

# EZ Money

## *Assessing Iowa's Enterprise Zone Program*

Colin Gordon

April 2008

# Iowa Fiscal Partnership

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## **Acknowledgments**

We gratefully acknowledge the assistance of the Iowa Department of Economic Development, whose staff took the time to help us understand its Enterprise Zone Program. We are also particularly grateful for the support of the Center on Budget and Policy Priorities, the Stoneman Family Foundation and the Annie E. Casey Foundation. The opinions and analysis in this report are those of the Iowa Fiscal Partnership and do not necessarily reflect the views of any other organization or agency cited here.

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## **Iowa Fiscal Partnership**

The Iowa Fiscal Partnership is a joint initiative of the Iowa Policy Project and the Child & Family Policy Center, two nonprofit, nonpartisan Iowa-based organizations that cooperate in analysis of tax policy and budget issues facing Iowans. IFP reports are available at <http://www.iowafiscal.org>.

The Iowa Fiscal Partnership is part of the State Fiscal Analysis Initiative, a network of state-level organizations and the Center on Budget and Policy Priorities to promote sound fiscal policy analysis. IFP work is supported by the Annie E. Casey Foundation and the Stoneman Family Foundation.

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# Iowa Fiscal Partnership

## Executive Summary

April 2008

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### Assessing Iowa's Enterprise Zone Program

By Colin Gordon

Iowa's **Enterprise Zone Program** identifies counties and cities in economic distress, and offers a range of tax breaks to firms that meet thresholds of new investment and new employment in those areas. The program, according to its legislative intent, is designed "*to promote new economic development in economically distressed areas by encouraging communities to target resources in ways that attract productive private investment.*" This report assesses those basic claims. Does the program attract new economic development? Does it effectively target that development in distressed areas or communities? And, to the degree that it accomplishes these goals, does it do so at a reasonable cost?

Our findings are as follows:

- Although the subsidies received under the program are difficult to pin down, the raw numbers are daunting: Between 2003 and 2007, zone businesses racked up nearly \$300 million in tax credits.
- The program does a poor job of targeting assistance: There are too many zones; more than 1,100 zones scattered across 40 counties and 16 cities. And the criteria by which zones qualify (1990 and 2000 census data) are at least 8 years old and in some cases 18 years old.
- Because the program does a poor job of targeting assistance, it is unlikely that its tax breaks can be credited with conjuring up much new investment or employment. Indeed, most research on this question suggests that tax incentives are not decisive factors in investment or location decisions; and that public money is chasing growth that would have occurred anyway.
- There is little evidence that the program has done much for zone residents, in large part because the wage thresholds are too low. About a third of the new jobs claimed by the program fall short of the current average wage for the county in which they are located; about half fall short of the standard (130 percent of the county average) set by other state economic development programs.
- Even when new jobs are generated, we know little about who is employed or whether they already resided in the enterprise zone. Improving a particular geographic area can be done at the expense of current residents, as well as in support of them. Current enterprise zone rules do not address this issue.
- Although the flow of tax credits is hard to measure, it is clear that it is not following the program's intent into new industries and distressed areas. Of the hundreds of millions in credits for 2003-07, nearly a quarter (over \$80 million) were claimed by a few well-established insurance, financial service, agricultural processing, and agricultural equipment firms.
- The state's calculation of the program's performance vastly overestimates its benefits and underestimates its costs. Our reassessment finds each new job created under the program to cost — on average — over \$100,000.

Our recommendations follow from these conclusions, and aim for a program that targets fewer areas and better jobs; and whose price tag is both smaller and easier to understand. Specifically, we recommend that:

- The program should be much more carefully targeted, so that fewer areas qualify and so that they do so based on the most current available data.
- Wage thresholds should be much higher, ensuring that publicly subsidized new employment raise the local wage floor.
- Subsidies should be capped on a per-job basis.
- Criteria should be established to ensure that current residents in those distressed areas are not disadvantaged and are a significant share of the beneficiaries.
- The program should cap, if not eliminate, the “refundability” of the research activities credit.
- Program reporting should be more accessible, more transparent and more complete.

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State and local governments run a wide variety of economic development or business incentive programs. Iowa boasts a full menu of such programs — including tax credits for job creation, capital investment and research activities; local (and sometimes state-subsidized) tax abatements for property improvements; direct financial assistance under the banner of the “Iowa Values Fund;” and other initiatives. These programs share a common assumption: that public subsidies (in the form of either direct financial assistance or foregone taxes) will lower the costs of doing business enough to shape the choices made by private employers or private investors — encouraging them, most commonly, to locate in one place rather than another, to stay in one place rather than leaving, or to expand at existing sites rather than elsewhere.

