INDIANA POLICY Review

'A future that works'

Learning to Be Ourselves

Can we attract jobs without complex financing and the attendant political maneuver?

In Congress, July 4, 1776, the unanimous declaration of the thirteen United States of America:

When in the course of human events, it becomes necessary for one people to dissolve the political bands which have connected them with another, and to assume among the powers of the earth, the separate and equal station to which the Laws of Nature and of Nature's God entitle them, a decent respect to the opinions of mankind requires that they should declare the causes which impel them to the separation. We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable rights, that among these are life, liberty and the pursuit of happiness. That to secure these rights, governments are instituted among men, deriving their just powers from the consent of the governed. That whenever any form of government becomes destructive of these ends, it is the right of the people to alter or to abolish it, and to institute new government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to effect their safety and happiness. Prudence, indeed, will dictate that governments long established should not be changed for light and transient causes: and accordingly all experience hath shown, that mankind are more disposed to suffer, while evils are sufferable, than to right themselves by abolishing the forms to which they are accustomed. But when a long train of abuses and usurpations, pursuing invariably the same object evinces a design to reduce them under absolute despotism, it is their right, it is their duty, to throw off such government, and to provide new guards for their future security.

INDIANA POLICY Review

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A FUTURE THAT WORKS

Our mission is to marshal the best thought on governmental, economic and educational issues at the state and municipal levels. We seek to accomplish this in ways that:

- Exalt the truths of the Declaration of Independence, especially as they apply to the interrelated freedoms of religion, property and speech.
- Emphasize the primacy of the individual in addressing public concerns.
- Recognize that equality of opportunity is sacrificed in pursuit of equality of results.

The foundation encourages research and discussion on the widest range of Indiana public-policy issues. Although the philosophical and economic prejudices inherent in its mission might prompt disagreement, the foundation strives to avoid political or social bias in its work. Those who believe they detect such bias are asked to provide details of a factual nature so that errors may be corrected.

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THE END OF RUST BOWL CHIC

Let's try being ourselves.

In the 1990s at the morning coffee shop, I would run into a former mayor of my city, now retired. He was from the beginning a successful businessman and gifted politician, albeit a Democratic one. This is to thank him for his prescience.

One morning the mayor stepped out of political character to make two observations — *bons mots,* perhaps, thrown to a young conservative friend. Whatever, both have stayed with me. Indeed, the first is the inspiration for this issue of *The Indiana Policy Review.*

Indiana needs to learn to be itself, the mayor said in so many words that morning long ago. He had tried it the other way. For when a large manufacturing plant closed in his city in the early 1980s, he was one of the first municipal executives in the nation to step away from traditional manufacturing and go after high-tech businesses.

That was a mistake, he had decided. He now hoped that Indiana would capitalize on an inherent strength — the skilled machinists and innovative engineers who grow out of Hoosier soil like corn.

There always will be a market for finely made machinery of one type or another. We could become the Switzerland of North America, to paraphrase his argument that morning. "The premier machinists of the world are already here," he noted.

In the years after its derogation as part of the "rust bowl" Indiana developed an inferiority complex. We became resigned to experts telling us we needed to be like someone else, in any other somewhere else.

We now read that our largest state colleges are increasing the percentage of out-of-state and even out-of-country applicants accepted. And the mayor of Indianapolis recently proclaimed, absurdly, that when people around the world think of cricket, "I want them to think of Indianapolis."

Such is "Rust Belt Chic," to use the urbanist's term of art. Happily, it is being rejected. A counter argument, my old mayor's argument, is taking hold.

Joel Kotkin, writing in the September *Forbes* magazine, notes that Indiana, Michigan, Ohio and Wisconsin, rusty or not, have ranked among the top five states for growth in industrial jobs since 2007. Moreover, these states of the Great Lakes have added a half million new manufacturing jobs since 2009. Here is Kotkin explaining the potential:

> To build on this progress the region needs to focus on its human assets. This starts with by far the nation's largest concentration of engineers, some 318,000, which stems from the oft-unappreciated fact that manufacturing employs the majority of scientists and engineers in the nation. It also accounts for almost 70 percent of corporate research and development. This includes disciplines such as mechanical engineering, which according to a recent study, has enjoyed steady job and income growth over the past 20 years.

He notes that neighboring Ohio already has begun rebuilding its skilled trades, educating its workforce with training for jobs that actually exist and are expected to grow. (Indiana Gov. Mike Pence, who is learning to ride that symbol of American manufacturing skill, the Harley-Davidson motorcycle, has given indication that he will follow.)

Kotkin concedes that traditional manufacturing jobs may never return in large numbers. The earnings level for skilled workers, however, remains above the national average. That may increase as shortages develop, Kotkin believes. Indiana could capture a good part of it.

The obsession with high-tech fancy, he reminds us, goes back at least a decade. Its height was during the two terms (2003-2011) of the politically fashionable governor of Michigan, Jennifer Granholm. Her idea was to turn Detroit into a "cool" burg. She went on to help Barack Obama design his economic strategy.

Kotkin's alternative advice to subsequent economic-development wizards boils down this, a phrase my pastor uses in his homilies: "Don't ask God to bless what you are doing, do what God is blessing."

As bad examples, the pastor might have employed the various plans to bless politically selected investors with build-them-and-they-will-come stadiums, hotels, convention centers and other rationales for multimillion-dollar subsidies, all policies that Kotkin discourages:

> To be sure, these can succeed in building a hipster *cordon sanitaire* — a miniaturized but utterly derivative urban district — that can be shown to investors and visiting, and usually core-centric, journalists. It also can enrich speculators and those politicians who service them, but represents a marginally effective means of reviving a city, much less the regional, economy.

So, the fall issue is dedicated to deconstructing that Hoosier economic-development strategy born of an inferiority complex. We begin with several critical analyses of Tax-Increment Finance (TIF), one of the too-slick ways of dressing up Indiana's cities and counties to look like they are something they are not.

As Tom Heller concedes in the lead article, there can be no doubt that TIF moves money around. The questions is to where, and from whence, and at what cost. The conclusion is that whatever its tactical benefits for this deal or that, TIF should be at most secondary in any economic-development strategy.

But what about that second observation, the one from that coffee meeting with my old mayor?

A lifetime in politics convinced him that Indiana politicians could not "take the heat." By that I believe he meant our elected officials would not put forward sound policies if it risked their position. The mayor thought the problem for both parties was office-holders who, when opposition emerged, trimmed the most critical programs to fit their political ambition.

It may have been a matter of professional pride; he sincerely believed that his worth as a politician was to convince his electorate of the correct policy regardless of personal fortune.

Yes, the mayor had a dreamy side. Did I mention he was a Democrat? — *tcl*

INDIANA'S WOBBLY TIF LAW

This economic development legislation bred a well-heeled cottage industry composed of legal and accounting firms, land developers, industrial and commercial property brokers and consultants, development officials and experts, architectural and engineering design firms, and building contractors. The law's complexity provided this back-slapping crew with cover from public view.

by **TOM HELLER**

Tax-increment financing (TIF) is a popular but increasingly controversial tool designed initially for redevelopment of blighted areas. With historical roots tracing to federal urban-renewal programs of the Depression era, TIF more recently has morphed into a way of attracting investment for local commercial and industrial development.

Graphics: Lisa Barnum

It enjoys one feature, however, that sets it apart from other state and local "economic-development" tools such as property-tax abatements, tax-credit incentives and outright grants. That is a TIF district's ability to capture or "pool" property-tax collections that otherwise would flow to local government bodies (cities, schools, county, libraries, etc.).

Through this pooling, TIF districts can represent an affirmative and voluntary choice by all the local taxing bodies to concentrate a stream of captured property-tax revenues derived from within a defined territory for a single purpose — to finance local public improvements to lure private investment to produce desired outcomes for the local economy, especially additional job opportunities and wage growth for local residents.

History and Initial Purpose

Economic development was not always the aim of Indiana's Redevelopment Act (1972), which forms the basis for TIF and its money-pooling mechanism. The Redevelopment Act was replete with the terms "blight" and "blighted" and was aimed at rehabilitating decaying and dilapidated inner-city neighborhoods. In this same era, other states adopted similar redevelopment programs to address decline in their cities.

By 1987, states were rapidly turning their attention to economic development. An array of programs and incentives were authorized, now centralized under the Indiana Economic Development Corporation (IEDC). The legislature permitted the creation of Economic Development Areas (EDA), Economic Revitalization Areas (ERA) and empowered cities to offer tax incentives to private developers. While these incentives mostly took the form of property-tax abatements, one redevelopment power added in the 1980s — permitting bonds to be financed from TIF revenues – opened a new pathway for direct involvement by local government in economic development.

With time, that pathway was streamlined. In 2005, a wholesale change to the qualification for starting a TIF was changed: The previous standard of declaring an area as "blighted" was removed, replaced by the simple hurdle of "needing redevelopment." (A Mack truck could fit through this opening, some critics argued unsuccessfully.) And the very next year, the legislature adopted language to ensure that TIF districts always had enough money to meet their bonded debt service, "perfecting" the security of bonds sold against TIF proceeds.

TIF districts are sold as a tool to help an area's economic development. That belief or assertion, however, is subject to question. A report by RAND on California's tax-increment financing program found that only about half of TIF-district revenues could be traced to growth actually spurred by TIF-financed improvements. Last year, the California legislature closed all the TIF districts in the state even though they had collected \$5.7 billion annually and had issued nearly \$13 billion of bonds.

Controversy over the workings, uses and effects of TIF has only grown as taxpayers become aware of them. A watchdog group in Chicago reports that 163 TIF districts drain \$455 million annually from that city's coffers. TIF districts have now spread over a third of the city and approximately a third of property taxes collected in a TIF district are diverted from city services — a robust harvest, even by Chicago standards.

Analysis and Application

All of that considered, Indiana's TIF laws, and their interaction with property-tax laws, are predictably complex. The accounting and math governing TIF districts is so opaque as to defy audit. This may intentionally advantage those who stand to benefit, as TIF districts have bred a well-heeled cottage industry composed of law firms, CPA firms, land developers, industrial and commercial property brokers and consultants, economic development officials and experts, architects and engineering design firms, and building contractors. Complexity helps to provide this backslapping crew cover from public view.

This report begins to untangle the complexity, illustrating how the financial machinery of TIF really works in Indiana. Its conclusions contrast starkly with the unalloyed claims of success advanced by the TIF industry, its champions and cadre of defenders.

TIF districts in Indiana expect to collect $580 million dollars this year. Over five years through 2010, they issued $430 million in bonds, placing us 7th highest in the nation in per-capita TIF bonds sold, markedly ahead of Illinois, Ohio and Michigan.

The statutorily permitted uses of TIF money retains a flavor of the urban-renewal language of the 1972 Redevelopment Act, *i.e.,* "acquire property," "clear property," "inspect property," "repair and maintain structure," "remodel, rebuild, enlarge structures," "hold, use, sell . . . or otherwise dispose of property acquired," "grant interests for public ways, levee, sewerage, parks . . . and other public purposes," and "contract for the construction of local public improvements."

But the focus of TIF districts — and the local redevelopment bodies that control them — has moved beyond urban renewal or redevelopment and is now focused on development, including for exurban "greenfield" sites on former farmland. So, too, has the central term "local public improvements" become clouded — even exploited. It now encompasses things such as parking garages — frequently paired with new mixed-use commercial and residential development projects — and new big-box or national-chain retailers and restaurants.

What makes TIF projects so unique among economic-development tools is the revenue stream captured for their purposes. This revenue stream supposedly represents the yield of follow-on development after a TIF completes its "local public improvement." In a sense, then, TIF is designed to be a development bank financing public improvement that supports urban renewal or economic development — an "infrastructure bank" unlike any other economic-development tool.

As cities have taken on more aggressive economic and urban-development stances, their local redevelopment commissions have been increasingly tempted by TIF's "cottage industry" to stray from their intended role of simply constructing local public improvements. Instead these commissions have begun to take on the role as a bank — a credit-granting entity crafting agreements that deploy TIF revenues to help private-property developers finance high-profile commercial investments.

This new role has been assisted by some curious math enabling TIF districts to actually harvest more money than they earn, working not only to bulge the coffers of local redevelopment commissions with surplus money but also sending false signals of success to local redevelopment bodies. Beyond this "scope creep," the TIF mechanism has gone awry in another, perhaps more fundamental way.

A central promise underlying TIF is the assurance that the tax base of all local taxing districts (schools, etc.) will not suffer a decline under the math governing TIF. (TIF is supposed to "freeze" the tax districts, preventing a loss of future tax revenue to schools, cities, counties and libraries).

That promise is no longer fulfilled in Indiana. TIF districts across the state have been eroding the tax bases of local taxing districts. (For a full explanation of the Base AV or Assessed Valuation, see box on next page). Indeed, eroding the supposedly frozen tax base appears to be the dark, hidden secret of TIF in Indiana communities, generating false signals of success hyped by the TIF industry.

For example, in seven short years since the TIF districts were started in 2005, the Base AV of TIF districts in my city, Columbus, in Bartholomew County, has eroded by 43 percent or $124 million. This tax base erosion exceeds all the new private commercial and industrial investment within the TIF districts since they

In seven short years the Base AV of TIF districts in my city, Columbus, eroded by 43 percent or $124 million. That is equivalent to years of new commercial and industrial development.

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The amount of new private investment occurring inside the Columbus TIF districts, for instance, was almost exactly offset by lowered assessments on parcels previously developed.

were created. And it represents about 30 percent of the declared value of all new commercial and industrial building permits issued in the entire county.

Why would this happen? Follow the money. By TIF's curious math, the erosion flows through to the Increment AV and generates more TIF revenue for the local redevelopment commission. By this curious math, erosion of Base AV — not growth — accounts for most of the revenues harvested by the Columbus local redevelopment commission. Our TIF districts now generate over $6 million annually, up 20 percent in just this last year. But this is a false signal of success because it is mostly "unearned revenue." This and the aforementioned scope creep curiously enriching TIF math go hand-in-hand, producing a fast-growing pool of money for the assorted elements of the TIF industry to "mine" under the banner of economic development, which has attained a status right up there with mom, apple pie and the American flag.

In this same period, the total assessed value property in Columbus' TIF districts has risen only $14 million — about one-eighth as much as the value of new county building permits issued for investment within them. How can seven years and $107 million in new taxable private investment result in only a $14-million increase in taxable assessed value within our TIF districts?

