact, Wyoming, South Dakota, North Dakota and Massachusetts surged to 20 percent or more above the national average. In the Midwest, Minnesota's per capita income has grown at least 10 percent above the national average for the last 10 years, and Iowa and Wisconsin have shown at least this much growth over the last five years.

Second, the timeline for achieving the vision is 2020. Therefore, in order to be successful, this plan must transcend administrations. Thus, the implementation phase of this plan must generate enough momentum that subsequent administrations will choose to continue its general direction. This requires that the plan be kept relevant and robust in the years to come as economic conditions change. The IEDC, working with the other state agencies, must aggressively carry out the plan and institutionalize the systems, processes and practices necessary to track progress and make inevitable mid-course corrections.

Third, to achieve this level of sustained economic growth over the next 15 years, Indiana must compete successfully within an economic framework that is increasingly defined by globalization, a process of growing interdependence and interconnectedness in economic activity across and between countries. This does not mean that all Indiana companies must be globally competitive and seek overseas markets to be successful. But it does mean that Hoosier businesses will be impacted by economic forces and pressures that are global in nature, a reality that must be acknowledged by the state's long-term economic development plan.

For Indiana to compete against not only other states but also other countries, it must emphasize the importance of high-wage, high-margin and high-growth businesses. The bottom line is wealth creation. Research suggests that regional economic growth rates are associated with increased entrepreneurial activity, higher levels of human capital and increased industrial diversity. Therefore, Indiana must strive to create an economic environment that fosters innovation and knowledge creation, while fully leveraging existing resources. Indiana's plan to accelerate growth will achieve its vision by addressing the following critical success factors identified by economists and economic development experts:

Critical Success Factors

- **A skilled labor force with constantly improving educational aspirations and attainment.**
- **A culture of innovation and entrepreneurship.**
- **A pro-investment business climate.**
- **A focus on leveraging key growth opportunities based on current assets.**
- **Enhanced connectivity - broadband and other enabling technologies.**
- **Strategic leadership development.**
- **Place-Making (promoting and investing in quality of life, community amenities and civic tolerance).**
- **SPEED—SPEED—SPEED (getting more done more rapidly with greater quality and at lower cost).**

Tools for Success

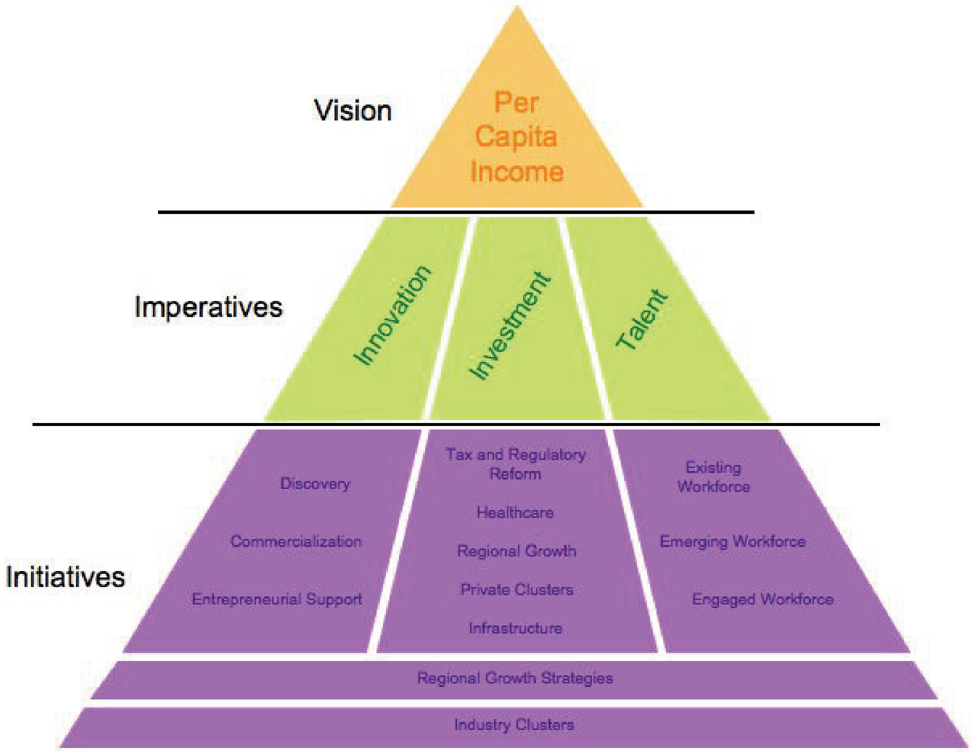
Indiana must focus on three imperatives to revamp its economy for the 21st century: innovation, talent and investment.

- **Innovation** to leverage the speed of change for economic benefit in existing and emerging industries;

- **Talent** to provide workers with the globally competitive skills, knowledge, and aspirations to generate the innovations; and

- **Investment** incentives to stimulate and sustain innovation and talent, further leverage existing resources and advance critical aspects of the state's underlying infrastructure and culture.

Indiana's Strategic Economic Development Plan is structured according to these three imperatives for growth and recommends specific initiatives in each to achieve the overall vision.



There are two final points before addressing the specific initiatives and initial steps to implement them. First, Indiana is not a single economy. Rather it is a collection of regional economies with unique combinations of public and private sector economic development assets and liabilities, such as natural resources, knowledge capital and industry clusters. Some of Indiana's regional economies are closely tied to the economies of other states. Hence, there are regional components to many of the initiatives that must be identified and addressed. Such components will be successful only if they are supported by a network of regional stakeholders who share a collective vision of accelerating growth.

Second, the initiatives generally fall into one of two categories: those that are declarative and those that are aspirational. Declarative initiatives are those that can be accomplished utilizing existing resources and authorities, or that have clear paths for acquiring the means to accomplish them. Aspirational initiatives are those for which further study and definition are required to identify clear paths to implementation timelines and/or funding sources. However, in either case, all of the initiatives are essential to move Indiana's economy forward and to achieve the goal of meeting the national average in per capita income and average annual wages by 2020.

PRO INNOVATION INITIATIVES

Pro Innovation Goal: **Make Indiana a national leader for innovation and entrepreneurship in the global economy.**

Issues *The key to future economic competitiveness for advanced economies such as that of the U.S. will be the ability to develop new ideas and inventions and translate them into new or enhanced companies, products and services that produce income and wealth for their residents. Indiana is home to great research universities and industries that are highly research and development (R&D) intensive, such as pharmaceutical, aerospace and automotive. But, the state must do more to (1) enhance the amount of R&D occurring at universities and within existing industries, (2) guarantee that the necessary infrastructure/incentives are in place to effectively move new technologies into new job creating opportunities, and (3) provide platforms and incentives to grow and attract companies that are R&D intensive.*

The innovation process consists of three steps: Discovery - the creation of new ideas; Commercialization - the translation of new ideas into products or services; and Entrepreneurship - the successful launch of new business ideas into the marketplace, whether by new or existing companies. Indiana performs relatively poorly in all three areas. For example, the annual state report card prepared for the Indiana Chamber of Commerce gives Indiana a "C" on research and creativity and an "F" on dynamism relative to all other states.

Pro Innovation Objective 1 **Discovery** - Increase Indiana's capacity for conducting cutting-edge research and development activity within its institutions for higher learning and businesses.