But these programs also share common problems. Their core assumptions are more often asserted than proven. It is unclear what sort of return we are getting (new jobs, new investment, economic growth) for these subsidies, or who is benefiting most directly from them. And the costs to taxpayers are both steep and — given the lax reporting requirements and the uncertain benefits — difficult to measure.<sup>1</sup> All of this is starkly evident in one of the most expensive and expansive of Iowa's economic development initiatives, the Enterprise Zone program.

#### ***What is an Enterprise Zone?***

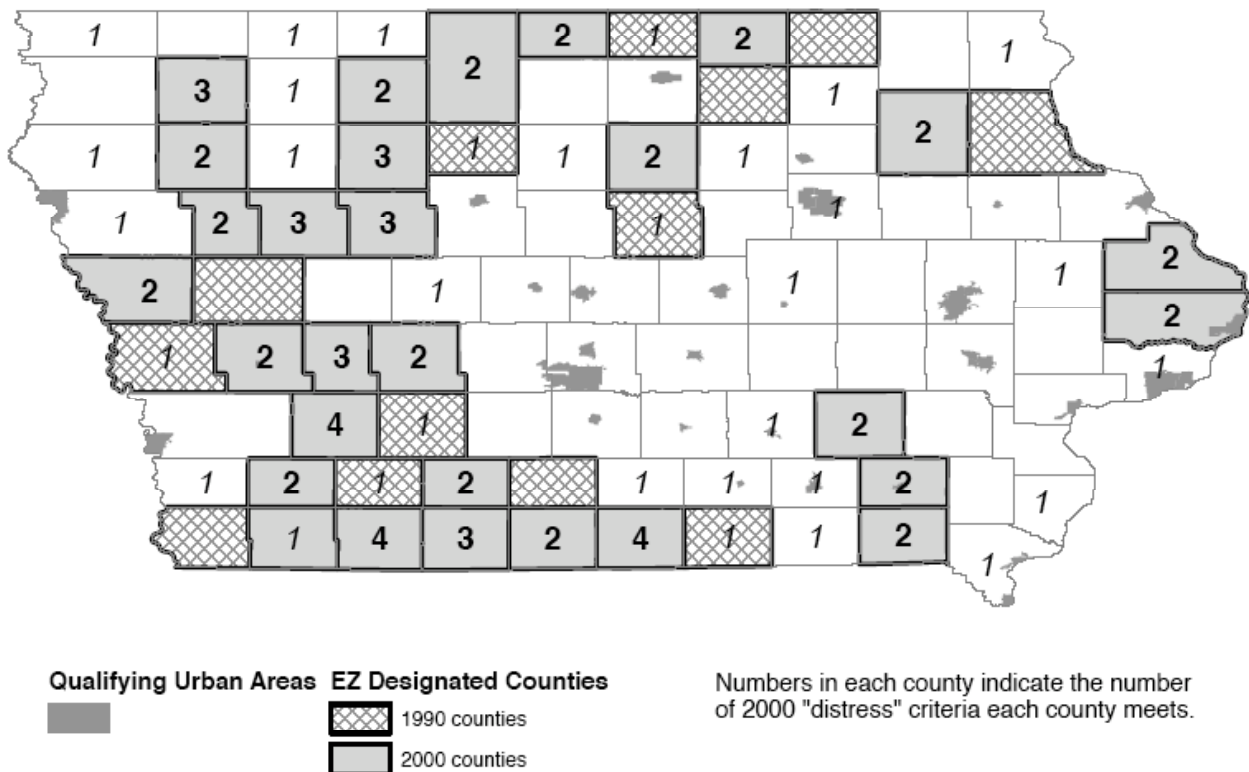
Rather than targeting specific investors or industries, *enterprise zones* target particular areas — a run-down urban neighborhood, an underdeveloped rural tract, a “brownfield” of abandoned industrial property — for development or redevelopment. To qualify, the enterprise zone (or the county of which it is a part) must meet certain measures of “distress” (poverty, low wages, population loss, unemployment). New investment or employment within the zone is then eligible for a range of local and state incentives — property tax abatements, tax credits for new investment or employment, rebates on sales tax, and the like.

The idea of targeting business incentives to particular distressed areas first cropped up during the 1980s, when the Reagan Administration toyed with the creation of “free trade” zones in distressed inner cities. While the federal program stalled, many states followed this lead; between 1981 and 1991, 38 states launched enterprise zone programs. In 1994, the federal government established its own program, ultimately creating about 100 federal “empowerment zones and enterprise communities” nationwide. Currently 39 states have enterprise zone programs. The terms of these state programs vary — each offering different definitions of distress, different bundles of incentives, and different expectations (wages, new jobs, new investment) of participating businesses. Some states limit the size and number of zones that can be created in the life of the program or in a given year; others do little to restrain the proliferation of zones. Five states (Alaska, Georgia, Kansas, North Carolina and South Carolina) have designated the entire state as a single enterprise zone.<sup>2</sup>

