Northwest Indiana Regional Development Authority

Return on Investment Analysis

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RDA Return on Investment Analysis

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RDA Return on Investment Analysis

Overview and Summary

The RDA was created in 2005 by the Indiana General Assembly to invest in the infrastructure and assets of Northwest Indiana [IC 36-7.5], and in so doing transform the economy and raise the quality of life for the region. The enabling statute listed four areas:

1) Assist in the development of the Gary Chicago International Airport.
2) Assist in the development of the Lake Michigan Shoreline.
3) Assist in the development of an integrated region-wide surface transportation system – encompassing both commuter rail and bus.
4) Assist in the development of the overall economy by investing in economic development projects within the region.

To accomplish that mission, the RDA annually receives $17.5 million from local units of government and $10 million from the State of Indiana. While the local assessments are perpetual, the state’s contribution was established as a grant from the Major Moves lease proceeds over a 10-year period, which ends in SFY 2015.

The legislature directed the RDA to pay particular attention to the financial parameters of the investments it would eventually make: the leveraging against federal and private funds and the returns on the investments made [ROI]. Because of that interest and charge, this report, coming seven years after the establishment of the Authority presents the results of those initial investments - the returns that have already accrued and those that can be expected.

The report that follows covers each of the targeted investment areas listed above separately and then in conclusion presents the total ROI and total fiscal impact to the State.
RDA Return on Investment Analysis

Methodology Description

The Indiana General Assembly created the RDA with regional transformation as the primary objective. Investing in major transportation and infrastructure assets requires a long-term mindset and strategy. It would be inappropriate to attempt to measure the ultimate success of the RDA by only looking at its accomplishments after a 6-year period of investment activity. However, because accountability is a necessary part of any development program this report presents the Return on Investment (ROI) for the RDA’s first series of projects – 2007 through 2012.

The standard definition of ROI is: the Present Value of the Realized or Expected Benefits divided by the Present Value of the Invested Cost. In most discussions, ROI is calculated on a deal by deal basis – both up front and then after the fact. In this report both the “after the fact” returns and the prospective returns are presented. The ROI for the projects that have already been funded and in some cases constructed has been calculated using modeling software developed at the University of Minnesota – called IMPLAN. For the Gary Chicago International Airport and for the shoreline developments, the ongoing impact – the operational changes that result in growth in the regional economy – is estimated using software from Regional Economic Models, Incorporated, REMI. In looking at these future impacts the changes introduced by the investments are matched against a baseline economic forecast to calculate the return to the regional economy in jobs, income, and total output.
RDA Return on Investment Analysis

Project Leveraging

One of the RDA’s primary goals is to attract and leverage capital from other sources that would be otherwise inaccessible. For funds committed to date, $1 of RDA investment leverages $2.57 of non-RDA funding. By leveraging external funding, local and state dollars contributed to the RDA are stretched further and have more impact than they would alone. RDA spending leverages investment dollars from four general sources:

- **Federal** - Federal funding generally requires a significant local match. In Northwest Indiana, RDA spending has been used to leverage federal funds primarily for transportation-related projects. The NICTD railcar purchase and the Gary Chicago International Airport runway extension project both involve significant amounts of federal funding.

- **State** - The currently committed RDA projects involve $64M in State funding. A $51M state revolving fund grant comprises a large portion of that total. This loan facilitated the relocation of the East Chicago water filtration plant, which will open up valuable shoreline property for a more effective use.

- **Local** - The RDA projects do not only involve out-of-region funding. Local units of government are taking a large stake in improving the region’s assets. Approximately $88M in local government investment has been committed to RDA projects, mostly for shoreline redevelopment and the GYY runway expansion.