Background *Indiana does not attract federally funded R&D commensurate with its share of national population or economic activity. In 2003, Indiana attracted only 1.3 percent ($327.7 million) of the total dollars that the federal government spent on R&D at colleges and universities, in contrast to Indiana's 2.2 percent share of U.S. population and its 1.8 percent share of GNP. Indiana ranks 23rd in the receipt of federal funds for R&D (R&D funding per $100,000 of Gross State Product (GSP)). Indiana's ranking rises to 18th if private funding of R&D at colleges and universities is considered. Given Indiana's strength in research at its private and public universities, it should attract a greater share of federal R&D dollars. One of the key problems is a lack of sufficient matching dollars from state and local sources at a time when federal R&D spending is increasingly* *predicated on matching from state, local, university, business and foundation sources.*

Target **Increase the growth of federal research dollars received by Indiana's universities, other qualifying nonprofit institutions (such as centers of excellence and federal labs) and private industry, by a sustained annual average of at least 10 percent.**

Initiative **1. Indiana R&D Growth Fund**

Create a multimillion dollar fund (target $25 to $50 million) to provide matching state money to be combined with foundation, business and university dollars aimed at capturing federal R&D grant opportunities available to Indiana's universities, research organizations and private firms. The Indiana R&D Growth Fund would: (1) leverage research initiatives led by private/public university collaborations requiring matching funds; (2) support the attraction of eminent scholars who bring with them additional R&D funding, a strong commercialization track record and/or recognized leadership in an area of interest to Indiana's leading industries; and (3) assist in the creation of research facilities required to pursue federal funding in areas that support key Indiana competitive strategies, such as orthopedics. Emphasis would be placed on projects with the greatest potential to create jobs for Hoosiers.

Background *Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs, run by the federal government, are the largest source of early stage financing for technology start-ups in the nation, with more than $2 billion in federal grants and contracts awarded each year. Ten of the largest federal agencies are required to set aside 2.5 percent of their R&D budgets to be directed through the SBIR program, and the largest five agencies must also set aside an additional 0.15 percent for the STTR program. These grants are awarded competitively in areas of "mission interest" to each of the agencies, not to general research. The programs are to help innovative small companies achieve commercial success while performing important research for the federal government. Historically, Indiana has performed very poorly in attracting such awards - mainly through lack of application. In 2004, Indiana businesses received 35 SBIR awards, with a value of $12.6 million (compared to 21 awards in 2003 with a value of $10.9 million). Despite the improvement, Indiana remains 43rd out of the 50 states in terms of awards received and 27th in terms of dollar value. In 2004, Illinois received 94 awards, Ohio, 239, and Michigan, 122; while Kentucky received only 16. The national leaders were California and Massachusetts with 1,328 and 840, respectively.*

Target **Double the number of SBIR/STTR awards to Indiana businesses by 2008.**

Initiative **2. SBIR/STTR Funding**

The IEDC should assume responsibility for managing the state's SBIR program, currently managed by Indiana University, and initiate a statewide program to increase the number of companies applying for and receiving federal R&D grants. The SBIR/STTR programs not only provide new start-up companies with a source of critical capital but also expose such companies to important peer review and often help identify strategic partners and customers. SBIR recipients are eligible for a Phase I matching grant from the 21st Century Fund; hence, this initiative would bring under one umbrella the state's efforts to increase the overall dollars available to high-growth, start-up companies. The IEDC should set aggressive goals for expanding the program (beyond the short-term objective of doubling awards by 2008), and leverage experts from around the state to help start-up companies prepare successful SBIR proposals.

Pro Innovation Objective 2 **Commercialization** - Accelerate the flow of discovery and innovation from Indiana's research universities to Indiana businesses.

Background *If Indiana is to accelerate its growth, not only must it develop new ideas, but it must also translate them into innovations that can create new companies, new products and services and new jobs.*

Commercialization activity is difficult to measure accurately since there are many indirect channels by which products and services come to market. Some of the more useful metrics relate to licensing, income and spin-off businesses. In 2003, Indiana ranked 15th in terms of university spin-offs per 1,000 firms - a middle-of-the-pack showing nationally but high compared to our own history. This is a highly volatile metric - the trend is more important than year-to-year variations, and 2003 was somewhat of an anomaly compared to the past. Growth in the number of incubators and technology parks provide hope that 2003 may prove to have been the first year of a new and higher trend.

Indiana universities have also done relatively well in terms of licenses and options to small firms, ranking in the top 10 nationally for several years. Royalty and license income per $1 million GSP has ranked 20th among the 50 states, concentrated in a few large deals. The totals and Indiana's competitive position have improved over the past several years.

Target **Increase the number of successful start-up ventures and technologies flowing out of Indiana's research universities to support the growth of firms and employment across the state.**

Initiatives 3. Entrepreneur in Residence Program

This program would establish a high-profile and prestigious Governor's Entrepreneur in Residence, with the IEDC and private sources collaborating to provide a modest stipend to a seasoned entrepreneur who commits to work on-site with budding entrepreneurs for one to two years. The entrepreneur in residence would be housed at a university or a Certified Technology Park that has an incubator and work with faculty, business/MBA students, existing Indiana firms and start-up companies to identify commercially viable opportunities. He/she would mentor innovators and companies, ultimately moving them out of the incubator to stand on their own, thus opening an opportunity for a new company.

4. Commercialization Fund

This fund would provide payments directly to public or private universities, research organizations and/or approved research collaborations whose research is commercialized in Indiana. The fund would be used for attracting the best research staff, faculty and students and to support other R&D and commercialization activities. A $100,000 payment would be made to university departments, schools, incubators or collaborations that successfully transfer job-creating technology to the private sector. The fund would allow for and encourage partnerships between universities, private firms and industry networks. Direct funding will provide a strong incentive to university and business researchers (who too often operate in isolation) to focus more effort on research commercialization.

Background *Indiana's economy continues to be heavily dependent on manufacturing - almost twice the national average - leaving the state vulnerable to downturns in this sector. In addition, continued global competition will likely translate to additional job losses in this sector, even while its economic value to the state remains strong. Therefore, it will be increasingly important for Indiana to diversify its economy by seeking out investment in new, high-value-added products and services. Growth in payrolls is a good indication of the net performance of high-value firms. Over the recent past, growth in nominal payrolls in Indiana has lagged the nation for both large and small firms, ranking 46th and 43rd, respectively. A concentrated focus on encouraging the creation, expansion and attraction of high-value employers with wages and margins well above state averages is an imperative.*

Target Increase the number of high technology/ high R&D / high wage firms expanding in and coming to Indiana.

Initiative 5. Indiana High-Growth Fund

This initiative would create a multimillion dollar (target $25 to $50 million) flexible “deal closing” fund which could be used in conjunction with existing IEDC incentives to compete for expansion and attraction opportunities with companies that are engaged in technology intensive/high-value-added activities that pay well above average wages. Many states now have a flexible “deal closing” cash fund that can be used to buy land, buildings and equipment or pay moving expenses for a company that is considering an investment or expansion in their state. Texas and Virginia are the most aggressive in this regard.

Pro Innovation Objective 3 **Entrepreneurial Support and Risk Financing -** Support existing entrepreneurs in Indiana and attract more of them by providing tools that will enhance their likelihood of building a successful business here, including most importantly their ability to find growth funding (seed, angel, private equity and senior lending) in Indiana.

Background *Indiana has limited financial support for small, high-growth firms. One consequence is a lack of economic vitality. Indiana ranks 35th in business dynamism (in terms of the number of high-performance firms per 100,000 companies).*

Although all new businesses are important to a state’s economic strength, entrepreneurial firms that are continuously innovative in their products and processes play a significant role in contributing to growth and prosperity. Indiana has offered limited targeted support for such high-growth firms.

A marketplace conducive to high-performance entrepreneurial companies requires a host of resources, including a full range of equity and debt financing, quality business plan assistance, capable management, sound professional advice and access to technical support.

Currently Indiana has a multimillion dollar, federally funded Small Business Development Center (SBDC) program, which operates 12 offices throughout the state. Business executives, educators and entrepreneurs overwhelmingly feel that the SBDCs do not provide adequate training, support, direction and information to high-performance businesses and entrepreneurs and that drastic reform is needed. The program must be staffed by professionals with entrepreneurial experience and business acumen. Some states have innovative programs aimed at providing access to mentoring, training and funding for high performance entrepreneurs and businesses. Indiana must implement a program designed for entrepreneurs that can provide a systematic approach to mentoring, training and enhancing access to vital resources.