## Iowa's Enterprise Zone Program

Iowa jumped on the enterprise zone bandwagon in 1997. Under the Iowa law, local areas can qualify for enterprise zone designation in a variety of ways. Counties can qualify if they fall into the bottom quartile (the worst-performing 25 of 99 counties) on two of four measures of distress: average weekly wage, family poverty rate, population loss, and percentage of the population over the age of 65. Cities (defined as urban areas containing at least three census tracts) can qualify up to four square miles within their borders, providing the zone (or zones) meets either the criteria of the federal enterprise zone law (a formula based on percentages of the local population at various poverty rates<sup>3</sup>) or any two of another set of distress measures: a per-capita income of under \$12,648, a family poverty rate of more than 12 percent, a residential vacancy rate exceeding 10 percent, a property valuation (by class of property) below 75 percent of the citywide average, or the designation as "blighted" under the state's urban renewal law.<sup>4</sup> The qualifying counties and cities are summarized on the map below. Appendix I has detail on specific enterprise zone qualification criteria by county.

### EZ Zone Designations and Criteria



In order to qualify for public subsidies, those doing business in the enterprise zone must create at least 10 new jobs and invest at least \$500,000 within their first three years enrolled in the program. In turn, those jobs must pay at least 90 percent of the county or regional wage, and either pay 80 percent of the cost of a standard health and dental plan or provide a benefit plan that is "monetarily equivalent."<sup>5</sup> Subsidies are not awarded to retail businesses, or to any business simply moving its operations from elsewhere in the state. All of these standards must be maintained throughout the 10-year contract period; if they are not, the business can be asked to pay back any public subsidies.

For qualifying businesses, those subsidies are expansive and generous. Qualifying enterprise zone employers can double the benefit they would otherwise be eligible for under the state's New Jobs Training Program (this program diverts up to 3 percent of a firm's state payroll taxes to job training at local community colleges).<sup>6</sup> Investors can claim an investment tax credit for up to 10 percent of the value of property, improvements, or machinery and equipment. Enterprise zone businesses can claim an additional research activities credit, doubling up on the refundable credit already allowed under the regular research activities tax credit program.<sup>7</sup> And zone businesses can claim a refund of sales, service and use taxes paid to contractors or the providers of certain business equipment. Finally, the county or city may exempt up to 100 percent of the increase in the value of business property from all local property taxes for up to 10 years.

By any measure, the Iowa program is a monster. Forty of the state's 99 counties contain county-qualified zones; of these, five counties contain more than 50 zones each, and 19 contain more than 25 zones. Overall, there are more than 1,100 county-qualified zones in Iowa. There are another 37 zones scattered across 16 Iowa cities, led by Des Moines with 10 zones. Counting the allied housing enterprise zone program (which subsidizes housing development under similar criteria), there are nearly 1,300 enterprise zones in the state.

The subsidies received under the Enterprise Zone program are difficult to count with precision. The Department of Economic Development has changed the way it has collected data over the life of the program. The actual value of tax credits depends on the year-to-year tax liability of participating businesses. And the most substantial of these credits, the fully refundable doubling of the research activities credit (RAC), is hard to pin down: The Iowa Department of Economic Development can estimate the RAC for fewer than a third of the 61 EZ projects judged eligible for the credit over 2003-2007.

This said, the ballpark numbers are quite stunning: between 2003 and 2007, zone businesses racked up nearly \$300 million in tax credits. To put this in fiscal perspective, the annual enterprise zone subsidy (about \$75 million) is over five times the annual state appropriation for the "*hawk-i*" State Children's Health Insurance Program, over three times the budget of the Department of Natural Resources, and greater than all state spending on postsecondary student aid.<sup>8</sup>

## ***Assessing Iowa's Enterprise Zone Program***

An assessment of Iowa's Enterprise Zone Program rests on the answers to three common-sense questions:

- Do the zone subsidies generate local jobs or growth that would not have occurred in the absence of those subsidies?
- To the degree that new jobs or growth are generated, do they hit the right targets; do they actually benefit disadvantaged people or communities?
- How much — calculated as either a budget line (direct state expenditures or taxes not collected) or as a price tag for the program's benefits — does the program cost?

The discussion below is organized around these questions. In each section, we consider the broader challenge of economic development, the research on enterprise zone programs, and the performance of Iowa's enterprise zone program.