This suggests that the county assessor granted $93 million in adjustments (write-downs) of property values inside the TIF district. That's upwards of a 33 percent write-down — on previously developed parcels, we presume. Requests submitted to the county auditor for explanation have gone unanswered.

Besides enriching TIF revenues through that curious math, there's one last consequence of TIF base erosion. It works to "export" (or transmit) higher property-tax rates to properties located outside TIF districts *(see box below)*. Thanks to the "maximum levy" law enacted in 2002, which effectively "decoupled" (or insulated) every taxing district's total property-tax levy from declines in AV, the erosion of TIF Base AV we've seen in Columbus means higher property-tax levy rates were passed along to cities, counties, school and library districts. Thus, the math of TIF districts has real-world consequences that come at the expense of all taxpayers. (Adding insult to injury, the curious math of TIF translates these higher levy rates into an added TIF revenue "kicker" for local redevelopment coffers, another false signal of success.)

The Secret Sauce

This policy review reveals unexpected but politically critical features behind the math and mechanics of TIF in Indiana.

First, the erosion of Base AV greatly boosts TIF revenues under the curious math of TIF in Indiana. Second, the erosion translates immediately into higher property-tax rates on property countywide; whether it lies inside or outside the TIF is of no consequence. Third, base erosion offsets genuine new investment in a TIF district, hiding significant assessment write-downs on existing properties within the TIF. Thus, while new money (AV) is deposited in the TIF "bank," old money (AV) can be

The Political Math of the Maximum Levy: How the 2002 Tax Reform Went Awry

AV is shorthand for "assessed value" or "assessed valuation." It is the tax base for every taxing jurisdiction. An individual tax bill = AV multiplied by the tax rate, *e.g.,* $100,000 x $3.50 per $100 = $3,500 tax bill. For a taxing district as a whole: Levy collections = district AV multiplied by district's levy rate, *e.g.,* $1 billion x $3.50 per $100 = $35 million. That's the long-standing way property-tax bills and levies are calculated.

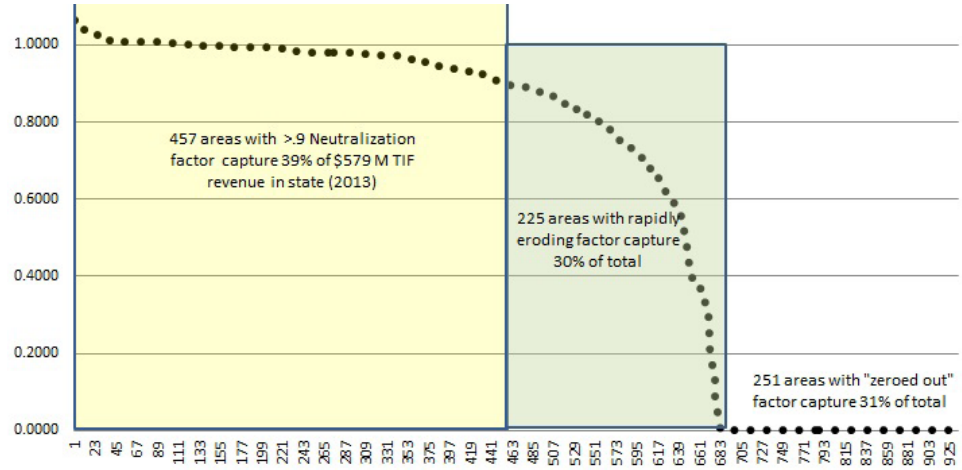
When the "maximum levy" property-tax limit was adopted in 2002, every taxing district's property-tax limit, in effect, became stated in terms of "income" (specifically the past six years of personal income growth) instead of the fundamental building blocks of property taxes, that is AV and tax rate. The Maximum Levy limit started to decouple a taxing district's maximum property-tax levy from its building blocks such that each taxing district — a school district, for instance — could impose property taxes that grew each year even if its AV tax base declined. (This has a particularly disquieting effect when a TIF's AV base is eroded.) Under the maximum levy law, a tax district, such as a school district, makes up for a shrinking AV tax base through automatically increasing its tax rate.

This is how the math of the Maximum Levy property-tax limitation works. In effect, the Maximum Levy law immunizes taxing districts from any loss in AV; it's simply offset by bumping up the tax rate. It is as if they never lost any AV in the first place.

The catch? Higher property-tax rates that result from a TIF's eroded base AV are applied to all parcels of property within the taxing district. While school finances aren't affected, erosion of TIF AV translates directly into higher tax rates on all property, including land located many miles away from the TIF. Erosion of a TIF's base AV thus transmits — or exports — a tax increase across its boundaries.

Because schools and other local taxing districts are fiscally immunized from erosion of their AV, a door is opened to game-playing because the TIF Base AV is just waiting there to be drained away. Its erosion comes at no cost to local taxing districts nor to those who harvest the TIF money. But as with all "free" lunches, someone pays. And under the math of the Maximum Levy limit, it is everyone else. *— tah*

Chart 1: Profile of Neutralization Factors* for TIFs in Indiana 2013



Data Source: Indiana Department of Local Government Finance;
The dropbox URL for this image is http://bit.ly/1bFDnJB

* Used to adjust Base AV on TIF worksheet

withdrawn. This appears to be the secret sauce in the recipes of the TIF districts , which, straying beyond their initial intentions, have morphed into banklike, politically-controlled mechanisms advised by an industry of law firms and a marauding army of economic development preachers and crusaders.

There's ample evidence that erosion has been occurring all across the state. Figures obtained from the Department of Local Government Finance (DLGF), the state agency in which county auditors file annual TIF neutralization worksheets, display a "Niagara Falls" of TIF Base AV neutralization factors. (See Chart 1.)

Fully half of Indiana's TIF districts have gone "over the brink" — and half of those have "zeroed-out" (fully eroded) their TIF base, transferring it to the TIF "bank" instead.

Indeed, the exploration into my community's TIF districts leads me to conclude that TIF districts can be manipulated to function like a shell-game in which, generally speaking, assessments on the property of selected individuals are lowered while "newly arrived" property *(i.e.* new commercial or industrial investment) is added to the tax roles. This produces two unanticipated outcomes: vast new unearned TIF revenue to the local redevelopment body and higher property-tax rates (and annual property-tax bills) on all property in the county, whether or not it is located inside the TIF district. By the curious math of Indiana's TIF districts, the lowered assessments on selected properties ("contested assessments") enables significant unearned TIF revenue.

Other worrisome features of TIF districts in Indiana should also be mentioned. The accounting for TIF districts elude the discipline of double-entry bookkeeping and the integrity of a general ledger. TIF assets (namely the increment tax base) are "accounted for" via an annual spreadsheet exercise resembling an IRS 1040 tax filing. The lack of accounting integrity leads both to very limited forward visibility of TIF revenues (impairing effective programming of TIF dollars) but also presents an invitation to behind-the-scene manipulation, such as the granting of significant assessment write-downs on selected properties.

When a TIF is created, a "statement of impact" is produced for all affected local taxing districts. These impact statements are inadequate, incomplete and thoroughly uninformative. They offer only impact projections that are short-range (as little as 2 years) and unrealistic (assume no AV growth). Indeed, if these projections were accurate, they would provide insufficient reason to establish a TIF district in the first place.

The complexities (legal and accounting) of TIF districts translate into high administrative costs, high borrowing rates (*e.g.,* 9 percent on a 15-year issue) and high issuance costs for bond issues (*e.g.,* $184,500 on a $1.65 million issue). Another example of high administrative costs was Crowe-Horwath's $43,100 bill to the Columbus Redevelopment Commission for a "parcel-level TIF analysis" in September 2010, purportedly to ensure proper calculation of the TIF districts' incremental assessed value.

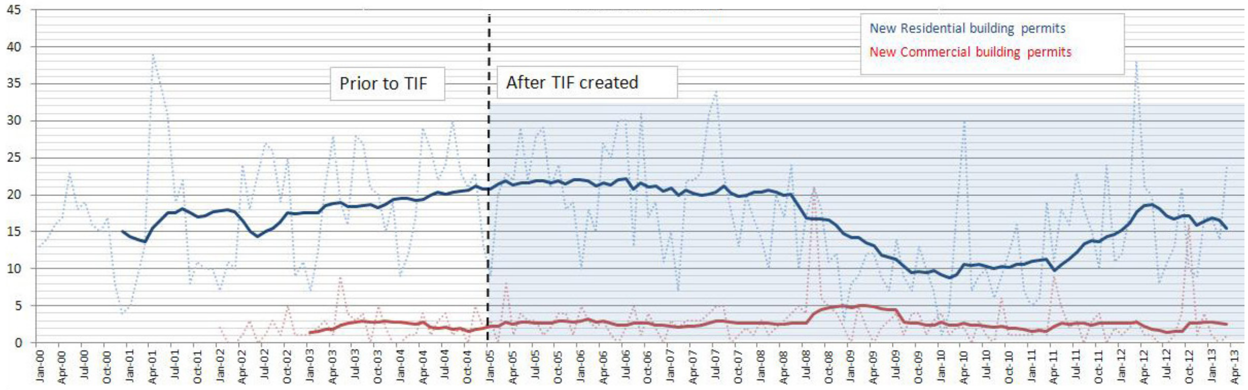
An unelected body of appointees controls the money in the TIF account. While they're largely unaware of where their money comes from, they nonetheless enjoy the false signal of annual revenue growing faster than new investment within the TIF. The surplus money bestowed upon them by TIF's curious math enables them to entertain — even court- private firms peddling new development ideas. Among these ideas is creating "private TIF districts" — areas carved out of larger TIF districts whose developers harvest their own increased property taxes. Such is one additional, special case of Indiana's curious TIF law.

"Contested assessments" (line 9a on DLGF's annual TIF neutralization worksheet) appear to offer a convenient and reasonably easy-to-hide means to erode ("capture") the TIF's base and "flow" it instead into the TIF increment (and thus into the redevelopment body's bank account.) Contested assessments account for about $93 million or three-quarters of the total TIF base erosion in Columbus.

TIFs can be manipulated to function like a shell-game in which, generally speaking, assessments on the property of selected individuals are lowered while "newly arrived" property is added to the tax roles.

Chart 2: Number of Permits Issued, Building Permit Activity, Bartholomew County, 2000-2013

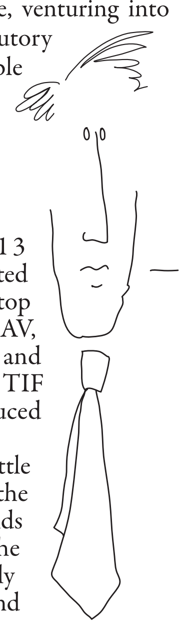
(Mmonthly and 12-month rolling average)



Columbus' experience confirms findings of studies like those in California that were unable to discern any correlation between a community's formation of a TIF district and subsequent levels of investment.

(More curiously, these contested assessments came principally in two very big batches, $51 million in 2010 and another $32 million in 2012; 2011 brought another $7 million.)

TIF-supported projects — and the activities of local redevelopment bodies — are now stretching the envelope, venturing into areas that lack specific statutory authority. This is most visible today in proposals that seek TIF assistance for commercial development ventures.



Conclusion

Although the 2013 legislature, via HB 1116, directed DLGF to take measures to stop further erosion in TIF base AV, the substantial erosion — and the large amount of unearned TIF revenue erosion already produced — was swept under the rug.

The action amounted to little more than sticking a finger in the levee after the pasture and fields have flooded. In essence, the directive to DLGF was simply to go forth and sin no more. And to do it quietly.

The amount of damage already inflicted by TIF base erosion calls for more. At minimum, we are owed an estimate of the extent to which this erosion has stealthily raised property taxes onto property owners outside of TIF boundaries, properties whose owners have not benefited from Indiana's explosion in TIF districts.

If Columbus' experience can be considered a guide for what has happened with TIF districts across the state, this is a large amount. Eroded TIF bases may represent as much as three-quarters of all TIF revenue collected statewide — and in each instance where this erosion occurred, higher property-tax rates on non-TIF parcels resulted.

Columbus' experience also confirms findings of studies like those in California that were unable to discern any correlation between a community's formation of a TIF and subsequent levels of investment in a community.

Measured by the number and value of building permits issued since 2000, the scale and pace of business investment in Bartholomew County has witnessed no clear uptick following Columbus' formation of two TIF districts in late 2004. Indeed, business investment in the community remains stuck at — or even below — pre-TIF levels. (See Charts 2 and 3.)

"The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design."
(Hayek)

The bump in the number of permits reflects recovery activity following the devastation of a one-in-500-years flood in June 2008 and the bump in the value of building permits issued in 2011 owes mostly to large (~$90 million) non-TIF public projects (high school renovations), investments that produce no new incremental taxes.

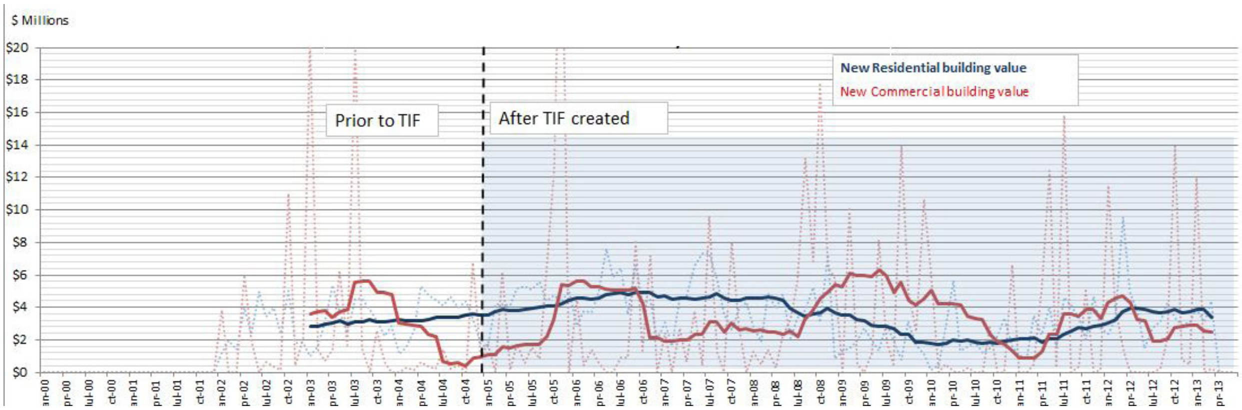
In summary, TIF districts have become a play field, a sand box, an exclusive bank designed and built by a cottage industry and playing upon public fears that our communities aren't doing enough to create jobs and attract investment.