Target **Ensure that promising entrepreneurs know where to turn for mentoring, training and resources such as funding, legal and market information needed to build or expand a successful business.**

Initiative 6. Enterprise Indiana

This plan proposes to overhaul the state's SBDC program in order to provide financial, managerial and technical support to entrepreneurs and growth companies. SBDCs must be able to provide information to small businesses and entrepreneurs regarding: (1) SBIR/STTR training/assistance; (2) 21st Century Fund resources; (3) affordable information and strategic intelligence (economic, business and market research); and (4) partnerships with university-based and other technical support programs (such as the technical consulting program provided by Naval Surface Warfare Center, Crane or Purdue's Technical Assistance Program) to provide technical assistance as well as faculty and student assistance, interns and co-op students, and access to potential employers.

SBDCs also need to be able to direct small businesses and entrepreneurs to the appropriate resources that can provide them with (1) support for the creation of peer networks among companies and commercial "communities of interest" to learn from each other; (2) mentoring and business plan advice; (3) legal and accounting assistance; and (4) a network/database of local businesses that could serve as a built-in customer/investor base for new entrepreneurial companies.

Background *Indiana-based entrepreneurs face a serious challenge in obtaining early seed financing. There are very few local venture capital funds, and those that are based in Indiana focus more on later stage deals. As a result, Indiana's entrepreneurs are often forced to look outside of Indiana for funding. The results are: (1) longer periods to locate funding which can ultimately lead to failure (leading the entrepreneur to give up and go back to work at a steady income job), and (2) some entrepreneurs are forced to move their venture outside of Indiana due to the demands of the out-of-state venture capital fund.*

Venture capital as a percent of GSP is an indicator of the availability of high-risk, high-return investment capital. Indiana's persistent, relatively low ranking (31st) in total venture capital dollars relative to GSP is cause for serious concern.

Very few firms, even if high-performing, receive venture capital. Private angel and seed funding, followed by debt financing, are more common patterns of early stage funding. This type of funding is very difficult to *measure and data is rarely collected in a form that can be compared to other states.*

However, an indicator of Indiana's weak capital markets for small business is the number of Small Business Investment Company (SBIC) financings. SBICs are formed under the federal U.S. Small Business Administration's authority to create investment pools of risk capital in local markets. Indiana's low national performance (rank 43rd) and an absolute decline in SBIC financing over the past five reporting years suggest a generally weak capital market for small businesses in Indiana.

Anecdotal evidence from interviews and surveys suggest that, despite substantial wealth held by individuals across the state, the willingness to participate in angel and seed investments is low in Indiana. The Indiana Venture Center and various communities have focused on nurturing angel networks and investors. The Venture Capital Tax Credit is a key tool created by the Indiana General Assembly to help in this regard. Although public seed and venture capital funding are not a substitute for early stage private financing, they are necessary to foster innovation and risk-taking in an economic environment that lacks a full range of private investment options.

Target **No good deal goes unfunded (and leaves our state or dies on the vine).**

Initiative **7. Increased Funding for Entrepreneurs**

Refocused 21st Century Research and Technology Fund - Shift investment strategy from the Fund's previous model emphasizing research to a model based on specific opportunities for the commercialization of high technology research generated from the entrepreneurial, business and academic sectors. The Fund should serve as a catalyst for economic growth as measured by the establishment of new businesses, expansion of existing businesses and the creation of high-wage jobs. The strategy that best supports these objectives is to invest in technologies with the most potential for commercialization and application in the private sector. Ultimately, this translates into more dollars into the hands of entrepreneurs, although the Fund must continue to support collaborations between the private sector and university researchers (for more detail, see new Fund guidelines).

A better advertised/utilized Venture Capital Tax Credit - This program provides a 20 percent tax credit to investors who make investments in high-tech companies certified by the IEDC. This is an attractive incentive for angel investors to provide much needed seed capital to new Indiana start-up companies. A maximum of $12 million in tax credits can be awarded each year on a first come, first served basis, but the state has never come close to reaching this total. When applicable, recipients of 21st Century Fund grants should automatically be certified as eligible companies in order to give them a leg up on fundraising. This program should be promoted as part of the SBIR/STTR program and in outreach efforts by the SBDC offices.

PRO TALENT INITIATIVES

Pro Talent Goal: **A Hoosier workforce whose capability, productivity and flexibility are globally competitive and nationally superior**

Issues *Economic development cannot be separated from workforce development. Successful 21st century employment and economic growth depends on increasing the skill and knowledge levels of existing Hoosier workers and ensuring that the education of future workers is more challenging and effective. Simply stated, for Hoosier employers to be successful in the global knowledge economy, Indiana's workforce must be more skilled, productive and flexible.*

Pro Talent Objective 1 **Existing workforce -** Increase Hoosiers' skill attainment to globally competitive levels by creating the opportunity for each Hoosier worker to move at least one step up the talent scale, ranging from basic literacy to strategic skills, through demand-driven mechanisms.

Background *Indiana fares poorly in terms of education and skill levels of the existing workforce. Consider the following Indiana national rankings:*

- *35th – share of population over 25 with an associate degree*
- *47th – share of population over 25 with a bachelor's degree*

A recent study by the Indiana Chamber of Commerce estimates that roughly one million Hoosier workers lack the basic skills necessary for 21st century employment. Equally alarming, Indiana workers on average are not engaged in "step-up" activity, as evidenced by the fact that Indiana ranked 34th in part-time enrollment in post-secondary programs among adults ages 30 and older.

Initiatives are already under way to move Indiana's existing workers up at least one talent level, to eliminate functional illiteracy and to ensure workers possess targeted skills and competencies that match employer needs. In 2005, the Indiana Department of Workforce Development (DWD) launched the $23 million Strategic Skills Initiative which has brought regional partners together from workforce and economic development, industry and education to design new ways to train Hoosiers for better paying jobs. DWD has also made substantial strides in transforming the state's traditional workforce development system to meet the needs of today's global knowledge economy. Core reforms under way include:

- *Consolidating 17 regions into 11 meaningful economic regions, freeing up approximately $2 million in administrative costs to be moved to training Hoosiers.*
- *Replacing today's bureaucratic board structures, comprising 35 to 70 representatives, with boards of nine to 16 regional leaders selected by local elected officials.*
- *Implementing policies that require competitive bidding of regional services, with meaningful accountability measures.*

DWD also recently announced a demonstration pilot in which up to 12 companies will help develop new employer-driven training programs aimed at raising the basic workplace skills of Indiana's workforce.

While these and other like efforts are a good start, they are just that - a start. To successfully compete, Indiana must move with even more resolve to elevate the skills of our existing workforce.

Target **Eliminate functional illiteracy in the workforce, training Hoosier adults to reach 21st century basic skill levels.**

Initiatives

1. **Train Hoosier Adults to Reach 21st Century Skills Levels through a New Office of 21st Century Career Education within DWD**

   While funds from various state and local entities are targeted at workplace literacy, there is no one entity that is solely and effectively responsible for improving these skills in the Hoosier workforce. All too often, existing adult education models replicate traditional classroom teaching methods, with minimal employer involvement or occupational context. Yet, experts know that adult students are more receptive, engaged and successful in workplace literacy development if learning is closely tied to, and geared toward, improved employment or post-secondary educational success.

   DWD's new Office of 21st Century Career Education would use existing adult basic education funds and additional appropriated state funds, in partnership with existing and new education providers, to expand upon existing offerings and better meet the workplace literacy needs of Hoosier employees. Special emphasis should be placed on engaging employers and closely aligning workplace literacy development to the needs of the workplace or to post-secondary education success. Clear and meaningful metrics should be established, and providers should be held accountable to meet pre-defined objectives (such as enrollment, literacy gains, progression to degree programs and additional training).