### ***Do Business Incentives Create Growth?***

Enthusiasts of business incentives invariably laud their ability to attract or stimulate investment — an argument made, unsurprisingly, by both program administrators and subsidized businesses. Such claims are hard to measure. The baseline assumption is that no new investment would have occurred without

the public subsidy: by this reasoning, any local growth or jobs can be attributed to the incentive and any disappointments (slow growth, continued unemployment) become evidence that the incentive is not generous enough. What we don't know, and what no business eligible for public subsidy is likely to admit, is what portion of new investment or new jobs can actually be credited to public subsidies. "Such questions cannot be answered directly," the Iowa Department of Revenue concluded in a recent report, "because it is not possible to know how businesses would have behaved without the credit."<sup>9</sup>

We do know, based on a large body of academic and survey research, that public subsidies are rarely a decisive factor in business location or investment. When comparing alternative locations, differences in state and local taxes and incentives will generally be trumped by differences in other costs of doing business and other locational factors, including the availability of labor with appropriate skills, access to suppliers and markets, wages, and energy costs.<sup>10</sup> Because tax abatements or credits carry little weight in business decisions, subsidy programs will always give away a large share of their benefits in exchange for new jobs or investment that would have occurred anyway. The issue is not whether growth occurs in enterprise zones or in the presence of other business subsidies; it is how much of that growth (from some to very little) is actually a consequence of those subsidies. At the very least, this punctures the optimistic equation of business subsidies with business growth.

How can we know that incentives are largely ineffective, when it is very difficult to know, for any particular firm, whether the incentives it received were decisive? The research addresses this question broadly, looking at many states or localities over a period of time, and asks a simple question: Do places that offer incentives, or that offer larger incentives, experience more economic growth than places that do not, when we control for other factors affecting growth? The answer is that, by and large, incentives have a very small effect on growth. The size of that effect is such that, given a typical package of incentives, a state can expect that about 90 percent of the funds spent on incentives will be wasted on firms that did not need them. In only 10 percent of the cases will the incentives have been decisive.<sup>11</sup> This makes incentives a very costly strategy. Even in instances where they are decisive, they may not produce sustained economic activity. The credits generally are time-limited, and firms may move to other locations after they have exhausted the credits or, if their profitability is dependent upon the credits, simply close their doors.

Program assessments, in turn, often focus too closely on local results. Even if new employment or investment does occur, and can plausibly be attributed to public incentives, it has not been conjured out of thin air. The very purpose of subsidies is to attract investment that would otherwise go elsewhere. At some scale, the logic begins to fall apart. In other words, individual cities or counties may benefit from investment that they attract from their neighbors, but the state as a whole in which both the winners and losers are located will never come out ahead. By the same token, states can outbid other states for marquee investments, but will only recognize net gains (in jobs, or taxable value) in the unlikely event that other states are not playing the same game.

This unfortunate logic is exaggerated in enterprise zone programs, especially in programs like Iowa's that provide little control over the profusion of zones. An enterprise zone program that allows or encourages many localities to offer zone incentives only produces local competition such that, even if a few cities or counties can lay claim to new growth or fiscal benefits, the state and other localities are inevitably picking up the costs.

On paper, enterprise zones would seem to be the best kind of incentive, targeting generous benefits at especially distressed regions. But they haven't worked out that way. Much of the research suggests that zone incentives can never overcome the substantial disadvantages — poor labor markets, undeveloped



or aged infrastructure, lousy location — which define them in the first place.<sup>12</sup> The way around this, unfortunately, has been to offer expansive “distress” criteria — making it easier for local areas to qualify and multiplying the number of zones. This tack has been encouraged by the logrolling appeal — in Iowa and elsewhere — of making state incentives available to every corner of the state. This might be good politics, but it is bad public policy. “Amendment of the Enterprise Zone program to benefit specific targeted areas,” as IDED conceded in its last program report, “is a constant pressure upon the Legislature and Department that continues to stretch the efficiency and challenge the intent of the program.”<sup>13</sup> The greater the number of zones, quite simply, the less effective they can be in targeting the parts of the state that really need help.

The Iowa program is a case in point. Under the program’s distress criteria, 28 counties qualify for zone designation by falling into the bottom 25 counties on two of the four measures of distress (tied to 2000 wage and census data) as summarized on Map 1. Another 13 counties qualify under the program’s original criteria — tied to 1990 wage and census data. And one county (Page) now qualifies through a special legislative action passed this spring that adjusts the population criteria (changing the way in which prison populations are counted). Thirty-two urban areas meet the baseline criteria, and another five have been added by special legislative action.

This raises a host of problems. Many counties claim eligibility based on criteria that are now nearly two decades old: Indeed, of the 13 “1990” counties grandfathered into the current program, six meet *none* of the current distress criteria and the other seven meet only one. The state has not hesitated to adjust the distress criteria to extend the program to cities and one county that would not otherwise qualify. And the combination of county and city criteria leave fewer than a third (30) of the state’s counties without some claim to the program. If the goal of the program is “to revitalize [distressed] areas and make them competitive with other locations throughout the state,”<sup>14</sup> that task is rendered nearly impossible by its expansive (and not very well-targeted) reach.

### Who Benefits?

Public subsidy of new investment or employment is not, in the logic of enterprise zones or other business incentive programs, an end in itself. The underlying intent and assumption is that benefits to firms will “trickle down” to others in the form of higher wages and benefits for workers and increased tax revenues (at least once all the credits and abatements expire) for local and state governments. All economic development programs strive for a net benefit: a gain in new wages and taxes that is greater than the cost of the incentive. Enterprise zone programs, premised on distinct measures of distress, are also concerned with the distribution of that benefit: in counties whose participation in the program is based on local poverty and low wages, for example, the benefits of the program’s investment should flow disproportionately to the local poor.