Like honey attracts bears, TIF districts attract the attention of people who seek advantage from the pool of money that TIF districts accumulate, thanks to their curious math.

Given the scent of free-flowing money, no serious observer can express surprise that TIF districts and the army of lawyers and economic-development crusaders who make a living harvesting it have run roughshod over our communities — consuming disproportionate time, attention and resources of our local civil

Chart 3: Stated Value of Construction, Building Permit Activity, Bartholomew County, 2000-2013

(Monthly and 12-month rolling average)



governments whose first responsibilities lie elsewhere.

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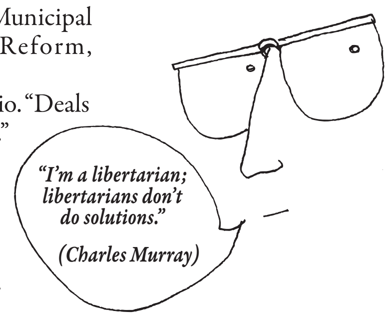
TIF districts have become a playfield, a sand box, an exclusive "bank" designed and built by a cottage industry and playing upon public fears that our communities aren't doing enough to create jobs and attract investment.



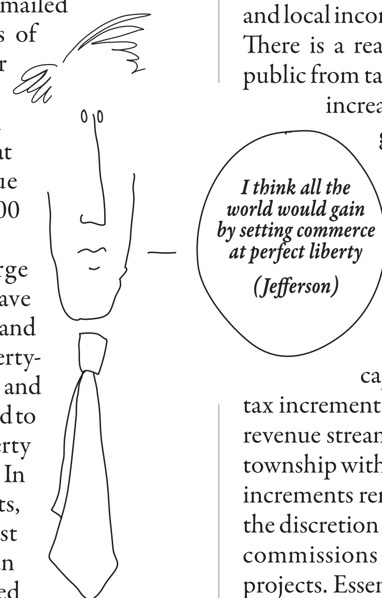
"The city of Philadelphia mailed new valuations to owners of 580,000 parcels. One owner found that his property, assessed at $86,000 in 2008, was now assessed at $575,000 with taxes due potentially exceeding $7,000 annually." *(Keating)*

A REVIEW OF TIF AND ABATEMENT

by MARYANN O. KEATING

July 24 — The *Wall Street Journal* recently listed penthouses available for sale at $2.1 million or more at Philadelphia's "most prestigious address." Units were designed by an award-winning architect and are located in a fully staffed building with five-star concierge services. Each sale includes a 10-year tax abatement.

In March of this year, it was reported that the city of Philadelphia mailed new valuations to owners of 580,000 parcels. One owner found that his property, assessed at $86,000 in 2008, was now assessed at $575,000 with taxes due potentially exceeding $7,000 annually.



There remains a large group of people who have never been able to understand the logic underlying property-tax abatement. Police, fire and government operations need to be financed through property taxes or government debt. In new developments, streets, sidewalks and curbs must be constructed. How can certain properties be released from taxes without raising the taxes of all other property owners in the community?

The reason for property-tax abatements, we are told, is the need for local government to play an active role in encouraging certain activities. In Indiana, tax abatements can only be granted for projects located in an "economic revitalization area," so the government must first define and establish such an area. For example, Indianapolis officials evaluate each applicant for tax abatement and forward their recommendations to the Metropolitan Development Commission.

Assessed value and, hence, property taxes are expected to gradually increase on improved property. This, of course, assumes that there is a market for improved property. Abatements represent a reduction or exemption from taxes for a specified period. The maximum abatement permitted in Indiana exempts all taxes due in the first year because of any improvements followed with reductions in subsequent years; in the 11th year, no deductions remain.

The assumption is that improvements to certain properties would not occur in the absence of abatements; therefore, in the long run, future property-tax revenues, employment and local income-tax revenues should increase. There is a real cost, however, to the general public from tax abatements, namely, forfeiting increased taxes that may have been generated without abatements.

Tax-increment Finance (TIF), an alternative to tax abatement, captures a percentage of the real property taxes paid by the property owner due to an increase in site value. However, captured tax revenue, referred to as tax increments, does not flow into the general revenue stream of the municipality, county or township within which the TIF is located. Tax increments remain in the district to be used at the discretion of local economic-development commissions to finance public or private projects. Essentially, a TIF is borrowing based on expected increases in property-tax revenue. When a project is completed and bonds repaid, a particular TIF is expected to expire and all property taxes redirected to local government.

Local government officials, confronted with municipal-bond restrictions, state-imposed caps on property taxes, reduced federal funding and aggressive lobbying by private developers find such incremental tax financing attractive. California has discontinued incremental tax financing, but Indiana and all other states, with the exceptions of Arizona and Wyoming, have legislation enabling TIF districts.

TIF districts are sometimes viewed more favorably than tax abatements because property owners actually pay taxes on increased property values. However, when the cost of basic government services increases, the result is a general revenue shortfall paid from sources outside the TIF district. Meanwhile,

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incremental tax revenue is allocated by commission members who are not necessarily elected representatives.

Forty percent of the city of South Bend's geographical area is located within tax-incremental financing districts. In addition, St. Joseph County, in which South Bend is located, has three such districts and is considering another two. It is conceivable that some districts, whether successful or otherwise, will never be dissolved, and additional tax revenues never flow into general funds to provide essential services.

It is the case that incremental taxes in some districts could be made available in the future for police, fire and other essential government operations. For example, existing funds derived from South Bend's Erskine Village district are sufficient to retire all remaining debt and close 20 years ahead of schedule. However, the commission must notify the state if any funds are either used for early payment of bonded debt or dispersed outside the district into general local government revenue.

Corrections are being proposed. Dr. David Varner, a member of the South Bend Common Council, recommends that the time horizon of new districts be limited to years to maturity on bonds issued to pay for a district's initial development project. He suggests that the legislature address statutes on tax-increment financing's length.

"Forty percent of the city of South Bend's geographical area is located within tax-incremental financing districts." *(Keating)*

INDIANA IS ALL IN ON CRONY CAPITALISM

by TAD DeHAVEN

July 20 — The Indianapolis Star's investigation of a contractor hired by the Indiana Economic Development Corporation (IEDC) to select companies to receive taxpayer handouts is further evidence that a separation of state government and commercial interests is needed. For that to happen, however, Indiana will need to separate itself from the federal money that perpetuates "crony capitalism."

The unfolding story of an Indiana company, Elevate Ventures, appears to be a prime example. Founded in late 2010 by Howard Bates, "a well-connected businessman and Republican campaign donor," Elevate was soon awarded a $1.5-million-per-year contract by Republican Gov. Mitch Daniels' administration to identify businesses that should receive taxpayer subsidies. According to the Star, Elevate proceeded to give almost $500,000 to a company run by Bates and another $300,000 to a company run by Bates' son.

The money, however, came from the federal government — specifically, a $1.5-billion federal business-subsidy program created by the Small Business Jobs Act of 2010. Essentially another attempt to stimulate the economy, the legislation was created and passed by a Democratic Congress and signed into law by a Democratic president.

At first blush, it would seem ironic that partisan Democratic legislation at the federal level would lead to partisan Republican uses at the state level. There is no irony, however, because this sort of arrangement is standard fare. For all of the partisan bluster one reads or hears in the media, the truth is that politicians in both parties — and both levels of government — are partners in the corporate welfare racket.

Remember Solyndra? Republicans held up the now-defunct solar energy company as the prime example of the failure of crony capitalism under the Obama administration's stimulus efforts. But while they were busy making political hay out of Solyndra, many congressional Republicans were busy petitioning the federal Department of Energy behind the scene to deliver similar subsidies to companies back in their districts.

One of those members of Congress was the current governor of Indiana, Mike Pence. Indeed, then-Rep. Pence, a vocal critic of the Obama administration's economic policies, was one of four Indiana Republican signatories to a letter asking the Energy Department to subsidize a manufacturing facility in Tipton for a company called Abound Solar. The company was awarded a $400 million federal loan guarantee, but it ended up filing for bankruptcy a year after Solyndra went bust.

Federal politicians weren't the only ones salivating over an opportunity to take credit for the jobs that Abound Solar was supposed to create. On July 3, 2010, the IEDC issued a

"For all of the partisan bluster one reads or hears in the media, the truth is that politicians in both parties — and both levels of government — are partners in the corporate welfare racket." *(DeHaven)*

Tad DeHaven is a budget analyst at the Cato Institute and co-editor of www.downsizinggovernment.org. Previously he was a deputy director of the Indiana Office of Management and Budget under Gov. Mitch Daniels.

“Politicians do not possess special knowledge that enables them to allocate capital more efficiently than markets.” *(DeHaven)*

press release celebrating Abound Solar’s decision to build the Tipton plant and noted that the state offered the company “up to $11.85 million in performance-based tax credits and $250,000 in training grants.”

“What a great way to celebrate Independence Day,” said then-Gov. Mitch Daniels. The celebration was short-lived.

The *Star’s* recent expose on the Carbon Motors debacle is another example of the problem with state officials looking to hitch a ride on the federal gravy train. To great fanfare, the Daniels’ administration threw millions of dollars at the company and its plan to manufacture high-tech police cars in Connersville. However, perhaps chastened following Solyndra and other subsidized failures, the Department of Energy eventually decided against guaranteeing a $310 million loan to Carbon. The company soon went under. A bitter Daniels blamed the federal government. Such, however, can be the price for relying on handouts from Uncle Sam.

Politicians do not possess special knowledge that enables them to allocate capital more efficiently than markets. They are no more clairvoyant about market trends and scientific breakthroughs than anyone else. Thus, when the government starts choosing industries and technologies to subsidize, it often makes bad decisions at taxpayer expense.

Businesses and venture-capital firms make many mistakes as well, but their losses are private and not foisted involuntarily on taxpayers. Even where a government can point to “successes,” it’s critical to remember that when politicians favor one company, they do so at the expense of other taxpaying businesses and individuals.

“We don’t hear much about impending-doom worries from red-model cities and states, because restraint and discipline work. If you don’t overspend, you won’t pile up the debt.” *(Morris)*

LET’S STICK WITH THE RED STATE MODEL

by LEO MORRIS

July 26 — Indiana can take a lesson from Detroit — the biggest city in American history to declare bankruptcy: Stick with your “red model” of governing based on restraint and fiscal discipline. Resist those who urge you to drift closer to the “blue model” of high taxation, profligate spending and unsustainable benefits.

Yes, there are many culprits in Detroit’s downfall, including the collapse of an auto industry that once dominated the world and the exodus of urban residents who made up the tax base. But let’s keep our eye on the ball. For each of the last five years, the city has spent on average $100 million more than it took in. Its $11 billion in unsecured debt includes $6 billion in health and other retirement benefits and $3 billion in retiree pensions for its 20,000 city pensioners.

How could Detroit not collapse? Look at all the other states and cities courting financial ruin — they all follow the blue model. And, of course, there is the best example of blue-model recklessness, the federal government, with a debt of $16 trillion and unfunded liabilities approaching $90 trillion. Heaven help us all when that financial house of cards comes crashing down.

We don’t hear much about impending-doom worries from red-model cities and states, because restraint and discipline work. If you don’t overspend, you won’t pile up the debt.

Of course, the tradeoff is that government does less for us, which means we have to do more for ourselves. That is the largest complaint of the blue-model advocates.

That complaining has been getting a little louder in Indiana lately with the announcement that the state ended the fiscal year with a structural surplus of $483 million, which was $93 million more than expected, and now has reserves approaching $2 billion. That’s no reason to celebrate, said House Minority Leader Scott Pelath, D-Michigan City: “Our unemployment rate still remains around 8 percent. Families are still struggling to keep their heads above water. Our local schools still must grapple with doing more with less. Their voices are ignored by the people who focus solely on numbers.”

Fine, that’s a legitimate point to make in the fiscal debate. When the state has more money than expected, it makes sense to reconsider some of the cuts that have been made. But that’s not the only thing to consider any more than “focusing solely on the numbers” is. Giving people some of their money back is also a valid consideration. And staying financially healthy always has to be the goal. That promotes a good business climate, which provides what will most help suffering Hoosiers — jobs.

Leo Morris is editorial page editor of the Fort Wayne News-Sentinel. A version of this essay originally appeared as an editorial in the July 22 issue of the newspaper.

A LAWMAKER DEMYSTIFIES TIF

Quality of life cannot be measured strictly in dollars and cents; that can skew business analogies when discussing priorities in public finance and the role of government.

by GREG WALKER

Graphics: Lisa Barnum

For decades, Indiana has utilized Tax-Increment Finance (TIF), an instrument by which future property-tax revenue is captured to pledge for borrowed funds for capital investment. It nonetheless remains controversial. We need to ask why.

Debt, or leverage, is a simple idea, and businesses employ this decision model routinely to weigh the risk and reward of borrowing money to make capital investments with the expectation that increased utility or efficiency will generate incremental (marginal) revenue. Businesses employ various forecasts to determine the probability of hitting projected growth targets, and decide to borrow or not borrow based on the cost of money.

Easy, right? The problem, some point out, is that TIF doesn't work like this business model.

It is true that, generally speaking, civic leaders listen to proposals from community members who seek public money to partially or fully finance public works that will create incremental value for the community in total. That value is reflected in increased value of land and property, sufficient to pay back the tax bonds and ultimately grow the assessed valuation base for the entire community. The taxpayer wins with enhanced business opportunity, and the taxing authority wins with new marginal revenue down the road.

The controversy, however, lies in the risk-reward analysis. In the business model, the investment risk is borne by stockholders or business owners, as is the potential for higher returns. This is not so for public investment in TIF projects, or at least (the risk-reward analysis) is not so easily quantified.

How much new business could a downtown barber expect if the major employer hires a third shift based on a project financed 50/50 with TIF money?

Will the barber ever know if the pickup in haircuts was due to his or her property taxes being diverted from paying for school buses or police cruisers and spent on a new public aquatic center? This is the point: Quality of life cannot be measured strictly in dollars and cents. We should therefore avoid business analogies when discussing priorities in public finance and the role of government.

California introduced TIF and redevelopment commissions to the free world and, in 2012, came full circle to eliminate them. The state of California is bleeding revenue and, even worse, its businesses and human capital. Would it not be worth our investment in time to analyze each TIF project, and decide in hindsight whether each one was of the type that contributed to California's growth or its decline?