- **Private** - One of the major goals of the RDA is to make infrastructure improvements that pave the way for private sector development. To date, the RDA is involved in facilitating major capital investment projects such as the Canadian National Kirk Yard rail project, and the Modern Forge facility investment. Furthermore, the ongoing shoreline redevelopment and runway extension projects are expected to attract further private development.
The Lake Michigan shoreline is a vital northwest Indiana regional asset that has been under-utilized for decades. In the early part of the 20th Century, the shoreline was a national manufacturing hub, optimally placed on rail and marine shipping routes, and located in close proximity to Chicago. During its manufacturing heyday, the industrial cities of Gary, East Chicago, Whiting, Hammond, Portage and Burns Harbor experienced booming population and economic growth. Beginning in the 1970s and as international competition set in, the heavy manufacturing industry underwent a fundamental shift. Enabled by technological advances, and driven by market forces, firms began to replace labor with capital. By the end of the century, industrial firms were able to significantly increase output while using a fraction of the labor and a smaller geographical footprint. This left many shoreline areas—which had been previously used for manufacturing—vacant and environmentally compromised. Furthermore, the confluence of rail lines, interstates and industrial land made much of the shoreline inaccessible to the general population.

Meanwhile, other communities along the Lake Michigan shoreline in Michigan, Illinois, and Wisconsin—including neighboring Chicago—were taking advantage of the opportunities offered by shoreline access. Many of these locations have invested in reclaiming green space, redeveloping beaches, and facilitating commercial and tourism development to make the Lakeshore valuable part of their economies.

The RDA shoreline investments are intended to facilitate the redevelopment and reclamation of the Lake Michigan shoreline in Lake and Porter Counties. These investments will allow the shoreline communities to more fully realize the benefits of this unique asset.
Shoreline Development  
*Project Leveraging*

The RDA’s funding of shoreline investments is intended to supplement local government investment and to leverage federal, state and private funding sources that only become accessible once local funding sources have been established. To date, the RDA has contributed $118M to shoreline redevelopment efforts to complement $44M in local contributions. These projects have already, or are in the process of improving public access to the Lake, increasing the value of property inland from the shoreline, and adding incentive value to the attraction of economic development investments. The local funding comes largely from the Hammond, East Chicago and Whiting communities. The local and RDA investment has granted access to $51M in state funding, $13M in federal funding, and approximately $25 million in private investment projects. Overall, the $118M in RDA shoreline investment has leveraged approximately $130M in non-RDA funding—a leverage ratio of 1 to 1.10.

Shoreline projects have been increasingly attracting funding from non-RDA and non-regional sources of revenue. Like the other projects in which the RDA invests, the benefits of the investment continue long after the initial construction impacts have concluded.
Lake County—Hammond, East Chicago, Whiting, Gary
The development of the shoreline – providing public access and ensuring environmental compliance – takes place largely at the initiative of the cities situated along it. In Lake County, Gary, Hammond, East Chicago and Whiting have all received grants to undertake shoreline projects. These projects, involve land use planning, transportation / access planning, environmental clean-up and park development.

Although many area residents see these projects as “parks” only, these projects are designed so that community and economic development investments follow. The City of Whiting is a good example. Squeezed into 1,150 acres of land between the Cities of Hammond and East Chicago and the Lake Michigan shore, Whiting is the home of the former Standard Oil and now BP refinery. The refinery is in the process of making a $3.8 billion-plus investment in its refinery equipment and additional capacity. The City as part of its shoreline development convinced BP to put a new $12 million training facility on land immediately adjacent to the restored shoreline park.

Porter County — Portage, Burns Harbor and Porter
The most significant shoreline asset in Porter County is the Indiana Dunes National Lakeshore. Several communities in the county have developed or are in the process of developing projects to improve the access of visitors into their communities and the enjoyment of the visitors during their stay.

Portage turned an environmentally devastated shoreline area into a family friendly park and shore area that has attracted a new high-tech business to locate nearby specifically citing the atmosphere’s attractiveness to their young professional staff. The company, Fronius is investing $26.6 million and will create 512 jobs by the year 2016.