   The office would also create and launch a standards-based and outcomes-focused 21st Century Workplace Skills Credential with industry-recognized assessment processes, such as WorkKeys or

Comprehensive Adult Student Assessment System, and clear links to employment and post-secondary education success. Adults displaying 21st century competencies would earn the credential. Employers and the post-secondary education community would be heavily engaged in the development process in order to give the credential needed validity and credibility.

2. Launch Indiana "Go-Higher" Campaign

Despite the great need for basic skills education in Indiana, research has found little evidence of significant demand for such programs from working adults with low basic skills. Research also indicates limited awareness among the general public of skill deficits, and little media attention is paid to the topic. Consider the following as evidence:

- Only 20 percent of adults who tested in the lowest levels in the most recent National Adult Literacy Survey (NALS) stated that they saw an immediate need for improving their skills.
- As part of a Indiana Chamber study, an employer survey revealed loud calls for more information on where to access basic workforce skills education information and resources.

Given the stakes, we cannot sit back and wait for demand to grow. It is too easy for adults to deny or ignore basic skills deficits, and instead to see the problem as the changing economy. As such, DWD should collaborate with other interested entities (leveraging state, federal and private funds) to launch an awareness campaign targeted at adults and employers, calling on the Hoosier workforce to "Go Higher." The program can be based on a similar program in Kentucky -- a $4 million effort, which helped quadruple the number of working adults enrolled in basic skills education programs over three years.

Target **Double the number of adult part-time learners by 2010, achieving a national ranking in the top half of states. Increase the competitiveness of existing and future Hoosier employers and their skilled workers.**

Initiatives **3. Develop the Hoosier Partnership for a Competitive Workforce**

No company should ever decline to expand in, or relocate to, Indiana due to lack of qualified workers. The state must be able to train workers rapidly to meet employer needs. The IEDC, DWD and select Indiana post-secondary education institutions, with special focus on Ivy Tech Community College (Ivy Tech), must develop the capability to diagnose quickly employer workforce needs and deliver rapid-response customized training that builds the necessary employee skill sets. As a first step, the IEDC and DWD should organize a summit with these educational institutions, along with select employers, to determine a framework for developing or enhancing this rapid-response training capability and to plan for moving forward. Such a plan should include an assessment of best practices from around the globe.

4. Develop Compressed Community College Academic Programs

At present, Ivy Tech has low rates of completion, in large part due to the structure and length of academic programs that typically last a full semester. This structure has been adopted from traditional programs for younger students at residential colleges with virtually no modifications to meet the scheduling needs or learning styles of adult part-time students. The current structure means that 70 percent of Ivy Tech enrollments are part-time adult students who typically take only two courses per semester and require an average of five years to complete the requirements for an associate's degree.

Private proprietary and nonprofit post-secondary institutions, such as ITT and Indiana Wesleyan, have already adapted program structures to meet the needs of adult learners and to conform to adult learning styles. These institutions, along with community colleges in other states, offer programs in intensive eight-week sessions. Students who work full-time and are in these compressed programs can still accelerate through an associate's degree in as little as 12 months, as well as earn job-relevant, industry-recognized certificates along the way. Many of these same schools also have completion rates more than double the national rates of public institutions and more than triple those of Ivy Tech. As Indiana's community college, Ivy Tech should work aggressively to offer modularized, compressed and accelerated degree and certificate programs for working adults.

5. Launch Virtual Learning System and "Learn-ware" Marketplace

Many states are developing virtual universities or community colleges that provide dislocated workers and other individuals with flexible options for training and skills enhancement. Indiana Virtual Learning System (VLS) would expand the state's new job matching system to address the full breadth of customer career-planning needs by providing insight into potential career paths based on the skills and experience the customer already exhibits. VLS would use the student's resume and other information to suggest potential career paths in high-wage, high-demand industries related to his or her strengths. The system would identify the next level of education needed to advance in a career and provide links to approved learning institutions within a requisite radius of the student's home, in addition to online learning access. The system would include labor market information, education and training information, career profiles, self-assessment tools, financial aid information and a place for students to provide and review systematic feedback on service providers.

Target **Create innovative funding mechanisms and incentives to improve the training and educational levels of the Hoosier workforce. Build key support structures to drive the return on investment of scarce resources.**

Initiatives

6. Introduce Employer Incentives to Encourage Education and Training

Given Indiana's low educational attainment levels, the need for improved awareness of existing skills deficits and the need to ensure alignment between employee training and employer needs, Indiana should offer employers a state tax credit to subsidize post-secondary education in a limited fashion. More specifically, employers would receive a credit subsidizing their tuition costs for employees to pursue certificates and associate's degrees at select educational institutions. To help ensure fiscal viability, the credit could be focused on individuals with no post-secondary credentials, be restricted to certificate programs and associate degree levels, be limited to 50 percent of qualified expenses and be capped at employee and company levels. The credit could also be limited to incremental education and training expenses by offering it to only those company expenses in excess of a rolling average over the previous three years.

Additionally, institutions should be encouraged to offer tuition deferral programs to select employers. Under this program, tuition charges would be deferred until completion of the academic program or of the semester of enrollment, whichever comes first. Further, the employer would only be charged for employees completing the program with demonstrated competency.

7. Launch Personal Reemployment and Career Advancement Accounts

DWD, in coordination with the U.S. Department of Labor (USDOL), should launch "Personal Reemployment Accounts." These accounts, available to certain unemployed individuals, would provide a lump sum amount that could be used for training and education and would offer financial incentives through unused lump sum funds for participants to gain and sustain employment.

In the mid-term, Indiana should work with USDOL to fundamentally recreate the way in which training and education are funded via federal workforce dollars through the creation of "Career Advancement Accounts." Using today's multiple streams of federal workforce funds, these accounts would be available to workers entering the workforce or transitioning between jobs and careers or incumbent workers in need of new skills to remain employed or move up the career ladder. Participating individuals would use their accounts primarily to pay for expenses directly related to education and training. Funds would be used for training in skills for high-wage, high-demand industries, to help individuals gain foundational workforce and academic skills and for work-based experience through a wide array of on-the-job training models including apprenticeships, internships and others.

8. Launch an Indiana Economic Intelligence Initiative

What is the quality of the available and appropriately skilled workforce in an Indiana region that is competing for a company relocation? What existing vacant jobs would be a good fit for skilled employees who were part of a substantial layoff? What customized training could be developed in advance of a potential mass layoff? Which Indiana graduates and employees are leaving the state and where are they going? What jobs and skills should our community college design its curriculum to meet? These are all questions that cannot be easily answered as there is currently no centralized effort to collect, analyze and communicate such meaningful intelligence.

DWD, other agencies and Indiana's education institutions sit on gold mines of data that are left virtually meaningless because they are not integrated and analyzed into intelligence. In order to provide meaningful and timely intelligence and guidance for policy leaders, local economic development officials, workforce development professionals and other key stakeholders, the Economic Intelligence Initiative should be created, initially within DWD. DWD has perhaps the largest repositories of under-tapped data and is currently pursuing strategies to make that data more accessible. This initiative, leveraging existing federal and new state funds and working in conjunction with Governor Daniels' statewide data initiative and the IEDC, would be responsible for the centralized collection, analysis and dissemination of meaningful economic and workforce intelligence.

Pro Talent Objective 2 **Emerging workforce -** Build effective pathways for young Hoosiers to workforce competitiveness and sustainable employment.