This writer and at least a few other legislators believe TIF has strayed too far from its initial function. Let me outline some obstacles and three corrective measures if TIF is to continue to be utilized in Indiana.

Finding New Money

When organic growth in cities and towns and school districts has slowed or even begun to decline, the slowdown reveals how government budgets historically grow at a rate faster than community growth. It can be argued that every level of government is guilty of trying to conceal with new money these increased costs, this gap.

This new money can be obtained by annexation, or tax increases, or borrowing, or as a result of inflation, though none of these are without increased cost for services provided or of lost opportunity cost.

Mayors and other local officials may be concerned there will be no new money without tax-incremental financing. Property-tax caps contribute to this paradigm.

What happens when redevelopment commissions decide that all of the tax-collection increase over the original base value should not transfer to the general fund for regular public services? Wouldn't a rate reduction for all taxpayers unit-wide be one manner to provide some return on investment to those individuals who cannot otherwise quantify any benefits for having their own property used as debt collateral?

So any citizen who raises questions about the return on a public asset runs the risk of being vilified as an "anti."

The Public Good

We should talk openly about the public component of some of the projects that TIF is purchasing. Why should hoteliers

Greg Walker, Columbus, has represented District 41 in the Indiana Senate since 2006. He holds an MBA from Wesleyan University with an undergraduate degree from Indiana University in business finance. Walker, who sits on three committees pertinent to this subject (Commerce, Economic Development & Technology; Financial Institutions; and Tax & Fiscal Policy), is a senior consultant with Proffer Brainchild Analytics Innovation. He wrote this for the foundation.

put up their property as collateral for loans to build new hotels with which they must compete? Even if the collateral is for only half of the financing?

It is difficult enough to compete against investments in which a property-tax abatement has been offered in exchange for "new" money. It is harder to bear, though, when your own taxes carry the additional cost of traditional services extended because of the new investment, and where all that incremental property-tax collection is financing the debt service on the competing project.

Lost is the concept of what entails a public good or public investment. If you appreciate the original intent of TIF, in particular for property redevelopment, you will know greenfield investment was initially excluded. Originally, a blighted area would remain blighted as long as other parts of town were less costly to develop.

It may be true that citizens collectively bear the price of an eyesore in the middle of town subject to years of neglect because of site-preparation costs. But does the taxpayer equally benefit when targeted project investment does not create infrastructure that encourages voluntary private capital infusion?

As a member of the Senate Economic Development Committee, I still cringe at every tax credit or incentive or grant opportunity that demands a business case be made before a board of commissioners or legislators or appointees.

I know these groups are generally motivated to be responsible and make the right decisions regarding job opportunities. Nonetheless, I cannot help but think how inadequately equipped any board or committee is to identify the correct investment, the investment that actually pays handsome returns.

Businesses take that risk, and most of them fail. What, though, is the failure rate for TIF-project selection? I wonder.

One argument is that appointed boards can make investment decisions that elected officials cannot endorse for fear of the political ramifications (as if that were a positive attribute). But who asks for this justification after the fact, after the decision has been made to spend? Lenders hold debtors accountable, but not the public officials themselves. In fact, I am not aware of how anyone could prove the growth and vitality in any community can be attributable to the utilization of TIF.

With so many factors in the decision to invest, so many variables at play, in so many economic arenas nationally and internationally, the "but for . . ." argument is impossible to substantiate. It is therefore largely ignored because of how impractical the task is of proving the negative.

The decision should be simpler, based on the collective desire to borrow and finance, not the argumentation of a small influential class set to receive great potential benefit from so-called public spending. Again, it is unfortunately easier to question the motives of the doubters than to make an actual economic case.

Thinking Inside a Silo

I raise one final question: Why do the other units of government, all subject to a tax-cap regime, not become more engaged on the question of TIF?

Currently, we are making decisions inside a silo, piling up spending and debt with dedicated funds as if they were new revenue streams. We should recognize that they are funds diverted from paying down existing obligations.

As an alternative, would not public consideration of TIF project "A" be the best opportunity for other levying bodies to rise up with their competing arguments to invest in their project "B" or "C"?

The answer may be that we in government all fear being stigmatized or labeled. It might also be that we fear payback if one government unit were to suggest another project had less public merit than their own. We all want everyone else to eagerly jump on our bandwagon when it is time to consider the investment opportunity we would prefer.

Ultimately the public must determine the priorities of a community. Considering how to spend tax dollars inside that silo only makes this process less efficient.

Conclusion

Here are three recommendations in closing:

1. Cap the total assessed valuation in any given geography employing TIF so that less duty falls on the possibly declining taxpayer base to pay for growing service burdens.

2. Return the statute to its original purpose of public good with shared communal benefit rather than targeting investment that enriches a small subset of the tax base.

3. Engage all levying bodies in the conversation — openly and publicly — so that Jill and Joel Citizen can more easily consider public-spending options fairly. Then a community can set its priorities for the best use of scarce or even declining funds. The duty falls on elected leaders to gather that more informed public opinion while educating the yet uninformed, not treating them like the unwashed. Not all opinions are equal in merit, but all taxpayers should have equal opportunity to contribute their thoughts. This is the job of an elected leader — making decisions with the best information available in an open fashion .

These are modest conceptual solutions; I would entertain any other idea that would further simplify this financing so the focus returns to the nature of the economic-development project and its civic priority.

Whether other legislators believe the root of the problem with tax-increment financing is crony capitalism or innocent inefficiency in decision-making, I hope they support at least these baby steps to restore some confidence in public financing.

"**DELAWARE COUNTY** officials are defending their decision to send three officials to China on an economic-development trip at a time when the county is trying to cut millions of dollars from its budgets. 'This is a necessity,' County Commission President Larry Bledsoe told *the Muncie Star Press* of the decision to send Commissioner James King and two others on the trip. "You have to be on somebody's radar to attract jobs..'"

— *Associated Press. Aug. 25, 2013*

CAFÉ VALLEY COMES TO GRANT COUNTY

Does Local Government Always Know Best?

by FRANK STAHL

Graphics: Lisa Barnum

Marion in Grant County makes a handy laboratory for examining the mix of politics, capitalism and neo-mercantilism that is municipal economic development in Indiana today.

Marion, with about 30,000 residents, is of a size where meaningful documentation can be gathered in an afternoon. Indeed, there is an innocence to official dealings here. Many believe honestly and without question that the mayor and council are creating wealth by fiat in a town that desperately needs some good news.

Marion officialdom does not stop at mere boosterism. It is unabashed about the community's recent dive into the legalistic waters of rebates, abatements and, to the issue of this journal, tax-increment financing.

All of which makes for transparency, intentional or not. Details lie in the open that elsewhere might be hidden in the files of Indianapolis law firms. The quick and the clever, you see, have found gain in channeling the combination of political fear and civic enthusiasm that is small-town economic development. They have dispatched their agents to every corner of the state to sell the TIF dream.

Marion, though, was one of the last on the list. The city was ripe for the picking. It, as other Indiana cities, was in the midst of financial difficulties. And, predictably, the most vocal of its politicians believed their job was to "create" jobs.

Today, the mayor and city council discourage the premise of their economic policy is a fallacy, that government cannot create jobs but only an environment where industry and commerce are welcome.

That is simply not part of the of Marion discussion — not the official one, at least. Nor is the observation that industry is averse to every type of government intervention this leadership proposes.

Those doubts are left to the city's daily newspaper, the *Marion Chronicle-Tribune*. Its staff, in editorial and in report, made clear that there is reason to worry whether Marion is creating a more appealing economic environment — or at least worry as to whether the answer is politicians pretending to be businessmen.

Better, the newspaper told deaf political ears to simply lessen taxes and regulations. The *Chronicle-Tribune* in article after article demonstrated that government, even at this basic level, has a miserable record picking winners and losers. The editor raised the question of whether city government can discern economic vitality whatsoever.

The newspaper argued generally and specifically that when city government picks winners and losers, it removes natural incentives and replaces them with arbitrary ones.

It was granted that prospective companies do not always make the best choice when locating. But when governments such as those in Marion and Grant counties alter incentives, they change a company's evaluation of risk and can remove completive restraints.

Finally, when these unnatural incentives are provided by public funding, risk is not completely internalized. Rather, it is absorbed

When governments such as those in Marion and Grant counties alter business incentives, they change a company's evaluation of risk and can remove completive restraints.

Frank B. Stahl, an intern at the foundation and a political science undergraduate at Indiana University-Purdue University Fort Wayne, is a campus coordinator for Students for Liberty and vice-president of his college's Young Americans for Liberty chapter.

"It's not like we go out and take a bond to build something. This is all based on the property tax and the ability of the company to pay their property taxes."
— Mayor Wayne Seybold

in part by the taxpayer — thus corrupting Marion's noble impulse to improve itself.

The Case of Café Valley

The *Chronicle-Tribune* provides a microcosm with which to understand all of this — a single deal between the city of Marion and Café Valley, a baked-goods company. It is a near pluperfect example of what is involved when the government, not the market, decides a company is best suited for achievement. This is a timeline made up of articles tracking the events that facilitated an officially brokered deal between Marion's public and private interests. Bullet points represent excerpted items from *Chronicle-Tribune* reports and editorials; they are reprinted here with permission.

Jan. 27 — It begins early this year when the city of Marion announces it has a deal in the works. Jobs are said to be coming, and the city government deserves the credit. The city of Marion is proposing two deals totaling up to $26.5 million in economic development revenue bonds for a baked-goods supplier and redevelopment at the former Thomson plant.

• A public informational meeting is scheduled in which city officials will present the plans to the Marion City Council. • The city's development director, Darren Reese, declined to discuss details before the presentation in front of the city council. • As outlined in the legal notice, the loan may be repaid by "certain rental revenues," a pledge of tax-increment revenues, the city's "distributive share of county economic-development income taxes" and a "special-benefits tax" by the Marion Redevelopment Commission "under a certain lease" of the project. • The city would issue up to $12 million in taxable economic-development revenue bonds to allow the baked-goods supplier, Café Valley, to capture tax-increment financing.

Jan. 30 — The headline reads, "City Serves Up Incentives." It starts to become obvious that this is more of an endeavor than hinted at by Marion officials a few days earlier. The financial burden to the already struggling municipality is becoming clearer.

• Officials say the company has made a commitment to repay city-issued bonds through tax revenue as the project takes off. It says that the bonds will go toward several purposes: $4.2 million for the Growth Council to purchase the property from the current owner, Lester Lee, to buy AMVETS Post 5 and to perform demolition. • The city concedes it will have some financial exposure by planning to commit county economic-development income tax as security for the bonds. • Reese, the city development director, says the financial institutions that will be involved in the deal did not want to split off the $2-million loan and incorporate it into the Café Valley deal through a bond refinancing. • Café Valley, then, would not be responsible for the Earthbound debt and $12.5 million of the Series A bonds would go toward the current project, with the rest being Earthbound. • To protect the city, Reese says the Series A bonds also had a built-in reserve fund and an interest arrangement that would pay for them for two years in case Café Valley does not come through: "We may not have to pay the entire amount of the Thomson purchase until all the demolition is done. We'll draw it down as necessary, not just all at once. We'll minimize our exposure and minimize what our paybacks will have to be as we go." Mayor Seybold adds that he does not believe the city is incurring long-term debt to issue the bonds: "It's not like we go out and take a bond to build something. This is all based on the property tax and the ability of the company to pay its property taxes." • Reese sums up by saying that the $12-million Series B bonds are "the carrot'" for Café Valley to remain and expand in Marion.

Feb. 6 — With 26.5 million in a bond package at stake, the headline reads, "Café Valley Jumps Hurdles." The so-called hurdles, though, seemed to be officials trying to bend over backwards to over-subsidize the venture.

• Development plans for Café Valley breeze through four different meetings, ending with the Marion City Council taking action that sets the stage for a public hearing on a $26.5-million bond package. • City officials say Café Valley will provide an opportunity to spark further development at the long-dormant Thomson site; they plan to purchase the entire 64-acre property through the Grant County Economic Growth Council. • The council hears that the Thomson plant meets every requirement Café Valley sets for securing funding. • The Marion Redevelopment Commission takes a quick vote approving a plan that would ultimately allow tax-increment revenue to support the Café Valley project. • Councilwoman Joselyn Whitticker asks whether Café Valley would hire local, minority or female employees and contractors. • Reese, the development director, says Café Valley is "completely responsible" for the $12-million Series B bond package: "If for some reason between now and then it doesn't happen, we don't purchase the Thomson facility and don't ever give a dime to Café Valley of any money. They have to do what they do to create the money for us to recycle it back to them." • Council passes a resolution 8-1 amending the Thomson allocation area (Fred Troxell was the dissenting vote).

Feb. 10 — To some minds at the Chronicle, Marion is beginning to resemble Zenith, the fictional community in Sinclair Lewis' Babbitt, a critical look at a community where boosterism and "going along to get along" are the price paid by the locally ambitious.

• The newspaper holds hope that adding accountability to the economic-development recipe might actually do the trick. • It is noted, however, that there are plenty of reasons to doubt this project, not least being that the Marion people sitting across the table from Café Valley are the same ones involved in earlier development disasters, i.e., Veriana, Marion Land Development, TriEnda, Earthbound and the seemingly perpetual prospect of a hockey arena. • As the details become more complicated, it becomes known that each bond issue in the Café Valley project has different parts funding different aspects of development of the Thomson campus and, additionally, the acquisition and redevelopment of the AMVETS property along 38th Street. • The city, we learn, is involved in delivering the bonds, and the Grant County Economic Growth Council is actually taking ownership of the property while under development. • While Café Valley is using incentives from federal, state and local government, it will invest $22 million through traditional bank financing, says Larry Polhill, principal partner in the firm. • The newspaper notes there is no guarantee that Café Valley will spark additional investment in the remainder of the Thomson property, bought with city money and under the control of the Growth Council. • A concluding series of questions is asked: "What if no more development comes to the site, ever? Can we figure that out together as a community what we should do, or will the Growth Council, citing its private, nonprofit status, say the site and decisions about it are none of the public's business? Vital to the ongoing project will be transparency of the sort displayed by Café Valley officials when they agreed to sit down with this newspaper last week and go through how their plans for Marion came together."

Feb. 20 — "The Sweet Deal Turns Bitter" is the headline only 10 days later. It is clear that some on council are pushing the project while others see the proposal as a risk that Marion cannot afford to take.