This all made some sense in the original urban logic of enterprise zones. By definition, the population of these zones was marked by high unemployment and poverty rates. New investment was intended to create local opportunities for local residents. The performance of these urban zones, however, has been mixed: In some settings, zones have shown a local reduction in unemployment but — relative to neighboring non-enterprise zone tracts — have also shown continued decline in population and a widening income gap.<sup>15</sup> Such results are not surprising. However sincere the designation and administration of the enterprise zone, its benefits cannot overcome the systematic disadvantages that define the zone in the first instance. And however sincere the effort to target distressed areas and their residents, enterprise zone programs are swimming upstream in a torrent of non-targeted business incentives (tax-increment financing, the Iowa Values Fund, etc.) that serve to widen local disparities. There is little evidence, in short, that enterprise zone programs have done much for zone residents.

But even this original logic unravels completely in an enterprise zone program — like Iowa’s — whose principal aim is not to help an existing disadvantaged population but to attract new investment and new residents to declining rural counties. In designating zones, the Iowa program leans heavily on population loss and the aging of the local population. But zone benefits do not flow to the elderly or to those who haven’t left yet; they flow to new firms and new workers (and perhaps to younger workers who decide to stay). By and large, new jobs in a community will be filled either by existing residents who would otherwise not be employed, by attracting workers away from existing jobs, or by attracting in-migrants. Research shows that on average and over the long run, most jobs are filled by in-migrants, directly or indirectly.<sup>16</sup> For the jobs filled by existing residents, there are benefits only to the extent that incomes are raised because the jobs pay better, or because the worker would otherwise not have been employed. The benefits to the community, in terms of raising the incomes of its residents, are clearly much less than the total payroll of the firm.

Local benefits are further undermined by the Iowa Enterprise Zone program’s wage thresholds. In setting wage thresholds, the Iowa Department of Economic Development (IDED) calculates an artificially low “target” wage for each county: It uses private-sector wage data for the most recent four quarters to calculate an average wage for both a county and its region (defined as a county and its immediate neighbors); it then sets the qualifying wage as the *lower* of the county and regional average; and then discounts that by a further 10 percent — requiring recipients to pay only 90 percent of that average. The result? In an already low-wage state, enterprise zone awards might actually “bid down” local wages.<sup>17</sup>

Consider the record of the 109 projects (2003-07) for which we have decent data. The job tally for these agreements is just under 9,000, spread over 39 counties in a combination of urban and county zones. In a number of cases — totaling about 500 jobs — the qualifying wage has been overtaken by modest wage growth between the time the agreement was signed and the time the jobs were created: those jobs do not meet the current qualifying (90 percent) wage for the county in which they are located. Cutting close to this threshold at the time an agreement is signed virtually guarantees that jobs created two or three years later will not — by any measure — be good local jobs. Almost 30 percent (2,670 jobs) fall short of the current average private sector wage for the county in which they are located, reflecting the combined effect of tying wages to agreement-year thresholds, choosing the lower of the regional and county averages, and then knocking that back to 90 percent.

The real point here, of course, is that public subsidies should aim much higher. They should not only generate new employment and its ancillary benefits, but they should also raise the wage floor and ensure that new employment does not (because wages are too low) impose other private and public costs. There is little to boast about, after all, when employers are pocketing tax credits at one door, while their workers (and their families) are qualifying for state subsidies (*hawk-i* health insurance, reduced-fee school lunches) at another. For these reasons, other IDED programs employ a much higher threshold. The Community Economic Betterment Account (CEBA) program, for example, requires participating firms to pay new employees at least 130 percent of the average county wage.<sup>18</sup>

How does the EZ program measure up to this standard? Some jobs created under the program pay quite well. Just over half (4,480) meet or exceed the 130 percent CEBA wage threshold; over one-third (3,704) pay at least 150 percent of the qualifying wage; and a few (775) pay at least 175 percent. But these are the sorts of wages we should expect of *all* publicly subsidized jobs. The troubling fact remains that, of the nearly 9,000 jobs attributed to EZ subsidies over the last five years, almost half (4,427) pay less than the CEBA threshold for the county in which they are located.