Background *Indiana's educational systems historically have been structured from the institution out, operating on the assumption that the system's offerings match the economic development needs of the regions of the state, and on the basis that it is the students' obligation to fit in and find their way through the system. These both need to and can be reversed:*

- *High schools (and through them, communities' K-12 systems) must ensure that the vast majority of students graduate ready for college and/or work.*
- *Both individual institutional missions and resources and the state's overall system of higher education should be aligned more strategically to the economic development opportunities and needs of the state and its regions.*
- *In their middle and high school years, students should be able to see the learning paths they need to join the workforce of the state's existing and developing industries, not only in terms of the courses they need but also in terms of how they can move from high school to and through post-secondary learning to work.*
- *Companies with existing and potential investments in Indiana should be able to see clearly the system's capacity to provide them with a competitive advantage through an ongoing stream of educated workers.*

Indiana faces serious educational shortcomings. High school graduation rates are only 74 percent, 20th in the nation. Of the college bound, Indiana ranked 37th on Advanced Placement scores and 37th on SATs. Only 21 percent of the population ages 25 and older hold a bachelor's degree.

Target **Effectively prepare our emerging workforce for success in the 21st century economy through education and training aligned with industry-demanded skills and competencies.**

Initiatives

9. Align Education and Economic Development Strategies

The IEDC and DWD should coordinate with the Governor's Office and educational institutions to use economic and workforce development strategies for the state's regions and existing and developing industries to help align their regional educational institution's missions, structures, and curricula to improve opportunities for higher-wage employment for their graduates. For example, the effort will stimulate redesigned high schools that increase preparation for success in science, technology, engineering and mathematics; improve assessment mechanisms to gauge student readiness for success in post-graduation study; and provide performance data and feedback to high schools on student results after graduation.

10. Effective Pathways to Education and Skills

In order to reduce the number of high school drop outs, increase the progression of students to post-secondary learning, and provide job-relevant exposure for those not immediately bound for higher education, DWD should work with the IEDC, the Department of

Education (DOE), the Indiana Commission for Higher Education (ICHE) and the state's regions and their high schools and post-secondary institutions to develop and accelerate deployment of alternative learning pathways to successful careers. These will include:

- College preparation high schools and other 2+1, 2+2 or 2+3 programs that accelerate student preparation;
- More timely, effective, and facilitated movement of students into, within and through the state's public higher education system; and
- Increased access to apprenticeship, co-op, internship and other opportunities for experiential learning and links to potential employers and careers.

11. Incentives for Results

DWD and the IEDC should work through the Governor's Office with ICHE and DOE to:

- Establish clear learning targets and performance measures at the completion of high school and post-secondary learning that are more responsive to industry needs, regional strategies and labor market dynamics;
- Modify funding formulas for both secondary and higher education to reward actual results achieved, specifically, high school diplomas and post-secondary certificates or degrees awarded; and
- Establish clear, rigorous and effective reporting of results to the institutions' students, taxpayers and communities.

Pro Talent Objective 3 **Engaged workforce -** Help Hoosier communities and employers attract, engage and retain globally competitive talent from all sources, national and international.

Background *In today's economy - flat, fluid, intensely competitive and highly dynamic - Indiana's growth companies cannot only rely on the existing workforce and new graduates from the state's educational system who remain in state. Increasingly, firms must search worldwide to attract human and financial capital if they are to survive and grow. This requires raising the attractiveness and visibility of Indiana as a good place to live, work and grow businesses - a place with intellectual intensity, cultural diversity, entrepreneurial spirit, innovative capacity and a diverse and qualified workforce. Indiana has many of these resources but remains known primarily for its core manufacturing and agricultural assets. Indiana has a huge talent pool asset among the students and alumni of the state's* *colleges and universities. Indiana ranks 2nd nationally, after Pennsylvania, as a recipient state for first-time freshman (net in-migration). But we do little to entice this talent to remain in Indiana. Consider the following:*

- *45 percent of Indiana public post-secondary graduates leave the state after graduating.*
- *Indiana exports a third more graduates than it imports or retains, ranking 40th and trailing such neighboring states as Illinois, Michigan, Ohio and Wisconsin.*
- *During the 1990s, Indiana had a net loss of 96,000 college graduates, with only Ohio and Pennsylvania losing more.*
- *Technically trained majors (such as engineering/technology, math/science) who graduate from major research campuses have the lowest rate of retention, with approximately two-thirds leaving the state after graduating.*
- *Hoosiers ages 22 to 28 are six times more likely to emigrate than Hoosiers ages 29 to 36.*

Changing course and keeping a larger share of this talent upon graduation, and tapping into that population currently employed elsewhere to work in or move to or start companies in Indiana, represents an opportunity that few other states can match.

Target **Attract top global talent to Indiana companies and educational institutions to support economic development and business growth.**

Initiatives **12. Launch the "Hoosier Comeback" Program**

Indiana is home to some of the world's finest public and private universities and colleges. These institutions produce some of the finest graduates who, when they all too often leave the state upon graduation, represent critical lost potential for Indiana's economy. For the graduates who leave, research shows that there are changes in life circumstances, such as marriage or the birth of a child that might inspire them to come back to Indiana. The "Hoosier Comeback" program would make it easy and appealing for graduates to come home by connecting them to opportunities and resources that could assist in their transition and career pursuits. The following are important key elements of the program, which can be expanded later:

- "Hoosier Comeback" Scholarships – These "scholarships" would be available to science, technology, engineering and mathematics skilled Hoosier graduates and other talented individuals who are interested in returning to Indiana to start a business in high-wage, high-demand industries or to join a small company in these industries. Scholarship funds, comprising state, private foundation and industry contributions, could be used to cover such eligible expenses as business start-up and relocation costs. Parameters and eligibility guidelines, such as the submission of qualified business plan, would be developed to ensure funds are appropriately targeted. Scholarships would be issued as forgivable loans based on Indiana residency over time and other pertinent factors. The IEDC and DWD would administer the scholarship fund and application process.

- “Hoosier Comeback” Job-Matching Service - DWD has initiated an effort to partner with a private provider to introduce a new innovative job-matching service, replacing Indiana’s outmoded and overly bureaucratic system. As part of this effort, the new job-matching service should offer the capability for out-of-state Hoosier graduates to complete a career profile with an online resume. The system would then match the graduate’s profile with posted jobs in an effort to identify matches. Graduates would then receive regular emails with links to the job postings, along with updates of state economic and workforce development efforts. Critical to success in this endeavor is a strong partnership with Indiana’s university and college alumni offices.
- “Hoosier Comeback” Online Information Clearinghouse -This Web site would serve as a clearinghouse of information and services for out-of-state Hoosier graduates who are relocating back to Indiana. The Web site would offer one-stop access to such services as real estate agents and moving companies, information about local tax rates, educational systems and quality-of-life amenities. Service providers would also be encouraged to offer discounted rates through the clearinghouse.
- “Hoosier Comeback” Tour -To market the Hoosier Comeback program and other state efforts and reforms, Governor Daniels should undertake a tour in which forums are held in those cities that possess the greatest number of Hoosier graduates. Initial cities, based on U.S. Census Bureau data, would include Los Angeles, San Francisco, Chicago, Phoenix-Scottsdale and Denver-Boulder. University and college alumni offices would help ensure the greatest number of Hoosier graduates can be targeted to attend the forums, at which the governor would outline the opportunities available in Indiana and the resources available to assist graduates in returning to the state.

13. Launch the "Indiana-to-Indiana" Internship Program

Post-secondary internships, co-op programs and apprenticeships have more potential in graduate retention policy than is generally recognized. Successful internship programs would help employers' efforts to improve their workforces and would build better relationships between colleges and the business community. Employers participating in an internship program could get an early opportunity to evaluate students who eventually will become highly educated, valuable employees. The state could play three roles in helping match Indiana interns with Indiana employers:

- Provide incentives, in the form of tuition reimbursement funds, for small and mid-sized firms in high-wage, high-demand industries to offer internship opportunities for undergraduate and graduate students;

- Work with Indiana universities and colleges to devise and/or expand internship and co-op programs, particularly those programs that enable students to earn credits without significantly increasing time to graduation; and

- Create an internship portal as part of the DWD's new job-matching service that links into university and college career placement offices and allows companies of all sizes to post internship opportunities.