• Frustrations run high as the City Council hosts a contentious public hearing on a development deal for Café Valley, which Mayor Wayne Seybold calls a "sweet deal." • A principal in Café Valley reminds council members that, "We've always been considering other cities and states." • City and company officials hope the council will suspend the rules and approve two bond packages that would help acquire the Thomson property and build the new facility. • Polhill believes some on the city council didn't understand the deal: "I think there is a very significant lack of sophistication on the city council, if I can be that bold." • Lucinda Caudill, Grant County Democratic Central Committee chairwoman, says the issue isn't whether the deal is good for Marion but whether the city can afford it if Café Valley fails; Mayor Seybold implies that Caudill has a political agenda.

Feb. 22 — Two days later, bickering continues as the mayor's characterization of political opposition sinks in. The mayor uses his State of the City address to promote the $48-million plan as a positive sign for economic development in Marion.

• Critics note that, in order to sell the bonds, the city has pledged economic-development income tax and its general obligations as a credit "enhancement." That means those monies would go toward paying the bonds if revenue from property taxes is insufficient, and Café Valley is unable to pay. • The newspaper adds that "the lease is a mechanism to get the redevelopment commission's TIF — which is the primary source of repaying the bonds — into the transaction." Councilman Troxell says he cannot vote for the project because of the city's financial state • Rob Young, business development manager for CME Corporation, which helped Café Valley select Marion from more than 50 locations, gives his word that the bonds will be repaid through the project's own taxes, not the city's. • Councilwoman Whitticker says she believes the need to complete the deal before Feb. 28 was because the city owes a payment on its Earthbound debt; City Development Director Darren Reese, however, says the city had already planned to make the $155,000 payment regardless.

Feb. 26 — The Café Valley deal is done. "Café Valley Deal OK'd," a headline read that day. The approval is given during a special City Council meeting. It passes over the objection of

> **"I think there is a very significant lack of sophistication on the city council, if I can be that bold."**
>
> *— Larry Polhill, principal partner in Café Valley*

Thanks to TIF bonds, Café Valley is only required to pay its taxes as forgiveness for what amounts to a loan. But who will pay down the loan if the company moves out?

three Democrats who expressed concerns before the vote (two voting no and one abstaining).

• City Development Director Reese says after the meeting that he is excited about moving onto the next phase of the project, which involves putting the details on paper and turning the bonds into money. • Reese confirms that city officials were aware of Polhill's past but had confidence in the plan: "We cannot continue to say no because we cannot continue to get ourselves in deeper than what we are. Unfortunately, we are in the position that we're in, and it's because we rushed into too many things." • About 50 members of the Marion-Grant County Chamber of Commerce attend the meeting in support of Café Valley.

March 8 — The newspaper notes that Marion is not the first such project started by the baked-goods company. Its headline reads, "Café Valley's Second Helping." In a city in which promises of industry have been broken in the past, the editors urge readers to note Café Valley's history.

• The newspaper reports that local officials were seemingly unaware Café Valley had planned to base its eastern U.S. operations in Spartanburg, S.C., but scrapped the project in 2011. • Polhill, the Café Valley principal partner and board member, says the company did purchase a Spartanburg building, which was a former pie plant, but it was a lower priority than a new 285,000-square-foot facility it built and finished in Phoenix in 2011; he says Spartanburg officials were also open to the development deal. • City Director of Development Reese says he was unaware that Café Valley had looked at Spartanburg; he does not see it as having a bearing on Marion, which approved local incentives for the company to build: "People buy and sell facilities all the time."

March 31 — "Breaking Bread, Ground" was one of the last headlines about Café Valley, whose officials expect the facility to be operational within a year and hire a minimum of 200 workers its first year.

• Amy Armstrong, Café Valley's vice president of marketing, says Sun State Builders would do the construction. It is noted that some of the jobs will go to nearby Gas City. • City Development Director Lisa Dominisse declares the project ready to go from a financial standpoint. • The Marion City Council earlier approved bonds totaling up to $26.5 million for Café Valley to acquire the entire 64-acre former Thomson site. • These bonds, again, are broken into two packages: an up-to-$14.5-million Series A and an-up-to-$12-million Series B. Café Valley's own property taxes are expected to go toward most of the Series A bonds. • Following refinancing earlier this year, the $2-million bond is said to be repaid along with the Café Valley-project bond for a total principal amount of $2.8 million.

To date — What kind of corporate citizen Café Valley will turn out to be is uncertain. What is certain is that the company is being excluded from a large portion of the risk involved in the initial investment in Marion. Thanks to TIF bonds, Café Valley is only required to pay its taxes as forgiveness for what amounts to a loan.

But who will pay down the loan if the company moves out? Economic development is more certain when decisions are made based on sound and natural risk evaluations. The official policies of Marion, Indiana, go against this wisdom. We will see if that is prudent.

Crony Capitalism and Social Engineering: The Case Against Tax-Increment Finance

"Tax-Increment Finance (TIF) is an increasingly popular way for cities to promote economic development. TIF works by allowing cities to use the property, sales and other taxes collected from new developments — taxes that would otherwise go to schools, libraries, fire departments and other urban services — to subsidize those same developments. While cities often claim that TIF is 'free money' because it represents the taxes collected from developments that might not have taken place without the subsidy, there is plenty of evidence that this is not true. First, several studies have found that the developments subsidized by TIF would have happened anyway in the same urban area, though not necessarily the same location. Second, new developments impose costs on schools, fire departments and other urban services, so other taxpayers must either pay more to cover those costs or accept a lower level of services as services are spread to developments that are not paying for them. Moreover, rather than promoting economic development, many if not most TIF subsidies are used for entirely different purposes. Many states give cities enormous discretion for how they use TIF funds, turning TIF into a way for cities to capture taxes that would otherwise go to rival tax entities, such as school or library districts. Second, no matter how well-intentioned, city officials will always be tempted to use TIF as a vehicle for crony capitalism, providing subsidies to developers who in turn provide campaign funds to politicians."

— Randal O'Toole, Cato Policy Analysis No. 676, May 18, 2011

INDIANA AT 200

ANDREA NEAL

FOR THE PAST 10 years, the foundation has distributed Andrea Neal's biweekly essays on Indiana public-policy issues. Twenty-five Indiana newspapers have routinely published her column, making her one of the most widely read opinion writers in the state. Beginning with her column for distribution the week of June 17, her essays began focusing on another passion — Indiana history. Neal will produce 100 columns before December 2016 that describe Indiana's most significant historical events, generally in chronological order, tying each to a place or current event in Indiana that continues to tell the story of our state. — *tcl*

History on the Banks Of the Wabash

Aug. 26 — Storied in literature and song, the Wabash is Indiana's most important river.

It is the official river of the state of Indiana, so designated by law in 1996. It is the subject of the state song "On the Banks of the Wabash, Far Away," written by Paul Dresser in 1897. It is referred to in the state poem as "the dreamy Wabash River."

Its significance goes beyond aesthetics. The Wabash played a key role in trade, transportation and military tactics even before Indiana became a state.

"Much of the struggle for control of the New World by the French and British took place along the Wabash," according to the Indiana Department of Natural Resources.

Wabash is the English version of the name given the river by the Miami Indians who lived in its upper valley near Fort Wayne. Their word — Wah-bah-shik-ki — means pure white water, a reference to the white limestone bed that stretched from the river's source near Fort Recovery, Ohio, to Logansport.

The French Jesuits, earliest visitors to the region, spelled it Ouabache, thus the spelling of Ouabache State Park in Wells County whose southern edge runs along the river east of Bluffton.

The British Lt. Gov. Edward Abbott, posted at Vincennes during the American Revolution, wrote this about the river in 1777: "The Wabache is perhaps one of the finest rivers in the world; on its banks are several Indian towns, the most considerable is the Ouija, where it is said there are 1,000 men capable to bear arms."

He was referring to the Wea band of Miami, who had migrated from the Great Lakes to the banks of the Wabash near West Lafayette. The Wea grew maize, melon and pumpkins and traded with other tribes up and down the river.

In 1717, the French selected the north bank of the Wabash, directly across from the Wea village, to build a fortified post to deter British settlement and facilitate fur trade. From 1720 to 1760, Fort Ouiatenon (wee-ah-tuh-gnaw) flourished.

One visitor described it as "the finest palisaded fort in the upper country, consisting of a stockade and a double row of houses."

A replica of the blockhouse was built in 1930 and is open to visitors on weekends from 1 to 5 p.m. May through September. Each year, the site hosts Feast of the Hunters' Moon, a re-enactment of the annual fall gathering that brought together French and Native Americans. (For more information, see www.tcha.mus.in.us/feast.htm).

After the Indians were pushed out in the 19th century, the Wabash continued to play a vital role. It was a major route west taken by pioneers. The Wabash-Erie Canal was built along it and gave farmers access to markets in the East until canals were made obsolete by railroads.

Except for 30 of its 500 miles, the Wabash is an Indiana river, forming 200 miles of boundary with Illinois.

Today the river offers water supply and recreational opportunities, but it can no longer be called pure white.

Runoff from farmland has turned it muddy brown as it moves slowly but surely toward its confluence with the Ohio River below Mount Vernon.

The Wabash played a key role in trade, transportation and military tactics even before Indiana became a state.

Jacques Marquette, the Jesuit priest sent to New France as missionary to the Indians, explored the Mississippi River with Louis Jolliet and returned to northern Michigan possibly by way of northern Indiana in 1675.

Land of Three Rivers

Aug. 12 — It's no coincidence that Indiana's second largest city occupies land that once served as a capital of the Miami Indian nation. Native Americans chose Fort Wayne for its strategic location. The confluence of three rivers — St. Joseph, St. Marys and Maumee — would prove equally appealing to French fur traders, English military men and American pioneers.

"This area was important for one main reason," explains Kathleen O'Connell, a volunteer for Historic Fort Wayne. "Three rivers converged at a point where there was a short portage of six to nine miles to another series of rivers that would ultimately take you all the way to the Gulf of Mexico."

Historic Fort Wayne is a not-for-profit group that manages the Old Fort, a replica of the last active fort in the three rivers area. It is located near the original Miami village of Kekionga. James Madison, in his book "The Indiana Way," describes Kekionga as "the meeting ground of the Miami tribal council" and "one of the most significant strategic locations in the trans-Appalachian West."

The French arrived at Kekionga in the late 17th century and built a fortified trading post as a way to lay claim to the region. A series of forts followed.

The first was built between 1712 and 1722 adjacent to the St. Marys River near where the portage trail began. It was known by different names: St. Phillipe, Post Miami or Fort Miami. It was primarily a trading post for the fur traders but also a base for French soldiers.

During the 1730s and 1740s, the British sought to gain profits in the fur trade by eliminating French competition. They gained the support of the local Indians, who burned Fort Miami in 1747.

In 1750, the French rebuilt the fort at a new location on the east side of the St. Joseph River. In 1760, at the end of the French and Indian War, this fort was surrendered to the British. Native forces destroyed it in 1763 during Pontiac's Rebellion, an uprising against the British.

In 1794, after the final battle of the Northwest Indian War, Gen. Anthony Wayne established the first American fort on the site. A new structure was built in 1798, and it proved pivotal during the War of 1812, turning back repeated assaults by heavily armed Indians.

In 1816, Major John Whistler oversaw construction of the last active military fort. His drawings were the basis for the replica that opened in 1976 to celebrate the nation's bicentennial.

The fort is open to the public for field trips and special occasions such as the upcoming "Fort Miamies Aug. 24-25," which commemorates the time of French occupation. By interacting with re-enactors dressed in historic garb, visitors may better appreciate Indiana history prior to statehood.

"I think it's often hard to get people excited about history," O'Connell said. "When history jumps off the page of a book and comes alive, it makes a huge difference — both in learning and caring about our past, and our commitment to preserve it."

First White Man in Indiana?
Un Francais, sans Doute

July 29 — Historians aren't sure which white man stepped first on Hoosier soil, but he most certainly was French, and he likely arrived in the 1670s — 150 years before Indiana statehood.

"Possibly it was an obscure Frenchman whose adventures were never recorded — if he lived to tell the tale," wrote the historians John Barnhart and Dorothy Riker in their book, "Indiana to 1816," the first in a five-volume history published for the state's sesquicentennial in 1971.

Perhaps it was Jacques Marquette, the Jesuit priest sent to New France — now Canada — as missionary to the Indians. He explored the Mississippi River with Louis Jolliet and returned to northern Michigan possibly by way of northern Indiana in 1675.

Or it may have been René-Robert Cavelier, Sieur de La Salle, who set up camp at present-day South Bend in 1679 during a portage from the St. Joseph to the Kankakee River. LaSalle would later explore the Mississippi River and claim the surrounding land for France, dubbing it Louisiana in honor of the French king.

A historic marker installed in 1950 marks the spot one mile east of where LaSalle and his party camped overnight at South Bend. The marker declares LaSalle "the first white man to enter Indiana," though subsequent scholarship has cast doubt on the claim, said Pam Bennett, director of the Indiana Historical Bureau.

The bureau is in the process of updating older markers in time for the state's bicentennial in 2016. The revisions will reflect new research as well as more demanding standards for documentation of a subject's historic significance.

Another LaSalle marker installed in 2000 on the Kankakee River near the Starke and LaPorte County lines is less definitive. It describes the explorer's canoe trip "down the meandering Kankakee River through vast marsh-swamp-dune ecosystems that covered over 625 square miles and teemed with game including fish, waterfowl and mammals."

The portage route between the rivers stretched about four miles, crossing mostly prairie grass and woods. The trail, long ago erased by farming and residential development, was well-known among 17th-century trappers, who learned of it from Indian guides.

Because Jolliet placed the St. Joseph River on a map in 1674, historians suspect he knew of the portage and may have chosen that route when he accompanied an ailing Marquette from Illinois back to the Great Lakes in 1675.

"The question of who was first may not ever be answered without qualification," Bennett said.

This much is definite. The French beat the English to Indiana — some of them merely passing through on their way elsewhere, and others setting up forts or hunting for beaver in the lucrative fur trade. In the 17th and 18th centuries, France's North American empire stretched from Canada to the Gulf of Mexico, and two northern Indiana rivers held a strategic position.

State's Economy Was Built On an Agriculture Foundation

July 15 — By the time Europeans reached Indiana in the 1600s, our economic future was already set. Cornfields stretched for miles along the river valleys and colorful vegetables filled gardens tended by Native Americans.

Indiana was destined to be an agricultural state. Climate and topography made it so.

