Regional Cities Initiative: IMPACT AND INSIGHT

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Introduction

This policy brief examines Indiana's Regional Cities Initiative (RCI), a place-based economic development policy funded during 2015. Place-based programs, such as tax incentives, public investment or special rules and regulations, target geographic areas for special treatment (Kline & Moretti, 2013). These contrast with person-based programs, which target individuals based on income or employment status. States have begun to experiment with place-based policies to address regional disparities.

In this policy brief, we provide (1) an overview of Indiana's Regional Cities Initiative, (2) summaries of three studies Ball State researchers conducted, which examine the impact of this program, and (3) insights for groups applying for READI grants.

Program Overview

Governor Mike Pence signed legislation creating the Regional Cities Initiative during May 2015. This initiative provided a framework for neighboring communities across the state to work together to develop regional visions supported by development plans focused on quality of place. Partridge et al. (2015) pointed out that attracting and retaining skilled workers in a region is a key determinant of long-term development. Local conditions that make the area an attractive place to live influence a region's ability to attract highly mobile, skilled workers.
One of the goals of the Regional Cities Initiative was for cities and towns in self-identified regions to work together to develop projects to improve the quality of life in the region, making the region more attractive to potential in-migrants and reducing out-migration.

Seven communities completed plans and submitted them to the Indiana Economic Development Corporation (IEDC) for review. These included regions in North Central, Northeast, Northwest, East Central, Central, West Central, and Southwest Indiana. An eighth region completed a plan, but did not have sufficient local government support to meet submission requirements.\(^2\)

Figure 1 shows the seven regions in Indiana that successfully submitted their plans for consideration.

During December 2015, the plans from regional development authorities in three regions (North Central, Northeast, and Southwest) were selected to receive $42 million each in matching funds for their development plans.\(^3\) These plans included more than $2 billion in investments for dozens of projects.\(^4\)

The regional plans submitted and funded through the Regional Cities Initiative included a variety of projects. Many of the projects were in some stage of consideration prior to the RCI, so RCI funding likely accelerated some existing projects or provided key funding for projects not yet started.

The North Central region’s proposal consisted of 39 projects within the three-county area with a total capital investment of $703.4 million. These projects included an aquatic center and other recreational opportunities, improvements to the South Shore train line connecting to Chicago, mixed-use developments on former commercial or industrial sites, housing developments, expanding broadband access, and several projects to support STEM programming for K-12 students.

The Northeast region was the largest with eleven counties. Their proposal consisted of 38 projects totaling $400 million. Priority projects included trails, parks, riverfront development including kayak launches, downtown improvement projects in several communities including housing, a variety of performing arts spaces, a daycare facility, and regional broadband.

The Southwest region included four counties. Proposed projects included expanding STEM offerings at a charter school, improvements to the downtown YMCA and associated housing, a new medical education and research center, improvements to the Evansville Regional Airport, downtown housing, expanding the regional trail system, a new conference facility and housing development near a nationally ranked golf course, and expanding broadband access.

\(^1\) The Gov. Holcomb administration continued this program through the Regional Economic Acceleration and Development Initiative (READI), which provided grants to selected communities during Summer 2022.

\(^2\) The county commission of one member county did not approve the plan for the region consisting of the northern Louisville suburbs, which had recently experienced significant bridge infrastructure investment, which would be a clear confounding variable in any estimate of the effect of the Regional Cities Initiative.

\(^3\) As originally designed, two regions would be funded through the RCI. However, the IEDC added a third region to the winning applicant pool.

\(^4\) These regional plans are available on the IEDC website at https://www.iedc.in.gov/programs/regional-cities-initiative/regional-plans/.
Program Impacts

Ball State University researchers have conducted three studies examining the impacts of the RCI.

Hicks (2017) examined the early impact of the RCI using a commercial CGE model and found that the RCI grants and related funding were expected to generate a $500 million increase in property assessed value and result in a cumulative population growth of 3,400 people within a decade.

Neu (2018) conducted interviews and site visits to examine the impact of RCI and found that local leaders who participated in the RCI viewed the program positively and expected the collaborations between local governments to continue.

Hicks and Faulk (2024) conducted the most comprehensive analysis to date using event studies and difference-in-difference (DD) regression models for three samples. The event study analysis shows higher real GDP, population, total employment, and construction employment after the implementation of RCI. See Figures 2 and 3 (Year 0 = 2015).

The difference-in-difference (DD) approach is ideal for examining the effect of this program because its purpose was to introduce a policy shock into economic regions, resulting in market effects. The results of the DD analysis show:

- RCI counties experienced higher GDP growth after the RCI program was implemented in all three samples examined and higher population growth in the samples that omitted Indianapolis MSA counties.
- The RCI program had a positive and significant effect on total employment in all samples.
- The RCI had a positive and significant effect on employment growth in construction and accommodations and food services after the program was implemented in two of the three samples. As the event study graph shows (Figure 3), the largest growth of construction employment was concentrated in the immediate two years following the award of the RCI grant.
- We did not find expected employment growth in arts, entertainment and recreation.
- The positive impact of the RCI program on total employment did not translate to higher earnings. We can rule out any evidence of real wage effects from this program overall or in the industry sectors examined.
- The magnitudes of the estimated effect are reasonably strong. On average, we estimate that RCI counties would experience 1,088 additional jobs per year and $37 million in additional GDP per year because of the program, over the observed period.