14. Cultural Support

Culture matters for economic growth. Ironically, in today's global economy, local factors have never been more important. The ability of a community to generate knowledge capital and leverage local resources will help determine its global competitiveness.

Entrepreneurship and innovation thrive in cultures that are willing to take risks, share new ideas and reward creativity. Like other Great Lakes states, Indiana has a remarkable history of pragmatic entrepreneurship. We can build for the future by rediscovering the excitement of Indiana's past. Fort Wayne, for example, has a long history of innovation, from the television to the pocket calculator. At the same time, Fort Wayne is continuing to innovate with 159 patents issued to inventors there last year.

DWD and the IEDC should encourage a rediscovery of Indiana's strong traditions of entrepreneurship and innovation. DWD and the IEDC can cultivate collaborative university-based entrepreneurship programs, promote entrepreneurship courses in primary and secondary school, encourage business plan competitions in every community and link entrepreneurship networks across organizational and political boundaries. Equally important, DWD and the IEDC can promote Indiana communities as creative places and act as a catalyst for regional place-making programs to develop cultural, recreational and other quality of life amenities that are consistent with attracting and retaining skilled workers and their families.

PRO INVESTMENT INITIATIVES

Pro Investment Goal: **Make Indiana one of the most investment friendly states in the nation.**

Issues *Indiana is generally a business-friendly state, with moderate taxes and a reasonable regulatory regime. Nevertheless, the state can and must do more in order to become a leader in attracting and supporting new business investment. Indiana lacks some of the quality-of-life advantages enjoyed by states competing for investment so it must be especially effective in creating a policy environment that promotes business expansion and success.*

Indiana receives very mixed grades on the annual Report Card prepared for the Indiana Chamber of Commerce. On business costs, it received a B-, on business productivity a D. It earned a B+ for Indiana's government and regulatory environment, and a C for quality of life.

Pro Investment Objective 1 **Tax and Regulatory Reform -** Reform the tax and regulatory systems to accelerate investment.

Background *Indiana's tax rates have historically been considered moderate, but that has changed over the last decade or so. For example, Indiana ranked 8th nationally in terms of state and local business taxes per dollar of private economic activity in 2003 (Ernst & Young, 2004 Council On State Taxation report) but ranked 35th in terms of the total state and local tax burden on income.*

Several elements of Indiana's tax code are not conducive to business investment. Indiana is one of the few remaining states that tax business personal property, including machinery and equipment used in the production of goods and services. Indiana also "penalizes" home-headquartered companies by using sales, payroll and property to apportion corporate tax liability, rather than simply basing it on sales.

In addition, Indiana ranks 22nd in Governing Magazine's "Grading the States" report, based in part on rating the government's burden on the private sector. Indiana can and should do far better.

Target **Improve the business climate in Indiana through tax and regulatory reform that promotes investment.**

Initiatives

1. **Conduct a Top-to-Bottom Review of Indiana's Business Taxes, Both in Absolute Terms and Relative to That of Other States, and Propose Changes That will Promote Capital Investment and Support Job Creation**

   Rather than piecemeal efforts to change one or more elements of Indiana business taxes, it is time for a thorough review of state tax policy and its impact on business. The review should be carried out by the IEDC and the Office of Management and Budget (OMB) with advice and input from a special gubernatorial commission comprising key legislators, business and community stakeholders and academic experts on business taxation. Such a review would examine both the absolute tax burden that the state imposes on business, as well as its relative "tax competitiveness" in comparison with that of neighboring states. As part of this review, an "ideal" tax regime should be developed based on the goals of encouraging capital investment and job creation among Hoosier businesses. Among the issues to be considered in such a review are:

   - The phase out of the business personal property tax;
   - Adoption of a corporate tax formula based on a single sales factor;
   - Variations in the tax rates of different corporate entities; and
   - The best mix of tax incentives to promote capital investment and job creation.

2. **Annual Monitoring of Indiana's Business Tax Competitiveness**

   Indiana continues to do a poor job at monitoring a constantly changing business tax climate. It needs to create a sound comparative tax model and update it every year to reflect changes to tax laws in competitor states. Such a model would be a powerful tool for the IEDC to recruit businesses by providing best estimates of tax burden for an Indiana site compared with sites in other states. Further, this model would serve as a valuable adjunct in estimating the dynamic fiscal impacts of policy changes, an ability sorely needed by policy makers.

3. **Continue the Process of Deregulation, Regulatory Reform and Measuring the Financial Costs of Regulation**

   State government should continue to look for ways to reduce the costs and burdens of rules and regulations on Indiana businesses, especially on small businesses that have the fewest resources available to manage regulatory requirements. The Daniels Administration has made a good start in requiring all state agencies to assess the financial impact of new regulations on Hoosier businesses.

It also has asked all agencies to acknowledge the priority of job creation and economic growth in the development of their action and rule-making plans.

Agencies must be encouraged to remain vigilant regarding the return of "regulation creep" and to review annually all agency rules in order to determine whether any regulations might be eliminated or eased. Agencies should also try to ensure that local government units with which they work are not imposing unnecessary or redundant regulations on business owners. Cooperation, coordination, integration and responsiveness of the regulatory and permitting systems among state and local agencies should be encouraged and rewarded for providing as much "one stop" decision-making as possible.

Pro Investment Objective 2

Healthier Hoosiers – Improve the health status of all Hoosiers and their access to quality care.

Background

Indiana is one of the most unhealthy states in the nation, with rates of smoking, obesity, heart disease and diabetes exceeding the national average. As a result, the costs of healthcare are higher in Indiana than in many states with which it competes for businesses and jobs, creating a growing burden on both Hoosier employers and workers.

Target

Seek ways to reduce the number of Hoosiers without health insurance and to reduce the costs of healthcare for Indiana businesses and workers.

Initiative

4. Explore Ways to Reduce the Number of Hoosiers Without Health Insurance

The state's Family and Social Services Agency (FSSA) should work with external experts to identify options for expanding the number of Hoosier workers and their families who have access to health insurance. A range of policy options should be considered, including:

- "Mandate-lite" policies that contain fewer required covered services and, thus, are less expensive;
- Expansion of health-savings accounts and other consumer-directed health plans;
- The creation of risk pools that enable groups of small businesses to afford health insurance for their workers; and
- Expanding Medicaid to cover a larger population of the working poor.

Target **Reduce the costs and improve the quality of healthcare for Indiana businesses and workers.**

Initiatives

5. Focus on Policies That Increase Access to and Encourage the Use of Primary Care and Disease Management

Indiana's health care system is oriented toward higher rates of institutional care - more hospital use, more nursing home use and more high-end expenditures compared to preventative primary care. Policies to encourage greater access to and use of preventative and primary care services should be explored. These policies should include a continuation of the shift in long-term care from the nursing home sector to home care.

6. Explore Incentives for Hoosier Businesses and Workers to Adopt Healthier Lifestyles

- Eliminate provisions of the "Smokers' Bill of Rights" law that prevent employers from offering health insurance premium discounts to employees who do not smoke.
- Allow employers to offer similar discounts to employees who meet certain health goals, such as weight loss or keeping blood sugar or blood pressure at healthy levels.
- Encourage communities to adopt smoke-free policies.
- Continue efforts to promote and expand adoption of the governor's InShape Indiana initiative by Hoosier businesses.