In 1794, after Gen. Anthony Wayne's army defeated Native Americans at the Battle of Fallen Timbers near Toledo, Ohio, his troops spent days destroying Indian grain fields throughout the Maumee River Valley and toward present-day Fort Wayne.

One soldier told of maize plantations, bean patches, apple-tree stands and potato plots. Wayne himself said he'd never "beheld such immense fields of corn in any part of America, from Canada to Florida."

Ever since, farming has been the foundation of Indiana's economy. Nationally Indiana ranks fifth in corn, fifth in soybeans and second in popcorn production. It represents just under 5 percent of the nation's Gross Domestic Product.

"Agriculture's Bounty: The Economic Contribution of Agriculture," published by the Indiana Business Research Center, credits the agricultural sector for 190,000 Hoosier jobs. Of those, 103,000 are directly involved in crop production and processing.

It's no accident that Indiana is known for these things. The late, great Indiana University geographer, Stephen Sargent Visher, wrote in his 1944 book "Climate of Indiana" that, "During about nine months in the year the temperatures are more favorable than prevail in most of the world." Long stretches between frosts, reliable rainfall and warm summer days and nights create almost ideal farming conditions.

Scholars trace the genetic origins of corn back 10,000 years to a Central American grass called teosinte. It was the upper Mississippian Oneota peoples who lived along the Wabash River, however, who became "the first fully adapted maize agriculturalists" according to one study of native activity in the late prehistoric period, 950-1650 A.D. It is a legacy passed down to modern farmers like Joe Steinkamp of Evansville who farms the Ohio River bottoms.

"The neat thing about our climate is we have a nice, long growing season, which gives us a bigger window to plant our crops," says Steinkamp, whose land is about evenly divided between corn and soybeans. Unlike most Hoosier farmers who grow corn exclusively for animal feed, Steinkamp's is a white variety that is processed into Mexican-style dishes and tortilla chips. Steinkamp's family will be in attendance at the opening of the Glass Barn at the Indiana State Fairgrounds on Aug. 2. Sponsored by the Indiana Soybean Alliance, the facility is designed to educate Hoosiers about what life is like for farmers and their families. The building features interactive and high-tech exhibits including a video theater where visitors can connect "virtually" with farmers. It will be open throughout the fair's run from Aug. 2-18, and long-term plans call for its use year-round as an educational center.

"We feel like the barn is an important step. We need to educate the Indiana consumer about what we are doing on the farm," says Kevin Wilson of Walton, alliance president and himself a corn and soybean farmer.

As the joke goes, "You know you're in Indiana when . . . all you see are corn and soybeans." There's more than a grain of truth to it. It's an important part of our history and our present.

Mounds Leave Evidence Of Indigenous Hoosiers

July 1 — Indiana's name means "Land of the Indians." A trip to Mounds State Park in Anderson reminds us why.

Among the first inhabitants of our state were the Adena, a hunting and gathering people

In 1794, after Gen. Anthony Wayne's army defeated Native Americans at the Battle of Fallen Timbers near Toledo, Ohio, his troops spent days destroying Indian grain fields throughout the Maumee River Valley and toward present-day Fort Wayne.

Vestiges of the Ice Age can be seen all around, from the Dunes of northern Indiana to a large granite boulder at Potato Creek State Park to central Indiana's sandstone cliffs.

that lived in east central Indiana beginning around 1,000 BC. They left behind earthen monuments — deep ditches surrounded by embankments — that give clues to a complex society that understood astronomical events and seasonal calendars and based religious celebrations around them.

Visitors to Mounds State Park go to camp, hike, fish or swim. Most stand in awe at the 10 mounds and earthworks ranging from a few inches to several feet high that have been on the National Register of Historic Places since 1973.

"The earthworks at Mounds State Park are some of the best protected of any in the state, and many improvements in protection have been instituted over the years," says the archeologist Donald Cochran, professor emeritus at Ball State University, who with a colleague, Beth McCord, conducted much of the recent research there.

"It is only one of five large earthwork complexes in east central Indiana. These five large sites as well as many mounds and other enclosures make up a cultural landscape that is unique in Indiana," Cochran noted.

Although little is known about the daily lives of the Adena, their mounds and artifacts gave scholars enough data to generalize about these early Hoosiers.

They were part of the Woodland Tradition that relied on hunting, fishing, berry-picking and cultivation of maize. They made ceramic pots and traded with other native peoples. When the Adena left they were replaced by the Hopewell, who used the mounds, and constructed more, for burial and ritual purposes. More than 300 of their ancient earthworks could once be found in east central Indiana, but today fewer than 100 remain.

Indiana is fortunate that Frederick Bronnenberg was the first private-property owner of the land that is now Mounds State Park. A native of Germany who immigrated to the United States around 1800, Bronnenberg protected the mounds from plowing and vandals. His son, Frederick Jr., did the same and "extolled their virtue as a community point of interest and destination." according to state park documents.

The area functioned from 1897 to 1929 as an amusement park, which marketed the mounds as a tourist sight. The park shut down due to lagging attendance during the Great Depression and was sold to the Madison County Historical Society, which transferred ownership to the state in 1930, thus protecting the mounds from commercial and agricultural development — though not from public use or natural erosion.

The Ice Age Made Indiana

June 17 — Long before Indiana was Indiana, a river of ice glided across the state, bringing with it monsoon-like rains, mudflows to rival Mount St. Helens and rich sediment deposits that to this day nourish the crops that are the backbone of the Hoosier economy.

Indiana the state has been 200 years in the making. Indiana the place goes back 2 million years to a time when ice sheets blanketed the middle latitudes. Virtually all aspects of modern Indiana were "in one way or another affected by some facet of the Ice Age," said geologist Anthony Fleming.

Consider the following:

The rivers that attracted Native American settlements and later the pioneers, that carried flatboats filled with trade goods and powered gristmills and sawmills, are former glacial rivers that drained the melting ice sheets.

Huge holes carved by advancing glaciers became the Great Lakes. These, along with the St. Lawrence River, linked Indiana to the Atlantic Ocean and Europe.

Vast ice sheets deposited nutrient-rich soil and then flattened it, giving central and northern Indiana some of the nation's most productive farmland. Aquifers formed during the Ice Age provide most of the water we need for household use and for industry.

To picture Indiana during the Ice Age, Hoosiers must set aside familiar images of forested wilderness and checkerboard farm fields. Instead, conjure up a massive piece of ice molding the land like a potter modeling clay and ending at the hills of southern Indiana.

Then imagine the ice's retreat, following by trickles then gushes of running water Scientists believe this pattern of gliding, melting and receding ice happened at least three times in Indiana's ancient past. It is almost entirely responsible for the landscape of the northern two-thirds of the state. The geography of southern Indiana is due to bedrock, not glaciers.

Vestiges of the Ice Age can be seen from the Dunes to the sandstone cliffs of cenral Indiana.

A striking example is Pine Hills Nature Preserve near Crawfordsville adjacent to Shades State Park. Glacial melt water there formed two meandering streams — Clifty and Indian creeks — which carved a gorge through bedrock and left four narrow ridges rising almost 100 feet.

Over one ridge, the pathway is treacherous with sheer drop-off on both sides. A short distance away, there's a massive wall of sandstone where the two creeks meet. It's not the Grand Canyon, but it proves there's more to Indiana than flat farmland. Just look around.

The Ice Age formed Indiana's landscape and our identity.

THE BIWEEKLY

CECIL
BOHANON

Yes to School Vouchers; But Let's Stick to the Facts

Aug. 5 — Full disclosure: I have a dog in this race. I am on the board of Delaware Christian Academy , a private Christian school that uses a traditional curriculum and accepts state-financed vouchers. I have long advocated educational vouchers as a means for improving educational quality. I agree with Dr. Milton Friedman, who would have been 101 years old on July 31 of this year; I think competition in K-12 education is healthy.

No claims will be made here, however, about the merits or demerits of voucher finance of private schools or any speculation offered about its impact on public schools, except for the rather obvious fact that if students leave public schools for private schools, public-school funding declines in dollar terms. I nonetheless believe those are relevant and uncontroversial points, and in a future column I'll put my advocate's hat on.

That said, let me put on the hat of an economist to point out some simple economics of educational finance in Indiana.

A central principle of economics is the distinction between the average and the marginal. An often-referenced metric is "spending per student." The total spending in a school system, public or private, can be defined as the total amount spent during a calendar period. For example, the XYZ school system spends $11 million on teacher salaries, building rent, office support, materials and supplies, school transportation, janitorial services and so on. If the school system enrolls 1,000 students, then the spending per student is $11,000 ($11 m/1000= $11,000). This is average spending per student; $11,000 is pretty close to the Indiana state average for public-school districts.

But what occurs to total spending at XYZ if an additional student — student number 1,001 — enrolls at XYZ? The change in total spending from an additional student is what economists call the marginal spending per student. The answer depends crucially on the way the XYZ school system is funded.

The (state) legislature has developed a rather complicated state funding formula that grants the public-school district a set amount per student, called tuition supports. This amount is based on a variety of factors specific to the local district and varies between districts, but it is typically around $5,500. So for XYZ public-school district, $5,500 is a good approximation for the marginal spending per student.[1]

How is it that state-tuition supports are only about half the average spending per student in public-school districts? The answer is that other sources of funding, generally from local, state and federal tax dollars, supplement the state-tuition supports in a school district's budget. Particularly important is that local property taxes support public-school buildings funds.

The core provision of the statewide voucher program for private schools is as follows: If a student exits the XYZ public-school district for a participating private school, XYZ public-school district loses $5,500 from state-tuition supports, while the private school obtains a voucher from the state worth no more than $4,700. If 100 students exit XYZ public-school district to various private schools, XYZ loses $550,000 from state-tuition supports, but the private schools receive no more than $470,000.[2]

Although the structure of the program is a bit more complicated, the results are clear: What the public school loses in state-tuition supports is by design less than what the private schools obtain from the state vouchers.

A Charter School For Ahmed? Why Not?

"All that has been said of the importance of individuality of character, and diversity in opinions and modes of conduct, involves, as of

How is it that state-tuition supports are only about half the average spending per student in public-school districts? The answer is that other sources of funding, generally from local, state and federal tax dollars, supplement the state-tuition supports in a school district's budget.

Cecil Bohanon, Ph.D., an adjunct scholar with the foundation, is a professor of economics at Ball State University.

1. *http://www.in.gov/dlgf/files/2012_Report_on_Expenditures_Per_Capita-Revised.pdf.)*

2. *http://in53.wordpress.com/2013/07/06/per-pupil-school-funding-in-indiana/.*

Vouchers are as American as apple pie and as constitutional as the Bill of Rights — as long as they are open to all.

the same unspeakable importance, diversity of education." — from John Stuart Mill On Liberty (1859)

Aug. 19 — K-12 education is the largest component of Indiana's state budget. Most Hoosier students go to public schools and probably always will. Public schools receive support from the state government for general operations, and from local property taxes for construction and transportation. In the last decade, some K-12 students have enrolled in charter schools, which are public schools freed from many state mandates and regulations.

Charters receive fewer tax dollars on average per student than traditional public schools. That is primarily because they do not have access to local property taxes for school construction and transportation. In the last few years, some students from lower-income households attend private schools using state-funded vouchers. These "voucher-eligible" schools agree to comply with certain state requirements. The amount of state support embedded in the vouchers is by design less than the marginal (incremental) and average government support per student for the traditional or charter public schools.

Vouchers, charter schools and mobility between public schools make the K-12 landscape in Indiana quite diverse; students and parents have a lot of choices. I celebrate this diversity. As long as a school, public, charter or voucher meets minimal and reasonable state-set standards, it is healthy for our public-education system to offer a wide array of options. What's more, it is better that these diverse options come from communities from the ground up than be imposed by central planners.

This model presumes that parents are competent. It also asserts that the goal of public education is to impart students with certain skills (think basic reading, writing and numeracy) but leaves many components of education to the discretion of parents, communities and students. If a family wants soccer for Johnny, or marching band for Susie or religious instruction for Ahmed, this should be facilitated without fear or favor.

So if the good folks of the Islamic faith in my community want to start an Islamic school that takes vouchers, I support this 100 percent. And if such an Islamic school or voucher support for it makes you uncomfortable, I humbly suggest you examine your assumptions. What are you afraid of? Vouchers are as American as apple pie and as constitutional as the Bill of Rights — as long as they are open to all. Of course, when public funds are at stake, it is proper and necessary that those taking the funds be held to certain expectations — such as student-performance measures. That is the case in Indiana. I know this newly evolving landscape makes many of my progressive friends uncomfortable. Aren't vouchers and charters stealing from the public-school system? No, dear friends, vouchers and charters are part of the public-school system.

Consider this analogy: Families whose incomes fall below certain levels are eligible for food stamps. For better or worse, food-stamp rules don't allow recipients to use them to purchase alcoholic beverages or toilet paper, and some policymakers think soda pop should also be proscribed. But no one says purchasing Kosher or Halal food with food stamps entails establishing religion.

Indeed, we would all agree that forbidding food-stamp recipients from buying food consistent with their faith commitments would be an egregious violation of constitutionally protected rights. Why should it be different in K-12 education?

Youth Unemployment: How Bad Is It?

July 22 — Recessions are always traumatic and recoveries always seem slow. This one is particularly hard on teens and young adults.

The most recent report indicates a national unemployment rate of 7.6 percent in June 2013. This is a welcome decline from the June 2009 rate of 9.5 percent. By means of comparison, the national unemployment rate in June 1982 (in the midst of the Volker recession) was 9.6 percent. It had declined to 7.2 percent four years later in June 1986.

The Indiana unemployment rate of 8.4 percent in June 2013 was down from 10.8 percent in June 2009. The Hoosier state's unemployment rate was 11.6 percent in June 1982 and dropped to 6.7 percent by June 1986. This limited evidence suggests that Indiana's employment rebound was stronger in the Reagan recovery of the 1980s than in the current Obama recovery. Don't read too much into that, however, as any number of factors besides national policy impacts the way a state recovers from a national recession.

The data on teen and young adult unemployment are interesting. In June 2009, national unemployment among 16- to 19-year-olds was 24.7 percent. As of June 2013, it stands at 24.0 percent. So the teen unemployment rate has barely budged in four years as the general unemployment rate has declined by one fifth. In the 1980s recovery, the teen unemployment rate fell from 22.9 percent to 19.2 percent over the comparable four-year period.