The implications of these results are that well-targeted, place-based programs with substantial input from local communities can positively influence economic outcomes of a region.

5. See Hicks and Faulk (2024) for a detailed description of the data, models and results.

Figure 2. Results of Annual Event Study
Notes: Label for normalized coefficients in parenthesis ($\hat{y}$ at $l = 8$). Estimates are coefficients at $t \leq 0$, cumulative coefficients at $t > 0$, with 95% confidence interval and point estimate.

Year 0 = 2015.

Figure 3. Results of Quarterly Employment Event Study
Notes: Label for normalized coefficients in parenthesis. Estimates are coefficients at $t \leq 0$, cumulative coefficients at $t > 0$, with 95% confidence interval and point estimate.

Year 0 = 2015.
Insights for Future Planning

Insights for READI

The State of Indiana has continued the RCI program in a new iteration—the Regional Economic Acceleration and Development Initiative (READI)—during 2021-22. All 92 counties in the state participated in one of the regions during the READI 1.0 application process. The regions that received the highest level of funding were the same three regions that had been funded previously through the RCI program.\(^6\)

From an organizational perspective, the successful READI regions had several elements in common.

• The regions made sense—The geography, regional economy and transportation patterns made the formation of the regions much easier.

• The communities within had been organized and operating as a region for several years. In their growth stage, they had worked through geographic and political differences. They had developed standards of behavior and cooperation.

• The region developed a practice of broad community and regional engagement. For example, economic development officials met regularly, as did elected officials, regional foundations, and other entities. However, no one constituent group dominated the discussion toward regional priorities.

• There was a practice of planning at both the local level and the regional level.

• The region was purposeful about developing a robust administrative capacity, the sole purpose being to serve the region. All the participants saw the value of this function.

6. The READI 2.0 awards were announced in April 2024. Information about the READI program is available at https://www.iedc.in.gov/program/indiana-readi/overview and at https://indianareadi.com/.

Recommended Structure of Place-Based Programs and How RCI Compares

Partridge, et al. (2015) outline a series of criteria that should be met for place-based interventions to be effective.

• The first criterion is that the targeted area should be persistently lagging such that the market forces inherent in spatial equilibrium are not adequately addressing the economic problems of the area. Population growth in regions receiving RCI funding consistently lagged that of Indiana as a whole, and educational attainment and real per capita income are lower in each RCI region compared to the nation as a whole.

• The second criterion is that the targeted area should be a functional economic region where people both work and spend the majority of their incomes and where residents access public and private services, so that the benefits of the place-based intervention are largely captured within the region. The RCI was designed to include multiple projects in multiple communities within a relatively small and well-defined area.

• Other economists have pointed out that for economic development projects to generate the most benefits, they should create jobs in areas with high levels of unemployment, employ people who need jobs and use existing infrastructure (Austin, Glaeser & Summers, 2018; Bartik, 1994). Many of the RCI projects use existing infrastructure or enhance existing amenities.

• The third criterion is that the program should involve cooperation across different levels of government. They also note that seeking input from various levels of government and requiring matching expenditures increases accountability and provides incentives for better project selection. The RCI is a state program that provides funding for local projects based on a plan developed by collaborating local governments and other institutions within a region and funding provided by local public and private partners.

• The fourth criterion is that the assistance or investment offered through the program should be broad-based, not targeting specific industries, for example. Projects funded through RCI cover a wide range of sectors including STEM education, broadband access, housing and recreational opportunities.

• The fifth criterion is that projects funded through the program should focus on socioeconomic conditions that make the region an attractive place to live to retain and attract highly mobile, skilled workers. One of the goals of the RCI is to improve quality of place in a region to attract and retain residents.

• Human capital spillovers occur when people learn from other people around them increasing the level and growth rate of productivity. Glaeser & Gottlieb (2008) argue that local policies that attract or produce skilled people are likely to offer the best chance to improve economic growth in lagging urban areas. They also argue if the goal of local leaders is to increase area incomes or population, policies should focus on attracting or training more skilled residents and that high quality public education is one such policy. The inclusion of projects to improve the quality of STEM education in two of the RCI regions addresses this relationship.

• Finally, the place-based intervention should be matched to local characteristics and incorporate local information, preferences and networks. While traditional place-based economic development policies such as tax incentives and training grants target particular businesses and are negotiated by a state agency with local government often participating with property tax abatement, the structure of the RCI is different in that local governments, businesses, and other institutions within the region collaborated to participate and select the projects that are included in the application submitted to IEDC. This collaboration ensures that local information is incorporated into the plans.

• Another issue is the quality of institutions charged with implementing the plan developed through the RCI. Partridge et al. (2015) note the necessity of “quality institutions” to implement place-based policies (p. 1319) so that programs are successful.
References


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