In all of these cases, the shoreline developments are only the first step in transforming the communities into places where new private investments can create jobs and provide long-term benefits for the region. Contrary to the “parks” label, these projects are the first step in a multi-year regional land use reinvestment strategy. The RDA is providing the initial capital to overcome the hurdles that 100 years of industrial and environmental misuse have thrown up to the now-ripe opportunities for 21st Century economic growth.
Shoreline Development

Current Economic Impact

This report covers a period of time very closely following the RDA’s actual capital investments. Because of that timing, the impacts to-date to the Northwest Indiana economy have been primarily in the construction sector with “spin-offs” from those jobs.

As the pace of investment and the nature of the investments develops, a broader impact will occur affecting all sectors of the regional economy.

The construction activity involved in the shoreline investment is projected to generate $425 million in economic output and a total of 891 jobs in the peak year of the construction period.

Employment Impact - Shoreline Construction

*Employment in Peak Year (2012) by Industry*

- 475 Direct Jobs; 891 Total Jobs

This includes 475 direct jobs in construction-related industries, 145 indirect jobs from supply chain purchasing, and 270 induced jobs from increased household spending. Over the course of the planned construction term, one dollar in RDA contribution results in $3.47 of local impact throughout the economy.

The construction-related jobs are temporary, and are only maintained as long as construction investments are made. However, once construction is complete, the construction phase impacts will be replaced by ongoing follow-on investments which provide long-term economic benefits for the region.
Shoreline Development

*Ongoing Economic Impact*

Once construction activity is complete, the ongoing impact of shoreline investment can be broadly summarized into two categories: increased visitor spending and increased amenity value to residents. Visitor, or tourist, spending describes the spending that is attracted to the region from outside visitors. As the Northwest Indiana shoreline becomes a more attractive destination, it will draw recreational visitors to engage in beach activities, watersports, hiking and camping. While visiting the region, these visitors will spend money on meals, lodging, shopping and other activities. Visitor attraction has two components: the visitors who travel into the region from other areas, and because current shoreline access is currently limited, those within the region who normally spend tourism dollars elsewhere but instead visit the shoreline within the region.

The amenity value of the shoreline can be described as the quality of life (non-compensatory) value that residents receive from the shoreline. In short this describes how the shoreline "makes the region a better place to live." Communities with amenities are more attractive to potential workers and residents and their employers. The amenity value is expressed in higher property values, higher income levels, and a significantly higher quality of life.

The RDA, with its local government partners, is currently in the earliest stages of a long-term investment process for shoreline redevelopment. The progress that must occur on the shoreline to reclaim it as a regional amenity will not occur overnight. The objective of the current shoreline investment projects is to set the stage for ongoing, largely private, investment to follow. These early-stage activities — environmental remediation, accessibility improvements, and facility relocation will enable and attract broader and more expansive development.

With shoreline amenities nearby, area neighborhoods will attract investment, income and additional residents. As shoreline usage reaches a critical mass, commercial restaurant, retail, and hospitality investment will flow in to meet the new demand. This process may be slow at times, but as seen in locations throughout the Illinois, Michigan and Wisconsin shoreline, well executed shoreline development can have a transformative impact on shoreline regions.
Shoreline Development

Ongoing Economic Impact

By the end of the period of analysis, the ongoing economic impact of the shoreline development projects funded currently are projected to generate a combined $93M annually in total economic output to the Northwest Indiana region. The total amount of projected disposable personal income to the region is estimated to increase by approximately $91M ($140 per capita) annually by the end of the study period.

The impacts shown in the charts here assume that additional public (non-RDA) and/or private investment will made on the shoreline, capitalizing on the initial site preparations that have occurred thus far.

The total annual employment impact is projected at 1,010 jobs by 2025. Because the impact of the shoreline construction is largely tourism related, the hospitality and retail industries comprise a significant portion of the jobs created. However, the economic benefit of the amenity value of the improved shoreline reaches all industries. As spending flows through the economy, other industries such as healthcare, construction, and professional services are supported as well.
Gary Chicago International Airport

Project Overview

The Gary Chicago International Airport is located 25 miles from downtown Chicago. The airport currently serves scheduled charter services from Allegiant Airlines, and is home to the Boeing Midwest corporate fleet and an Army National Guard aviation support facility.