7. Increase Medical Effectiveness and Reduce Errors

Medical care is becoming more advanced and more expensive. Medical errors and inefficiency create significant system costs that will grow unless corrective actions are taken. More advanced medical care applied in error can produce tragic results.

Indiana should build on the Medical Error Reporting legislation developed by the governor and passed by the legislature in 2005 by encouraging the development of:

- Electronic exchange of clinical information among care providers, Electronic Medical Records (EMR) and other Health Information Technology (HIT) to improve communication between inpatient and outpatient settings; and

Artificial Intelligence systems that can avoid errors by checking for drug counter-indications and conflicting treatments/orders across multiple physicians and care delivery systems.

Pro Investment Objective 3 **Infrastructure for High Growth -** Accelerate investment in key infrastructure and infrastructure-related industries and activities required for long-term economic growth across Indiana.

Background *Infrastructure provides the underpinning of economic activity and represents a significant economic sector in its own right. Infrastructure includes physical assets (such as roads, rail links, and airports), energy resources and digital communication networks that connect people and businesses. Investments in both traditional and new infrastructure are required if Indiana is to compete effectively in the national and global economy. This plan does not offer a comprehensive infrastructure plan. Rather, it identifies and targets select investment targets of particular importance to accelerating Indiana's economic growth.*

Indiana receives highly uneven rankings for the quality of its infrastructure, averaging 20th overall in 2003/4. It ranked fourth for digital state government, ninth for water quality, 20th for highways,17th for bridges, 23rd for overall digital infrastructure, but only 36th for broadband, 32nd for railroad productivity, 31st for major market air connectivity, and 32nd in urban traffic congestion. To accelerate Indiana's economic growth, Indiana should leverage its physical infrastructure and location assets and invest in those infrastructure gaps that are particular impediments.

Target **Make significant improvements/enhancements to the state's physical and "intangible" infrastructures in order to ensure that they are able to support the future requirements of a growing and evolving Indiana economy.**

Initiatives **8. Major Moves**

The plan, *Major Moves: Creating a Top-Tier Economy Through Top-Tier Transportation*, is critical if Indiana is to truly become the nation's distribution and logistics capital. Major Moves includes a $10.6 billion transportation plan for the next 10 years that will dramatically accelerate projects important to the state's economic growth and prosperity: $5.3 billion for preservation and maintenance projects and $5.3 billion in new construction. Central to the plan is consideration of a variety of alternative funding approaches, including public-private partnership options, to invest for future growth rather than Indiana's traditional "pay as you go" approach to infrastructure financing.

9. **Intermodal Strategy**

   Accelerate and build on Major Moves by developing a sound intermodal strategy, including transportation parks, high speed rail and dedicated truck lanes. Use the creative financing tools already introduced, and leverage Indiana's location and infrastructure to capture a significant part of the traffic by air, truck, rail and pipeline across North America. Major Moves focuses primarily on developing the foundational highway and bridge infrastructure, but it clearly envisions an Indiana with new means of mobility for both goods and people with intermodal ports and a major Northwest Indiana airport serving not just Indiana, but also its neighbors.

10. **Energy Innovation**

    The Administration is in the final stages of developing a state energy plan that will complement and support this economic plan by encouraging investment and job creation in the energy sector of Indiana's economy – a sector with enormous potential to grow and add value in the years ahead. The plan is based on exploiting Indiana's abundant "home grown" sources of energy – coal and bio-fuels – through new technologies that make use of these fuels to provide electric power, synthetic gas for commercial and residential heating and transportation, increasingly feasible and cost competitive. The plan's goal is to meet as much of Indiana's future energy needs as possible from local sources, creating jobs and making the state a leader in the application of advanced energy technologies. The plan provides options for increasing investment in electricity generation to meet the state's growing demand for power and to maintain Indiana's well-earned reputation as a low-cost state. The plan also confirms Indiana's intent to be a national leader in the development and use of environmentally-friendly bio-fuels and clean coal technologies, providing new markets for the state's agricultural producers.

11. **Strategic Information**

    Expand support for the current statewide data initiative called Information for Indiana (IFI), a collaborative project between the Daniels Administration and the state's major public universities. IFI is intended to identify and close the major gaps in the state's collection, analysis and dissemination of data, which is relevant to decision making by policymakers and other stakeholders. Funding in the 2007-08 biennial budget will be requested to support IFI initiatives, especially in economic development, and to begin planning for the creation within state government of an office responsible for the state's data, information and statistics.

Support development of a statewide, user-friendly, Web-based, economic development information system which would provide current strategic information to Indiana's businesses and support informed state and regional economic strategy and policy development. The state's impressive ranking in digital government does not extend to local government and does not encompass the critical role of readily available strategic intelligence for both sound policymaking and economic growth.

12. Broadband Communications

Telecommunications is a critical component of infrastructure for the 21st century, and access to high-speed broadband digital communications networks is essential for economic competitiveness. Indiana's telecommunications laws are in need of revision to reflect the new technological and competitive realities of communications markets. Rather than focusing on controlling the market power of providers who are no longer monopolies, the primary objective of state telecommunications law should be to encourage and promote rapid and aggressive investment by telecommunications suppliers in the expansion of their high-speed broadband networks and the provision of new services for businesses and consumers.

For Indiana to remain competitive in this increasingly global and "wired" economy of today and tomorrow, it is essential that the state's businesses and consumers have adequate access to such broadband networks. The best way to ensure such access, especially during a period of dynamic technological change, is for the private sector to provide it. Encouraging such investment and competition from providers offering a range of technological platforms, from fiber optics to wireless to broadband over power lines, and providing a "level playing field" for all participants, are the most appropriate roles for public policy. To achieve these goals, Indiana must free telecommunications providers from the burden of unnecessary price regulation and the "micromanagement" of their business operations.

Build a Foundation for Progress - Regional Growth Strategies

Accelerating growth depends first and foremost on the support of Hoosiers across the state who will collectively determine Indiana's economic future. It is not enough for the state to provide a vision and identify tools for success that encourage economic growth. The initiatives outlined in this plan will be useful only if they are supported by a broad base of regional partners and industry networks. Together, Indiana's regional economies and their networks of high-growth industries, supported by countless innovative Hoosiers, will build a foundation for future economic progress.

Regions for Economic Growth

Hoosiers need to think, plan and act regionally. There is a clear consensus among economic development experts that economic growth and competitive advantage occur at the regional level, rather than at the state or local levels. Being competitive today requires the ability to develop networks that bridge organizational and political boundaries. To compete globally, Indiana leaders must collaborate regionally. Clearly, Indiana is not a single economy but rather a set of regional economies, with differing assets and liabilities, strengths and weaknesses. Therefore, the successful implementation of economic growth initiatives requires the support of regional networks composed of civic, business, investor, academic, entrepreneurial and philanthropic partners.

Several regions across Indiana are well on their way to developing and executing regional growth strategies, while others are still identifying resources and leaders and beginning to form networks. For the past four years, the Indiana Humanities Council (IHC) has been supporting the emergence of regional leadership in the state. The IHC is helping regional leaders define the key assets of their regional economies and to begin developing plans for leveraging these assets. As the IHC has noted, regions with open networks of collaboration will be more competitive, learn faster, spot opportunities more quickly and align resources faster. In turn, their regional economies will grow faster.

The state will build on the work already done to define regional economies and develop regional growth strategies. By creating incentives and removing barriers, it will accelerate effective regional economic development planning and implementation, and encourage the further development of regional leadership networks. Indiana should, therefore, encourage and provide incentives for its communities to think, plan and act regionally.

Target **Develop robust regional economic development strategies that reflect a careful assessment of the comparative assets and strengths of Indiana's various economic regions**.