A similar story holds in the national data for young adults ages 20-24 years. Their unemployment rate declined from 15.2 percent to 13.5 percent from June 2009 to June 2013. It declined in a much more dramatic fashion in the 1980s, though, from 14.6 percent in June 1982 to 10.6 percent in June 1986.

What explains the stubbornly high teen unemployment rate in this recovery? Between 1978 and 1981, the minimum wage was increased 45 percent from $2.30 to $3.35. Almost all the increase, however, was inflated away by a 39-percent increase in the general price level. Between 2006 and 2009, the minimum wage increased from $5.15 to $7.25, a 41 percent increase. Over this more recent time frame, however, the general price level only rose around 6 percent. A colleague of mine posts a picture of a gangly teenage boy with the caption: employable at $7.24 an hour, minimum wage $7.25 an hour. To the extent the law has mandated a one-third increase in the real price of unskilled teen workers, we should not be surprised that they are utilized less. The marginally expanding economy cannot overcome this burden. Despite the claim of some progressives, the overwhelming body of economic research confirms that real minimum-wage increases do decrease employment opportunities for teens. As David Neumark and William Wascher state in their book "Minimum Wage" (MIT Press, 2010, p. 6), "minimum wages reduce employment opportunities for less-skilled workers."

As for recent college graduates, my casual observation is that students take a longer time finding suitable employment today than they did in the mid-eighties. A recent study offers some sobering statistics. In 1970, around 1 percent of all cab drivers had college degrees; more recently the percentage is 15 percent. In 1970, around 5 percent of all sales clerks in the retail trades had college degrees; the current percentage is around 25 percent. More and more college graduates eventually settle for jobs that do not require an undergraduate education. These graduates, however, spend a longer time searching for their "dream job" before they resign themselves to being a clerk at the local convenience store. Longer search times imply a larger pool of unemployed college graduates in monthly unemployment snapshots.

A final note: The average annual real GDP growth rate has been around 1.8 percent for the last nine quarters — 2011 to first quarter 2013. From 1984 to first quarter 1986, it was 4.7 percent. It would be interesting to see what would happen to the teen and young-adult unemployment rates if we could get '80s-like growth in today's economy.

In 1970, around 1 percent of all cab drivers had college degrees; more recently the percentage is 15 percent. In 1970, around 5 percent of all sales clerks in the retail trades had college degrees; the current percentage is around 25 percent.

THE INDIANA WRITERS GROUP'

'LEARNING TO LEARN' IS NOT A CLICHÉ

by **MARYANN O. KEATING**

Aug. 30 — Recent talks by Barack Obama highlight his personal mission to make higher education more affordable. Affluence at home and around the world increases the demand for education. This increase partially explains the doubling of average tuition and fees at four-year U.S. universities during the past 20 years.

Rising educational costs threaten prosperity, according to David Weisel of *the Wall Street Journal*. The solution to rising costs, however, must be addressed in terms of two fundamental realities that characterize the educational sector at all levels — namely, difficulties associated with increasing productivity and the labor intensity of education.

Faculty and other professional staff absorb generally about 80 percent of all educational costs. With no guarantee of success, education from elementary through university is an extremely costly proposition in terms of time and labor input.

This is particularly the case with respect to vocational education. Electricians, beauticians, mechanics, expert technicians, accountants, nurses, etc., generally have options that exceed the entry-level salaries offered in education.

Educational administrators are mistaken if they operate on the assumption that highly specialized faculty members will automatically present themselves when institutions decide to build or market career programs to meet current client demands. One obvious solution in trimming educational costs, as least at the

The two fundamental realities characterize the educational sector: difficulties associated with increasing productivity and labor intensity. ***(Keating)***

Maryann O. Keating, Ph.D., a resident of South Bend and an adjunct scholar of the foundation, is co-author of "Microeconomics for Public Managers," Wiley/Blackwell, 2009.

"Republicans, however, have a winning hand available in this defunding matter if their leadership would realize it." *(Gaski)*

secondary level and beyond, is for institutions to limit programs and specialize.

Another solution, borrowed from the past, is to capitalize on the flexibility of individuals who have previously demonstrated an ability to learn, who enjoy learning and who are willing to engage, with others, in learning new material.

Educational institutions cannot ignore market-wage options open to faculty. However, until recently, instructors have accepted temporarily slightly less compensation than they otherwise could earn in order to pursue a career consistent with learning. This willingness supplements the financial investments of parents, benefactors, state and nonprofit sponsors of education.

Rather than paying premiums to attract instructors with specific credentials, administrators regularly assigned faculty to teach new algorithms or incorporate computer-assisted instruction, often at an instructor's personal expense in terms of time and effort. In secondary schools, biology teachers were expected to substitute for chemistry teachers as needed. On the university level, professors traditionally prided themselves on having taught across their discipline. The military continues to rotate members from field to classroom by using standardized manuals and precise learning objectives.

It is natural to want and expect that students be trained by the best, most proficient individuals available. Costs are prohibitive, however, and most educational institutions have a comparative advantage in general versus specialized instruction. Moreover, less experienced teachers do not necessarily reduce test performance according to a recent study (Fitzpatrick and Lovenheim) published by the National Bureau of Economic Research.

Seasoned educators will smile at the arguments presented here for introducing "renaissance" people back into education. However, they might seriously consider that this may be their best means of countering the increasing movement toward on-line and proprietary education.

Good students recognize when an instructor is skating on thin ice in delivering class material. However, motivated students generally buckle down, tackle the text and learn. As long as an instructor does not act in an arbitrary manner and remains professional, both students and instructor advance in proficiency.

Admittedly, weaker students are disadvantaged, as are those experienced teachers one grade up who must compensate for deficient skills in their incoming class — at least in the short run. Teaching is truly a team effort, and the resistance of teachers to individual evaluation on student performance is understandable.

Corporations, obviously, prefer that employees arrive at their doors up to speed with highly specialized skills specific to their industry. Educational institutions are not equipped to provide this, and companies should not expect to shift the cost of proprietary training onto educational sponsors. This assumes, of course, that corporations are free to choose between job applicants through whom a firm has a high probability of realizing a return on its investment in training.

Meanwhile, deans and administrators can trim educational costs by appreciating the true value of available faculty and using these human resources most effectively.

Against ObamaCare, Good PR Can Save Lives

by **JOHN GASKI**

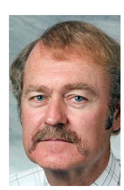
Aug. 20 — Republican Senators Mike Lee and Ted Cruz have been pushing a plan to fund the federal government except for the Affordable Care Act (ObamaCare) in the next budget year. The senators believe this is the last chance to stop a mortal atrocity against public health.

Their effort has met with opposition even by some heavies within their own party. Republicans, however, have a winning hand available in this defunding matter if their leadership would realize it.

To understand why, we must first understand why those who tactically recommend against pursuing defunding are wrong.

Their advice is that because Republicans lost major budget confrontations in the past — those with presumed government-shutdown implications — this will always happen.

Really, that non logic is their pseudo argument, and we hear it from such well-known commentators as Karl Rove and Charles Krauthammer. Rove calls it an "iron" law that Republicans will lose any public-relations battle over a spending impasse. The otherwise wise Krauthammer describes the effort to defund ObamaCare as "nuts."



John F. Gaski, Ph.D., associate professor of marketing at Notre Dame and an adjunct scholar of the Indiana Policy Review Foundation, does research in socio-political power and conflict. Gaski, the author of "Frugal Cool" (Corby, 2009) and "The Language of Branding" (Nova Science, 2010), describes himself as a longtime registered (but former) Democrat.

My rebuttal is straightforward: How large is the sample size grounding these adverse conclusions? How many shutdown crises have there really been — two? Maybe three, depending on definition. Obviously, that is not nearly enough to establish a trend or an iron law or an iron anything.

Republicans just need a better communication strategy to win such a fiscal fight. In this case, they need to use the truth that is already on their side.

First, specifically, they need to do a better job promoting the objective fact that a government shutdown will not be caused by the Lee-Cruz plan but only by President Barack Obama and the Democrats. Once the Republican House signs off on a budget of any kind, it literally cedes the power to shutter the government. And it sure doesn't help when other Republicans join conservative TV talking heads in wrongly equating the defunding plan with a shutdown.

Another communication tactic might use this verbiage:

> The main reason ObamaCare must be postponed is that Barack Obama and his remade Internal Revenue Service (IRS) cannot be trusted to abide by the law. We have seen President Obama ignore and violate U.S. law several times, sometimes using the IRS as his tool. Therefore, the American people cannot trust Mr. Obama or the IRS to abide by the ObamaCare law, or any new law, as written. Implementing ObamaCare is simply not feasible as long as Barack Obama is president, and that is all his fault.

This will resonate with the American public because the premises are overt, observable and already understood, even by a large and growing low-information segment.

Again, communication effectiveness is plausible even with a dumbed-down populace because the first premise is already accepted. Effectiveness is always enhanced when the message recipients can reach a conclusion on their own.

And defunding advocates should not let adversaries — or even allies such as Newt Gingrich — get away with the claim that Republicans have no alternative to ObamaCare.

The alternative, first, is status quo ante, followed by 1) more widespread use of health-savings accounts; 2) allowance of unfettered interstate insurance competition; and 3) medical tort reform. Institute all three and the country could afford to buy gold-plated health insurance for the remaining uninsured. The Republican alternative, then, is well established if only the message would get out.

There in sum is a viable communication strategy for Republicans on defunding versus shutdown. It will not be easy to overcome a dishonest opposition by Democrats and the Democrat mainstream media. Such accurate locution, by the way, is long overdue. Indeed, it is perhaps time for Republicans to call out the major media on this partisanship; it would be a tactic with potential because the public already distrusts the media.

So more power to you, senators Lee and Cruz. Don't listen to the likes of Rove and Krauthammer, at least on this issue. Go full speed ahead with ObamaCare defunding, but do a smarter communication job — one that entails, primarily, the right message content and delivery tactics.

Remarkably, the lives of your fellow citizens may depend on your public-relations skill.may depend on your public-relations skill.

Mass Transit: The Real Discussion Begins

by THOMAS HELLER

Aug. 14 — An Indianapolis newspaper recently offered some careful rethinking on why the state legislature hesitated this past session to authorize Indianapolis Mayor Greg Ballard — and mayors from neighboring suburban cities — to place a ballot before voters for a \$1.3-billion mass-transit plan for Marion and Hamilton counties.

While conceding that the particular transit system is underfunded and its skeletal transit service must be improved to enable more people to access employment opportunities throughout its city, the newspaper wondered whether achieving that objective requires lavishing large sums of new taxpayer money to build one or more gleaming new billion-dollar mass-transit lines in from the suburbs.

Most important, the newspaper ventured into previously forbidden territory, raising questions about the wisdom and potential effect of the proposal's various components. It wondered about the financing source (a higher local income tax); it wondered if gleaming new mass-transit lines are the highest priority for its city; and it wondered if such lines might simply hasten a population shift to outlying suburban areas.

These are essential questions that deserve a full public discussion in other cities throughout the state. Few such voices of conscience were raised last year as the mass-transit bandwagon rolled into the statehouse.

Thomas Heller, a resident of Columbus, was principal and founder of a consulting firm specializing in transportation, public finance and land economics.

"*The Indianapolis Star*) wondered about the financing source (a higher local income tax); it wondered if gleaming new mass-transit lines are the highest priority for its city; and it wondered if such lines might simply hasten a population shift to outlying suburban areas." *(Heller)*

"The employment-to-total-population ratio of teens 16 to 19 years old is about 26 percent compared with 40-50 percent in the 1975-2002 period." *(Keating)*

So finally we have begun the process of understanding and illuminating the mechanism that underlies mass-transit proposals — the fundamentals of their system design and function. We pose questions against the backdrop of pressing fiscal realities. For example (though unstated so far), the most basic of municipal services (public safety and law enforcement) will consume upward of 90 percent of the typical city-county budget. It would seem there is not money for much else.

Revenue from any new transit tax could quickly be drained away by cost overruns and "scope creep" in constructing other projects in an upgrade package, which leaves the original transit system high and dry. This has happened elsewhere.

As an independent transportation analyst, I ask a few questions beyond the current discussion. What is the problem the experts and system proponents seek to solve? Are they properly framing the issue? With a billion dollars and more in play, how objective can we expect the government's experts to be? How have similar projects fared elsewhere (no cherry-picking examples, please)? Is there any reason things would work out any differently here?

Finally, if mass transit rises to one of our highest priorities, there remains a host of tough, practical questions a banker would ask of a prospective borrower:

How solid are the numbers in the business plan? What are the details of the revenue projections and their sensitivity to changing conditions? How realistic are the ridership numbers? The construction cost estimates? What contingency plans are there for problems you will encounter? How likely would a slip in the schedule — or added project scope — lead to a need for more money? How would you adjust your plans? Would the expansion of a transit system be sacrificed to fund overruns on the mass-transit lines?

Indiana taxpayers must demand answers to these questions, because in the end, they are that banker.

Youth Are Floundering In Rigid Labor Markets

by **MARYANN O. KEATING**

June 27 — For those 25 years of age and under, joblessness remains a disaster both in the U.S. and elsewhere. German chancellor Angela Merkel risked incurring the wrath of struggling Eurozone countries by saying unemployed youngsters must be prepared to move for work. Merkel was quick to add that it was unfair that young people have to pay the bill for something they did not cause.

Labor force flexibility offers a less desperate solution than requiring young job seekers to leave home or country. What is meant by "labor force flexibility"? It is a characteristic of a country's employment practices that allows companies to adjust to fluctuations in the economy with respect to consumers' demand.

In general, the fewer regulations governing employment the greater flexibility in hiring. Minimum or maximum wages, laws inhibiting layoffs, severance requirements, and restraints on hiring and hours of work introduce rigidities into the employment process. In other words, the decision to hire should be less onerous than the marriage vow to share "all worldly possessions until death do us part."

Currently, in Indiana and throughout the United Sates, suppressants to employment include uncertainty over labor costs, payroll taxes and health insurance. Furthermore, small-business owners are unable or unwilling to assume legal burdens associated with the government's enforcement of legitimate immigration, diversity and environmental concerns. Corporations place their capital investments in places where labor and the cost of doing business are cheaper. The victims of labor market rigidity are young entrepreneurs and low-skilled workers.

Keith Hall, commissioner of the Bureau of Labor Statistics from 2008 to 2012, notes that at the current pace of job recovery we are a decade away from a full labor market recovery. Hall cites taxes, government regulations and red tape as common responses by small-business owners when asked what are their most serious problems (exceeding labor quality concerns). Although Germany's apprenticeship program is worth considering, vocational training alone is not the complete solution to youth unemployment.