The Airport strategic business plan, produced by Landrum & Brown, provides a development path for the airport to serve a mix of charter service, and low frequency scheduled service — on par with the South Bend Airport — in the future. As evidenced in other locations nationally, the RDA believes that increased airport service will serve as a catalyst for commercial and industrial development near the airport.

The major impediment to increased service at GYY has been the operational constraints caused by the length of the main runway. Because there is an elevated railway adjacent to the northwest end of the runway, the operational length of the main runway limits commercial jet activities. In order to allow full flight operations, the adjacent rail line must be relocated, and the runway must be extended (see pg. 13).

In 2006, GYY secured the funding to complete the runway extension project in the form of a letter of intent from the Federal Aviation Administration. The runway extension project, estimated to be completed in 2013 has been the main focus of the RDA’s airport expansion efforts. Once successfully completed, the extended runway will support full flight operations, and allow the airport and surrounding area to develop and take advantage of this transportation asset.

Airport Investment Timeline

Dollars by Source (in millions)

RDA Investment: $50.3M; Total Investment: $167.0M
Gary Chicago International Airport

*Current Impact*

In 2011, the RDA committed $30 million to match a FAA letter of intent to relocate the existing EJ&E railway and extend the main GYY runway in a $167 million project. With that commitment, the airport administration was able to finalize the negotiations surrounding the details of the railway relocation Canadian National (the owners of the railway in question).

Prior to 2011, the Airport utilized non-RDA funds for power line relocations and other preparatory construction projects. In addition, the airport completed land acquisition and environmental testing in order to be ready for the construction project.

In May of 2011, airport officials broke ground on the railroad relocation and runway extension project. Construction has progressed through 2012, and the project is projected to be completed by the end of 2013. Once complete, the airport will be able to increase its capacity, and support both commercial passenger and air freight operations.
Gary Chicago International Airport

Current Economic Impact

During the runway extension project, the impact of the airport expansion will be centered on construction-related industries. However, once complete, follow-on development in other industries will begin to accumulate.

The GYY runway extension project is projected to generate $277M in total economic impact over the course of the runway extension project. At its peak, this will generate approximately 1,040 annual jobs. Because of the type of investment, a majority of jobs will be concentrated in construction-related industries, but approximately 475 jobs will be produced in industries throughout the economy from indirect and other household spending.

**Airport Investment—Current Employment Impact**

*Employment in Peak Year by Industry*

- 564 Direct Jobs; 1,040 Total Jobs

These jobs will generate an estimated $56M in labor income in 2013. Overall, $1 of RDA investment in the GYY runway extension project generates $5.32 in total economic output (factoring in leveraging investments from federal and local sources).

As the runway extension is completed, and growth in airport operations occurs, additional development in and around the airport will create ongoing economic impacts.

**Economic Impact of Airport Investment**

*Total Economic Output (in millions)*

Cumulative Economic Output: 277M
Once the runway extension project is complete, the ongoing economic impact of the airport will take two forms: increased operational spending within the airport footprint, and industrial development on adjacent sites.

The operational spending impact involves all airport commercial employment, including vendors, concessionaires, air service personnel and airport staff. Gary’s fixed base operator, the Gary Jet Center, services, fuels and maintains many of the private and corporate aircraft that take-off and land at GYY. It is expected that the FBO’s operations will grow as the airport develops. An enplanement forecast, conservatively based on the Landrum and Brown strategic business plan forecast, was developed to project this increased level of activity. The forecast is developed to reflect GYY’s current strategy to service charter and low frequency scheduled service, and does not anticipate the airport acquiring high-frequency, regularly scheduled commercial service within the timeframe of the analysis.