If it is difficult to demonstrate clear and lasting benefits for new residents or employees, it is a simpler matter to identify those who do come out ahead. The bulk of these subsidies are not just tax breaks, but tax credits — the most lucrative of which (the doubling of the research activities credit) is fully refundable. This means not only that eligible businesses pay little or no taxes, but that the state will cut them a check at tax time. In 2005 (the last year for which detailed data are available), 134 Iowa businesses paid no corporate income tax and instead received “refunds” — averaging \$3 million apiece for the top 10 firms — under the research activities tax-credit program. Statewide, the research credit claims totaled over \$35 million in 2005, of which \$13 million was claimed under “supplemental” credits.<sup>19</sup>

Given the program’s loose targeting and generous benefits, it is unclear that it can ever serve its stated purpose: “to promote new economic development in economically distressed areas by encouraging communities to target resources in ways that attract productive private investment.” Here is a program designed to galvanize “new economy” investments in declining rural areas. Yet, of the nearly \$350 million in estimated credits on the table, nearly a quarter (about \$83 million) are claimed by 10 well-established urban firms — including Prudential Insurance in Dubuque; Case Industries in Burlington; Cargill and Quaker Oats in Cedar Rapids; Winnebago in Charles City; Con-Agra in Council Bluffs; and Employers Mutual, Nationwide, Equitable Life and Wells Fargo in Des Moines. Indeed, Des Moines-based insurance and financial services firms claimed nearly \$60 million in credits, more than one-sixth of the statewide total.

### *What Does It All Cost?*

Assessing program costs should be a simple matter of tallying up the money spent (or taxes not collected) to subsidize private investment, and weighing this against program benefits — measured in new jobs, new investment and new tax revenue. That task, however, is more difficult than it sounds. It is tempting and common to inflate benefits by assuming that all new investment or new jobs are a consequence of the subsidies in question. In turn, the actual data collected by IDED is incomplete and uncertain. For the Iowa EZ program, the sales and new jobs credits are relatively simple to calculate, but the investment tax credit will depend upon a firm’s tax liability (and claim to other credits), and the RAC is very difficult to estimate until the credit (or refund) is actually claimed.

Consider the Department of Economic Development’s own attempt to estimate the costs and benefits of Iowa’s EZ program. The department’s statistical model uses zone job, wage and investment data to project personal incomes, tax expenditures and increases in tax revenue. The income numbers include not only direct project jobs, but also a “multiplier” for the indirect jobs that subsidized investment will sustain or encourage. By these estimates, the 10-year impact of projects launched between 2003 and 2007 (covering 115 projects) includes about \$9 billion in new personal income, aggregate state tax revenue of just under \$700 million, and aggregate local tax revenue of just under \$370 million. The incentive costs of these programs totals about \$500 million (\$360 million in state incentives and \$138 million in local incentives), for an estimated return (new taxes as a ratio of incentive costs) of better than 2-to-1.

But this is something of a parlor trick. First, the IDED model vastly overestimates the benefits. Again, the research on enterprise zones suggests that zone incentives — given both the other disadvantages of eligible areas and the marginal importance of subsidies in business decisions — are unlikely to bear much responsibility for new investment or jobs. Even if we generously estimate that incentives are responsible for between a quarter and a third of local economic growth, the payoff (the favorable ratio of incentive costs to new revenues) completely evaporates.

Second, this model underestimates costs. In their original urban setting, enterprise zone jobs served an existing, disadvantaged population. The payoff was not just local growth, but a lighter burden of social spending (unemployment claims, public health insurance, local policing). Because Iowa zones are designed to attract both new investment *and new people*, they create new public burdens (schools, infrastructure, social programs) even as they generate new tax revenues — this is especially true especially given the program’s low wage thresholds. In short, the costs of the program are much higher than described, and the benefits are much more modest.

Since the program aims to build an employment base in struggling or declining areas, it also invites a simple per-job accounting: How much in public money does each new job cost? Between July 2003 and June 2007, IDED reported about 8,900 jobs in EZ zones. If we allow for a full accounting of the benefits (since the new jobs and RAC credits under the EZ program are, by definition, a doubling up of benefits received in the regular programs), the net costs are just under \$300 million — or about \$33,400 per job. Per-job costs range wildly: HNI Corporation in Muscatine has pledged 10 jobs for an estimated tax credit of well over \$8 million — or about \$880,000 per job; American Enterprise Insurance in Council Bluffs has pledged 130 jobs for an estimated tax credit of just over \$83,000, or a little over \$640 per job. If we follow the assumption that public subsidies can only plausibly be credited with between a quarter and a third of job creation, the numbers are even scarier: per job costs averaging over \$100,000, and topping out at over \$3 million.

### ***The Bottom Line***

Iowa’s Enterprise Zone Program is a practical and fiscal disaster. Its 1,200-odd zones sprawl across the state in such a way as to undermine any pretense of targeting subsidies at truly distressed areas. Its subsidies and tax credits are expansive. And the results are unimpressive at best and disturbing at worst. Again, the research on enterprise zones and their efficacy is quite clear on this point: Given the larger logic of business location, tax incentives are likely to have only a marginal impact on decisions made by investors and employers. Some of the money spent will simply encourage firms to locate in one part of the state rather than another — at no net gain and considerable cost. Much of the money will simply chase new investment and new employment that would have occurred anyway.