Initiatives

1. **Regional Investment Consortia (RIC) and Enhanced Inter-local Cooperation**

   - Support the formation of regional investment consortia (RICs) comprising area political, business and community leaders to work in close coordination with the IEDC, regional workforce boards, Ivy Tech boards and representatives of relevant state agencies to craft and implement consistent and complementary regional growth strategies, and to encourage inter-jurisdictional collaboration. These organizations will provide a framework for leaders to share ideas, review best practices and develop innovative strategies for regional development. The economic regions that RICs represent will not be confined to traditional political or geographical boundaries. Instead, the IEDC will encourage a bottom-up approach to defining regional economies that focuses on labor market areas and patterns of commerce. The IEDC and the Office of Rural Affairs will strongly promote the engagement of smaller communities and rural areas in such planning efforts, as Indiana's overall prosperity will be based on the economic development of Indiana's rural communities.
   - Support RICs by creating a state regional investment fund (target $3 to $5 million per year) to provide matching funds for regional planning initiatives, including regular assessments of regional economic assets and advantages, as well as competitive matching grants for major regional development projects.

2. **Reduce Inter-Jurisdictional Competition and Encourage Cooperation/Collaboration Through Changes in the State's Inter-local Agreement Statute**

The state should encourage local governments to collaborate on, and jointly invest in, large economic development projects by modernizing the inter-local agreement statute to explicitly permit a wide range of local, cross-county and regional collaborations, including granting the authority for cooperating units to share any new tax revenue that results from collaborative economic development projects. In addition, the IEDC and other officials should aggressively educate local leaders about the authority granted to them to collaborate by the inter-local agreement statute, which is not well understood or appreciated in many parts of the state. Successful examples of cooperation/collaboration should be celebrated publicly, and methods for sharing best practices among local officials should be developed and exploited.

From Networks to Clusters

Businesses often locate near a beneficial natural resource, a needed factor of production or a unique critical mass of human capital. Where such resources exist, businesses from a certain industry sector often congregate due to the nature of the particular assets. The resulting positive economic climate can lead to innovation and collaboration within an industry, sharing knowledge and the further attraction of businesses and their relevant suppliers. As this process matures, industries develop regional networks of collaboration. Such networks are powerful drivers of enhanced economic activity, and, in particular, for nurturing innovation, new product development and new market penetration in the fast-moving, complex world of global competition.

Over time, regional networks can attract new investment and workers drawn to the entrepreneurial spirit and tacit knowledge generated by the networks. The end result is an industry cluster, a place where a critical mass of skills, resources, information, dynamic collaboration and innovation collectively build a sustainable location-based competitive advantage. There are both “hard” and “soft” benefits to clusters. Hard benefits are derived from more efficient business transactions, smarter investments and shared overhead. Soft benefits are gained from the learning, benchmarking and sharing of information that generates tacit knowledge, increased innovation and knowledge spillover. These benefits are particularly important in a global economy where establishing a location-based competitive advantage is increasingly challenging.

A recent study aimed at identifying and measuring the competitiveness of potential clusters located in Indiana recognized five active clusters: advanced manufacturing, chemicals, advanced materials, biomed/biotech (life sciences) and advanced logistics. Every effort should be made to support the advancement of these and other existing clusters while at the same time encouraging the formation of new industry networks that may develop into new clusters.

Some states are pursuing strategies that explicitly target certain “desirable” industry clusters. This plan does not propose such a strategy for Indiana as it is not appropriate for government to try to pick “winners” in the game of economic competition. Rather, free markets should determine the fate of both individual enterprises and even whole industry sectors. Moreover, clusters cannot be created from the top down. Instead, they emerge from mature networks of innovation and collaboration. Although the public sector cannot establish clusters, it can help to create an economic environment that is conducive to network proliferation and, thereby, to eventual cluster development in the private sector.

Once a cluster develops, for example in life sciences, a coordinating organization may be desirable. In 2002, BioCrossroads was formed to support basic science, attract new business and research opportunities and to create more entrepreneurial activities to help accelerate job creation in Indiana’s life-science cluster. The organization is a voluntary collaboration of 13 public university, corporate and government organizations drawn from the leadership of Indiana’s life science and healthcare industry.

Organizations such as BioCrossroads should and do help attract new employers to the state by generating leads and working with state and local officials to attract new companies and opportunities to Indiana. In addition, these organizations should promote the growth of existing Indiana companies by reinforcing the need for members of the cluster to buy their products/services from Indiana firms rather than out of state. These organizations help leverage the competitive advantages created by such "critical masses" of companies and their supporting "infrastructure" of suppliers and customers.

Target **Accelerate investment in sector- and industry-specific economic development initiatives with demonstrably high income and wealth potential, led by industry partnerships and coalitions.**

Initiatives

3. **Promote industry-led collaboration and strategic alliances among firms to nurture innovation, joint workforce programs, new product development and new market penetration**

    - Encourage existing and emerging industries to form Industry Innovation Networks and support such efforts with modest matching grants. Networks provide the most effective vehicle for the development and proliferation of knowledge and innovations that can improve products and processes, and add value to businesses. Matching funds could support a variety of network formation activities including: 1) conferences, workshops, or training focused on industry-specific innovation opportunities, 2) the establishment of industry liaison offices that could identify new innovations and advocate for entrepreneurial or other needed investments, 3) industry resource mapping and network strategic planning efforts, and 4) multi-firm applications to state and federal funding opportunities.
    - As Industry Innovation Networks and other industry alliances strengthen and develop into active clusters, there may be opportunities for the state to support the establishment of a coordinating organization to help drive the clusters' growth and development. Such an organization would serve as a neutral convener and cluster advocate providing industry with valuable research and data, identifying new opportunities and threats and working to foster start-ups, relocations and innovations to strengthen the cluster. A prominent example of such an organization in Indiana is BioCrossroads, which performs these functions for the life sciences cluster in Indiana.

4. **Reorganize and/or deliver services around clusters**

    - Many services, from the perspective of businesses, are fragmented and poorly coordinated. Indiana companies waste a great deal of time and money searching for services by contacting multiple agencies before they can apply for what they need. Too often this process scares businesses away from valuable training, financing, research and technical assistance provided by the state. By reorganizing the Small Business Development Center system, launching the Information for Indiana campaign and developing the Hoosier Partnership for a Competitive Workforce, businesses will have one-stop access to business development resources, up-to-date economic development data and customized human capital enhancement.

- Additionally, the state will support cluster development and expansion by allowing clusters to tap into an infrastructure intended to support high growth. World-class roads, broadband communication and energy sources will allow clusters to move goods to market faster, receive information quicker and produce products that are cheaper and cleaner.

Getting Started

It is essential that Indiana begin moving forward to implement this plan as soon as possible. There is no time to waste. Building momentum in the early phases of implementation is critical, and the IEDC has taken an important initial step to do so: the creation of a new Interagency Implementation Team comprising senior leadership from all state agencies involved with economic development, as well as from the Governor's Office. The Team's roles include:

- Coordinating the actions of state agencies to ensure that all economic and workforce development activities are consistent with the goals and objectives of the plan;

- Working to identify and secure the financial and human capital resources necessary to support the plan's initiatives;

- Monitoring the implementation process by setting milestones and measuring performance;

- Adjusting and/or developing new economic development initiatives that will meet needs not adequately addressed by the current plan; and

- Engaging regional and local leaders to advance the plan and ensure statewide ownership.

However, state government cannot effectively execute this economic plan without the help and engagement of all Hoosiers. Community leaders across the state must come together to form a broad implementation network that embraces the vision put forth in this plan, uses the incentives it provides and establishes local strategies that will further leverage its successes.

There is a clear consensus among economic development experts that economic growth and competitive advantage occur at the regional level, rather than at the state or local levels. Therefore, the IEDC and the Interagency Implementation Team will work closely with civic, business, investor, academic, entrepreneurial and philanthropic leaders across the state to ensure that the plan is effectively executed at the regional level.

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