Presently, the unemployment rate in the U.S. for those 25 years and under, is 17.3 percent, but many young people are absent from the labor force. The employment-to-total-population ratio of teens 16 to 19 years old is about 26 percent compared with 40-50 percent in the 1975-2002 period. According to the Bureau of Labor Statistics, the proportion of adult men 20 and older working or seeking work dropped 13 percentage points between 1948 and 2008. In 2011, 9.7 million men and women who otherwise may have joined the labor force received Pell grants to attend college. An affluent society, such as the U.S., may be able to afford delayed entry into the labor force, and for many youths that is good.

Country	Youth Unemployment*	Labor Market Flexibility Index**	Country	Youth Unemployment	Labor Market Flexibility Index
Belgium	22.2%	69.8	Luxembourg	19.3%	39
Bulgaria	29.0%	74.8	Malta	14.7%	65.4
Czech Rep.	19.2%	85.5	Netherlands	10.4%	58.6
Denmark	14.8%	91.1	Poland	28.1%	62.9
Germany	7.6%	43.8	Portugal	38.2%	31.0
Ireland	30.5%	76.6	Slovenia	24.4%	40.4
Spain	55.8%	54.3	Slovakia	34.7%	72.2
France	26.3%	60.5	Finland	19.9%	45.5
Cyprus	32.3%	62.8	Sweden	24.4%	53.6
Lithuania	24.8%	64.1	U.S.	17.3%	95.5
Greece	62.5%	42.1			

**EUROSTAT, 2013*
***The Heritage Foundation 2013 Index of Labor Freedom*

However, the economist Art Laffer notes the danger and costs to societies in which unemployed youths become hostile as over time they become less employable. Support for the labor-freedom argument is shown in the table on the next page giving a sample of countries comparing youth unemployment rates with labor market flexibility.

Note in the above table that Germany, with the lowest level of youth unemployment, is characterized by relative labor-market rigidity, contrary to the argument expressed here that lower youth unemployment is associated with greater labor-market flexibility. A study by Abraham and Houseman suggests that German companies have developed strategies to cope with labor-market inflexibility by adjusting hours of work as compared with the United States' reliance on hiring and firing to alter the level of employment. This suggests that policy reforms to advance labor-market flexibility may have unexpected consequences depending on type of industry in which a country has a trading advantage. In some cases, countries with rigid labor markets outsource production of intermediate goods to more-flexible labor markets. On the other hand, an analysis by Cuñat and Melitz shows that more-flexible countries tend towards specializing in and exporting goods and services associated with high-volatility industries.

The temptation, particularly for politicians seeking votes, is to favor firms with incentives to hire younger workers. The flexible-market solution is to free all firms in order to hire more workers necessary to meet our private and public commitments. The share of those 16 years and older neither working nor looking for work appears to be higher in the U. S. than in any Western European economy, including Greece.

The statistical case for releasing companies' employment decisions from regulatory encumbrances is mixed. The moral case for flexible labor markets, however, goes beyond economic incentives. It is a matter of human development for young people in any country seeking attachment to the labor force either as entrepreneurs or entry-level workers.

"The share of those 16 years and older neither working nor looking for work appears to be higher in the U. S. than in any Western European economy, including Greece." *(Keating)*

News that the Transbay Terminal is something like $300 million over budget should not come as a shock to anyone. We always knew the initial estimate was way under the real cost. Just like we never had a real cost for the Central Subway or the Bay Bridge or any other massive construction project. So get off it. In the world of civic projects, the first budget is really just a down payment. If people knew the real cost from the start, nothing would ever be approved. The idea is to get going. Start digging a hole and make it so big, there's no alternative to coming up with the money to fill it in.

— Former Mayor Willie Brown's column in the San Francisco Chronicle

> The Congress, whenever two thirds of both Houses shall deem it necessary, shall propose Amendments to this Constitution, OR, on the Application of the legislatures of two thirds of the several States, shall call a Convention for proposing Amendments, which, in either Case, shall be valid to all Intents and Purposes, as Part of this Constitution, when ratified by the legislatures of three fourths of the several States or by Conventions in three fourths thereof, as the one or the other Mode of Ratification may be proposed by the Congress; Provided that no Amendment which may be made prior to the Year One thousand eight hundred and eight shall in any Manner affect the first and fourth Clauses in the Ninth Section of the first Article; and that no State, without its Consent, shall be deprived of its equal Suffrage in the Senate. — *Article V, U.S. Constitution*

Q. Is it time to consider a state-led constitutional convention 'for proposing amendments' as authorized under Article V?

60.9 % — Yes
39.1 % — No

• I say yes . . . but experience has shown us the Constitution provides little protection for citizens from presidents who seize illegitimate powers, legislators unwilling or unable to challenge these presidents and courts that fail miserably in checking either branch. Any possible solution to unlimited government and the tyranny it brings goes well beyond just state-led constitutional conventions.

• Why even consider a constitutional convention, or even constitutional amendments, when the problem is that our politicians violate constitutions? Why let the lawbreakers make the laws more to their liking? Which of our most serious societal problems would we have today if we demanded obedience to the constitutions as written? The laws that smart people wrote generations ago are infinitely better than what our current crop of criminals would impose on us. There're no shortcuts, and "We the People" cannot delegate this away. We got what we chose; we need to choose better — or else.

• State Sen. David Long led a strategically brilliant effort to enact Indiana laws that would strictly limit the authority of any delegates sent by Indiana to such a convention. We should hope these laws serve as a model for other states, the idea being that if enough pass these "delegate limitation" measures the threat of a so-called "runaway convention" would be greatly lessened if not alleviated. Proponents then would be in a stronger position to call for an Article V convention to restore a more appropriate balance of power between the states and the federal government.

• A genuine balanced budget amendment, no spending excluded, would solve a lot of problems; a flat tax amendment would solve the remaining ones.

• I do not believe we have the intellectual power in our political class to ensure a reasonable outcome to a convention. In my opinion there is no way to guard against a runaway convention — no way. The state legislatures can erect whatever fence they wish in an attempt at keeping the delegates on the reservation but I fear there is no way to enforce the restrictions. Even though the original convention acted illegally, the attendees, by and large, had the best interests of the country at heart. The Charles Schumers and Richard Durbins and Barack Obama's and the Clintons, ad nauseum, do not share that attribute.

• Although many in the conservative camp are advocating for a con-con (constitutional convention), there are two problems with this approach: First, the problem is not with the Constitution itself but with the fact that we have not for a long time adhered to the Constitution. That is what has brought us to the point we are today. We need to elect representatives who will uphold their oath to uphold the Constitution. Second, if a con-con is called, there is a good chance that we could lose control of it so that it is amended in a way that makes us into more of a European-type socialist government, which is the goal of many of the elite in this country. Our work should be directed to getting more legislators elected who will truly represent the wishes of the people and will work to that end by following the greatest document ever conceived in self-government. If amendments are needed, this can be done through the process that has brought us the amendments made after the Bill of Rights.

• I'd like to do it now, but on what could we possibly get 38 states to agree at this point in time? Perhaps when Barack Obama is gone, we will have sense enough to elect someone who will not seek to pit us against each other and we can manage to tone down the divisiveness.

• I much prefer a 200-year-old Constitution to whatever might come out of a convention — too much passion, too little deliberation. Conservatism is about conserving that which is proven over time, is it not?

• This never-used avenue to constitutional amendments is a valuable insurance policy. I do not think there is now the powerful public consensus present to cause such a convention, however, nor if there were, the surety that it would move the Constitution in a desirable direction. Our existing Constitution is excellent; we just lack the political power in the presidency, the Congress and the Supreme Court of the United States to assure that we live by its liberty-centered meaning.

• There's no guarantee that we could control the outcome, in my opinion, and we could wind up worse than we are now.

• Congress, regardless of which party controls it, has proven entirely incapable of controlling itself and refuses to reign in an out-of-control executive branch that it funds through the control of the purse. With the governor saying secession is an option, a state-led constitutional convention is a last option for holding this country together. It's been 150 years since the Civil War was fought over secession, I don't see what harm can come at this point in the game with a constitutional convention. It will either work at reigning in Congress and the Executive or it won't. If it doesn't, history may well repeat itself. It often does.

• The legislative, executive and judiciary branches were meant to be co-equal. Both the executive and judiciary, however, have co-opted powers that our not constitutionally theirs. I think a state-led constitutional convention with the adoption of amendments represented in Mark Levin's "The Liberty Amendments" would be a good framework.

• I fear it could lead to solutions to major problems not being addressed.

• I do not trust the current wisdom of the nation not to undermine itself if given the opportunity to amend the Constitution. While I would love to see a balanced-budget amendment and an overall reigning in of the scope of powers of Congress and the Executive, I fear we would go way beyond what is reasonable and further erode the strengths of our present Constitution.

Twenty-three of the 59 correspondents contacted completed this quarter's poll for a response rate of 39 percent.

People who know about opinion surveys don't think much of ours. The sample is inherently biased and so small as to be little more than a focus group. The questions, sometimes confusing, are casually worded and transparently drive at one point or another. That said, we have learned to trust our members and eagerly await their thoughts on this and that.

THE DESTINIES OF THOSE WHO SIGNED

Emanuel Gottlieb Leutze, oil on canvas, 1851

Thomas Hoepker, photograph, Sept. 11, 2001

From an essay on the signers of the Declaration of Independence by Rush H. Limbaugh Jr., distributed by the Federalist Magazine

• **Francis Lewis** — A New York delegate saw his home plundered and his estates, in what is now Harlem, completely destroyed by British soldiers. Mrs. Lewis was captured and treated with great brutality. She died from the effects of her abuse. • **William Floyd** — Another New York delegate, he was able to escape with his wife and children across Long Island Sound to Connecticut, where they lived as refugees without income for seven years. When they came home, they found a devastated ruin. • **Phillips Livingstone** — Had all his great holdings in New York confiscated and his family driven out of their home. Livingstone died in 1778 still working in Congress for the cause. • **Louis Morris** — The fourth New York delegate saw all his timber, crops and livestock taken. For seven years he was barred from his home and family. • **John Hart** — From New Jersey, he risked his life to return home to see his dying wife. Hessian soldiers rode after him, and he escaped in the woods. While his wife lay on her deathbed, the soldiers ruined his farm and wrecked his homestead. Hart, 65, slept in caves and woods as he was hunted across the countryside. • **Dr. John Witherspoon** — He was president of the College of New Jersey, later called Princeton. The British occupied the town of Princeton, and billeted troops in the college. They trampled and burned the finest college library in the country. • **Judge Richard Stockton** — Another New Jersey delegate signer, he had rushed back to his estate in an effort to evacuate his wife and children. The family found refuge with friends, but a sympathizer betrayed them. Judge Stockton was pulled from bed in the night and brutally beaten by the arresting soldiers. Thrown into a common jail, he was deliberately starved. • **Robert Morris** — A merchant prince of Philadelphia, delegate and signer, raised arms and provisions which made it possible for Washington to cross the Delaware at Trenton. In the process he lost 150 ships at sea, bleeding his own fortune and credit dry. • **George Clymer** — A Pennsylvania signer, he escaped with his family from their home, but their property was completely destroyed by the British in the Germantown and Brandywine campaigns. • **Dr. Benjamin Rush** — Also from Pennsylvania, he was forced to flee to Maryland. As a heroic surgeon with the army, Rush had several narrow escapes. • **William Ellery** — A Rhode Island delegate, he saw his property and home burned to the ground. • **Edward Rutledge** •**Arthur Middleton** • **Thomas Heyward Jr.** — These three South Carolina signers were taken by the British in the siege of Charleston and carried as prisoners of war to St. Augustine, Fla. • **Thomas Nelson** — A signer of Virginia, he was at the front in command of the Virginia military forces. With British General Charles Cornwallis in Yorktown, fire from 70 heavy American guns began to destroy Yorktown piece by piece. Lord Cornwallis and his staff moved their headquarters into Nelson's palatial home. While American cannonballs were making a shambles of the town, the house of Governor Nelson remained untouched. Nelson turned in rage to the American gunners and asked, "Why do you spare my home?" They replied, "Sir, out of respect to you." Nelson cried, "Give me the cannon." and fired on his magnificent home himself, smashing it to bits. But Nelson's sacrifice was not quite over. He had raised $2 million for the Revolutionary cause by pledging his own estates. When the loans came due, a newer peacetime Congress refused to honor them, and Nelson's property was forfeited. He was never reimbursed. He died, impoverished, a few years later at the age of 50. • **Abraham Clark —** He gave two sons to the officer corps in the Revolutionary Army. They were captured and sent to the infamous British prison hulk afloat in New York harbor known as the hell ship "Jersey," where 11,000 American captives were to die. The younger Clarks were treated with a special brutality because of their father. One was put in solitary and given no food. With the end almost in sight, with the war almost won, no one could have blamed Abraham Clark for acceding to the British request when they offered him his sons' lives if he would recant and come out for the king and parliament. The utter despair in this man's heart, the anguish in his soul, must reach out to each one of us down through 200 years with his answer: "No."

Please Join Us

In these trying times, those states with local governments in command of the broadest range of policy options will be the states that prosper. We owe it to coming generations to make sure that Indiana is one of them. Because the foundation does not employ professional fundraisers, we need your help in these ways:

• **ANNUAL DONATIONS** are fully tax deductible: individuals ($50) or corporations ($250) or the amount you consider appropriate to the mission and the immediate tasks ahead. Our mailing address is PO Box 5166, Fort Wayne, IN 46895 (your envelope and stamp are appreciated). You also can join at the website, http://www.inpolicy.org, using your credit card or the PayPal system. Be sure to include your e-mail address as the journal and newsletters are delivered in digital format.

• **BEQUESTS** are free of estate tax and can substantially reduce the amount of your assets claimed by the government. You can give future support by including the following words in your will: "I give, devise and bequeath to the Indiana Policy Review Foundation *(insert our address and amount being given here)* to be used to support its mission." A bequest can be a specific dollar amount, a specific piece of property, a percentage of an estate or all or part of the residue of an estate. You also can name the foundation as a contingency beneficiary in the event someone named in your will no longer is living.

"The Battle of Cowpens," painted by William Ranney in 1845, shows an unnamed patriot (far left) firing his pistol and saving the life of Col. William Washington.

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