Our analysis of Iowa’s Enterprise Zone program is hampered by the paucity of good data as to its costs or benefits. We recognize that existing zone designations are unlikely to be modified, and that existing agreements must be honored. For these reasons, our recommendations are offered in the spirit of longer-term reform. If the state is to have a location-based business incentive program, what should it look like?

### ***Recommendations***

1) **The program should be much more carefully targeted**, so that fewer areas (counties and cities) qualify and so that they do so based on the most current available data. It is bad enough to rely on nearly decade-old (2000) census and wage data. It is bordering on ridiculous to allow others to continue in the program (as 13 counties do) based on 1990 data. There is no reason not to rest eligibility on the most recent data. The list of eligible counties and cities would shift on an annual basis, and new agreements could only be signed in currently eligible settings. If we used the most currently available data, 18 of the currently eligible counties would be disqualified and only four more would be added.

2) **The wage thresholds should be much higher**. There is no compelling reason why the EZ program should not use the same “high road” threshold (130 percent of the county average) as other IDED programs. This would more likely ensure that publicly subsidized new employment actually raises the local wage floor, and that new employees do not bring with them other demands on the public purse.

3) **Subsidies should be capped on a per-job basis.** The primary goal of the EZ program is to sustain and diversify employment where it is needed most — either by mopping up local unemployment (the logic of the urban zones) or by attracting new employment and employees (the logic of the rural county zones). But the tax credits offered under the Iowa EZ program far exceed any reasonable measure for the public cost of new job creation. The federal Department of Housing and Urban Development, as well as a number of state programs, use \$35,000 as a benchmark per-job cost.<sup>20</sup> Beyond this, the cost of the public subsidy is likely to exceed any public benefit. If the Iowa EZ program had hewed to this standard, the annual subsidy cost would fall from about \$75 million to about \$12 million — a much leaner and responsible level of public support for private investment, especially considering other pressing needs facing our state.

5) **Criteria should be established to ensure that current residents in those distressed areas are not disadvantaged and are a significant share of the beneficiaries.** Ultimately, the rationale for enterprise zones is to focus upon distressed neighborhoods in order to rebuild them for the benefit of neighborhood residents who suffer that distress. There are many examples of gentrification and commercialization or industrialization of neighborhoods that have negative consequences on current residents and neighbors. Some criteria need to be established to identify the individuals who themselves are distressed by the absence of opportunity or economic distress in the neighborhood and ensure a substantial portion of the benefits from economic activity actually benefit them.

4) **The program should cap or eliminate the “refundability” of the research activities credit.** It is one thing, in our view, to forgo collection of property, sales, payroll and income taxes in support of economic development. Such tax expenditures are at least capped by the firm’s annual tax liability. It is quite another thing to make such credits refundable. And, of course, these are not “refunds” at all: The state is not returning taxes paid, it is just cutting checks each April to some of its wealthiest corporate citizens. While nearly 40 states run a research activities tax credit program, only five (including Iowa) make such a credit fully “refundable.” A cap of \$100,000 would preserve benefits for small, new firms where there is at least something of an argument for the credit, while eliminating the majority of this type of spending in the program.

5) **Program reporting should be much more accessible and complete.** The Department of Economic Development has made great strides in making details on all public subsidies more accessible.<sup>21</sup> But it is very difficult, as underscored throughout this report, to arrive at any reliable estimate of the costs and benefits of this program. The estimated tax credits reported for each agreement should be accompanied (in all reports) by a clear summary of credits actually claimed. And each agreement should generate a clear and simple summary of net benefits and net costs. Ideally, this would become part of a simple and comprehensive (quarterly or annual) audit of all tax expenditure programs.

## Appendix I: Criteria for Enterprise Zone Qualification by County

In the table below, shaded counties qualify as enterprise zones under 2000 Census data. Shaded figures for percent families below poverty level, average weekly wage, population loss, and percent population over the age of 65 indicate whether a county meets enterprise zone criteria for that particular category. Counties with asterisks (\*) are counties that qualify as enterprise zones under 1990 Census data.