Increased airport activity is likely to attract industries that rely on being closely located to an airport. Companies in the aviation, manufacturing, warehousing and shipping/logistics industries may have a strategic incentive to locate near an airport. GYY currently large areas of adjacent properties that are either vacant or underused. The above map illustrates the nearby areas that could be converted to commercial/industrial use.

To project the impact of follow-on business activity, an illustrative build-out scenario was developed. This scenario posits industrial investment in manufacturing, warehousing, and transportation in the areas adjacent to the airport, as seen in other airport developments around the nation.
Gary Chicago International Airport

*Ongoing Economic Impact*

The ongoing airport and business operations projected in the development scenario result in approximately 2,430 new jobs for the northwest Indiana region by 2025. The same activity is projected to generate $527 million in economic output and $169 million in disposable income.

Because the airport primarily serves as a catalyst, most of the economic impact comes from the projected follow-on investment and business activity. The direct employment largely targets the manufacturing and logistics industries, but “spin-off” effects will generate additional employment throughout the economy.

The employment impact of the follow-on airport investment is significant, but reasonable when viewed in context of the expected development. The increased airport activity, in conjunction with strategic economic development planning from the City of Gary is expected to open up significant amounts of property to development. Most of this property has been dormant for decades, but will be targeted for development as the runway extension takes place.
Surface Transportation

Project Leveraging

The RDA’s statute enables it to invest in both commuter rail and bus transit systems. Since 2007 the RDA has assisted through its grants, the Northwest Indiana Regional Bus Authority, the Northern Indiana Commuter Transportation District, and the City of Valparaiso’s ChicaGo Dash system. The RBA received more than $10 million in grants to fund the startup of regional routes and to take over the Hammond transit system – integrating it with its other regional services.

The RDA also provided a startup grant to the City of Valparaiso to begin its ChicaGo Dash service. The system began by taking 22 persons a day into the Chicago. That number has grown to approximately 120 riders a day – providing “business class” express transit service for commuters. It continues to gain popularity and ridership demonstrating the need for truly regional integrated commuter services.

The Northern Indiana Commuter Transportation District [NICTD] operates the South Shore Line commuter railroad. In 2007 NICTD applied for a grant to match federal funds for the purchase of 14 double-decker railcars. The project totaled $53 million dollars with one-third granted by the RDA.

The RDA has also provided funding for several strategic studies to probe the question of how to integrate the multiple services for bus and rail. Although no clear approach has yet surfaced, the RDA continues to work toward finding a source of continued funding for this integrated system.
Surface Transportation

Economic Impact

The RDA’s commitment of funding to the RBA, NICTD and Valparaiso’s ChicagG Dash was categorically different from its other investments, in that these dollars went primarily to operating or equipment costs rather than capital construction. The grant to NICTD for railcars went to the purchase of cars manufactured in Japan and Wisconsin – because that is the only place in the world that these cars are made.

The majority of the bus transit employment impact is accounted for by the operating costs of the transit systems, although some of the RDA’s funding was used to match federal funds for the purchase of equipment.

The dollars to system operations went primarily to personnel – whether to employees on contract or to actual city or transit system employees. The funds are spent by these personnel and move through the economy being re-spent and creating further economic activity.

Employment Impact: Bus Transit

Employment in CY 2011 by Industry
148 Direct Jobs; 184 Total Jobs

Economic Impact of Bus Transit Investment

Total Economic Output (in millions)
Cumulative Economic Output: $45M
The RDA’s enabling statute allows the Authority to invest in projects that meet an economic development priority. Several opportunities have arisen in the past 6 years where the critical need and the economic development priorities have merged. The first of these occurred in 2008 when massive flooding inundated northern Lake County. The State of Indiana and Congressman Visclosky’s office asked the RDA to loan $6.0 million to the Little Calumet River Basin Development Commission to allow it to continue making progress with its flood control levee system – a more than 25 year project. The Commission sought and received authority from the 2012 Indiana General Assembly to charge a fee to provide repayment of the loan to the RDA, beginning in CY 2013.

The RDA addressed another important economic development need in the region in 2011. In partnership with the Indiana Economic Development Corporation, the RDA established a fund to help assure that the region can compete with other locales in attracting major new employers. As a result, when all other sources of funding have been exhausted and a funding “gap” needs to be filled to be competitive, the RDA can assist.

During the first year of operating the fund, the RDA provided two “deal closing” grants to the IEDC in collaboration with the City of Gary and the Town of Merrillville. Canadian National railroad will relocate some of its maintenance operations from Illinois to Gary and invest $145 million to fully redevelop the existing Kirk Yard rail facility. The RDA’s $4 million commitment is also leveraged by state and local funding.
Economic Development Projects

Economic Impacts

Illinois-based Modern Forge, an aerospace, truck, and recreational equipment parts manufacturer, will expand an existing building in Merrillville to create a 210,000-square-foot, state-of-the-art forging facility. When complete, the 40-acre site will include a 60,000-square-foot forge shop with eight forging production lines, engineering and general offices, and a die shop.

The IEDC, the Town of Merrillville, the Northern Indiana Public Service Company, and the RDA all worked in concert to attract these jobs producing investments.

Once completed, the total economic impact from the CN Kirk Yard and Modern Forge operations is projected to total $151M in economic output, and support 625 employees throughout the region. Employment is projected to peak at 655 during the investment phase of the projects, and then level out once construction is finished, and normal operating activity is established.

The economic development projects supported by the RDA are primarily funded with non-RDA dollars. Only $12.1M of the estimated $261M committed for these project is RDA. The remainder comes from other public and private sources.
The RDA’s investments have produced both jobs and economic activity during a time when many regions in the state and nation we witnessing severe contractions in public sector construction projects. The RDA has invested funds in projects that not only have short-term benefits—engineering and construction jobs—but accrue long-term returns. The RDA’s incentivized economic activity has already produced sales and income tax receipts for the State of Indiana and counties with local option taxes, and will continue to do so into the future.

Based on the economic modeling done for this report, the total State sales and income taxes generated by the RDA’s investments will total $8.3 million annually by CY 2015, and $23.8 million by CY 2025. Although the fiscal impacts for local units of government in increased property tax and excise tax revenue are beyond the scope of this analysis, the RDA is certainly having an impact on the revenue streams of the local governments throughout the region.
RDA Investment Summary

Cumulative Economic Impact

During the period from 2006 to 2015 when most of the currently allocated RDA and non-RDA capital dollars will be spent, RDA projects will generate a cumulative total of $1.1 billion in economic output.

By 2025, as the improved shoreline and airport assets attract investment, and the CN Kirk Yard and Modern Forge operations begin, the RDA projects are projected to generate $770 million in economic output annually (in 2012 dollars).

This increased economic output in 2025 is supporting approximately 4,000 jobs in the Lake and Porter County region. More than 2,000 of these jobs will be supported by industrial and commercial investment in and around the Gary Airport. The increase in economic activity and employment is projected to result in an increase in personal income of $383 million annually.

### RDA 2006-2015 Initial Investment Impact

In the period of 2006 to 2015, $1 of RDA investment leverages (attracts) $2.57 of non-RDA funding

In the period of 2006 to 2015, $1 of RDA investment returns $5.21 in cumulative economic output

### RDA Long-Term Economic Impacts

RDA investments made from 2006 to 2015 will support

An average of 865 jobs annually between 2006 and 2015

Approximately 4,000 jobs annually by 2025

Each dollar of RDA investment made between 2006 and 2015 returns

$3.66 of annual economic output in 2025

$1.46 of annual personal income in 2025

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Cumulative Economic Impact of RDA Investments

- Eco. Dev. Related Employment
- Transit Related Employment
- Airport Related Employment
- Shoreline Related Employment
- Total Economic Output

- Employment
- Economic Impact (Millions)