Area	Poverty (families)			Wages	Population	
	Total	Number below poverty level	Percent	Average Weekly Wage (private)	1995-2000 % loss	2000 % > 65
Adair*	2,359	116	4.9%	\$446.00	-0.04%	22.09%
Adams*	1,253	80	6.4%	\$437.20	-0.56%	21.42%
Allamakee	3,930	253	6.4%	\$416.00	3.69%	18.40%
Appanoose*	3,858	388	10.1%	\$441.20	0.90%	19.95%
Audubon	1,922	128	6.7%	\$406.80	-0.94%	23.48%
Benton	7,198	334	4.6%	\$452.00	3.82%	15.42%
Black Hawk	32,221	2,547	7.9%	\$565.60	4.20%	13.98%
Boone	7,224	327	4.5%	\$479.20	2.51%	16.38%
Bremer	6,329	185	2.9%	\$524.80	0.58%	16.00%
Buchanan	5,727	391	6.8%	\$450.40	-0.48%	14.49%
Buena Vista	5,148	390	7.6%	\$458.80	2.36%	16.86%
Butler	4,439	290	6.5%	\$415.20	-2.81%	20.10%
Calhoun	3,053	218	7.1%	\$370.40	-3.67%	22.11%
Carroll	5,686	256	4.5%	\$438.40	-0.80%	18.70%
Cass	4,126	296	7.2%	\$425.60	-1.76%	20.79%
Cedar	5,159	206	4.0%	\$444.40	2.89%	16.23%
Cerro Gordo	12,426	729	5.9%	\$503.20	-0.39%	17.70%
Cherokee	3,612	200	5.5%	\$460.00	-4.50%	20.36%
Chickasaw	3,652	214	5.9%	\$465.60	-2.39%	17.91%
Clarke*	2,531	157	6.2%	\$447.60	10.76%	17.08%
Clay	4,875	306	6.3%	\$479.20	-0.90%	17.98%
Clayton*	5,184	295	5.7%	\$448.40	-0.41%	18.54%
Clinton	13,785	1,055	7.7%	\$511.20	-1.45%	15.82%
Crawford*	4,563	314	6.9%	\$473.20	2.79%	17.14%
Dallas	11,239	454	4.0%	\$563.60	18.23%	11.12%
Davis	2,274	204	9.0%	\$410.40	0.67%	17.40%
Decatur	2,191	238	10.9%	\$363.60	4.82%	17.67%
Delaware	5,064	317	6.3%	\$466.40	0.05%	15.00%
Des Moines	11,645	957	8.2%	\$553.20	-0.46%	16.69%
Dickinson	4,755	202	4.2%	\$442.80	5.13%	20.63%
Dubuque	23,199	1,133	4.9%	\$560.40	0.89%	14.70%
Emmet	2,928	152	5.2%	\$461.20	-1.13%	19.36%
Fayette	5,984	488	8.2%	\$422.80	0.24%	19.04%
Floyd*	4,671	304	6.5%	\$466.80	1.82%	19.22%
Franklin	3,019	171	5.7%	\$500.80	-2.78%	20.52%
Fremont*	2,255	146	6.5%	\$534.00	-0.36%	19.84%

Area	Poverty			Wages	Population	
	(families)			Average		
	Total	Number below poverty level	Percent	Weekly Wage	1995-2000	2000
				(private)	% loss	% > 65
Greene	2,889	140	4.8%	\$448.80	3.53%	21.61%
Grundy	3,592	118	3.3%	\$505.60	1.22%	19.29%
Guthrie	3,266	191	5.8%	\$413.20	0.03%	20.51%
Hamilton	4,635	201	4.3%	\$498.00	1.30%	18.02%
Hancock	3,400	177	5.2%	\$580.00	-0.19%	17.93%
Hardin*	5,105	280	5.5%	\$483.60	0.36%	20.66%
Harrison*	4,302	215	5.0%	\$406.80	3.72%	17.66%
Henry	5,285	352	6.7%	\$555.20	2.38%	14.70%
Howard*	2,661	148	5.6%	\$462.80	1.86%	20.13%
Humboldt*	2,914	155	5.3%	\$469.20	0.05%	20.99%
Ida	2,176	124	5.7%	\$509.20	-4.59%	21.77%
Iowa	4,334	148	3.4%	\$572.40	3.26%	17.11%
Jackson	5,611	432	7.7%	\$383.60	0.75%	17.28%
Jasper	10,285	493	4.8%	\$611.20	5.44%	16.02%
Jefferson	4,306	317	7.4%	\$528.40	-3.67%	13.79%
Johnson	23,839	1,247	5.2%	\$504.00	8.87%	7.45%
Jones	5,320	328	6.2%	\$420.00	-0.64%	15.82%
Keokuk	3,154	238	7.5%	\$473.60	-2.08%	20.18%
Kossuth	4,789	358	7.5%	\$458.80	-5.42%	20.12%
Lee	10,293	726	7.1%	\$523.60	-2.66%	16.55%
Linn	50,638	2,161	4.3%	\$671.20	6.58%	12.24%
Louisa	3,350	233	7.0%	\$457.60	2.98%	14.05%
Lucas	2,554	214	8.4%	\$503.20	4.20%	19.33%
Lyon	3,257	160	4.9%	\$396.80	-0.61%	18.80%
Madison	3,934	180	4.6%	\$434.80	4.07%	15.18%
Mahaska	6,164	465	7.5%	\$473.60	2.27%	16.34%
Marion	8,587	450	5.2%	\$568.40	3.31%	15.91%
Marshall	10,500	748	7.1%	\$542.00	1.52%	16.42%
Mills	3,990	233	5.8%	\$448.80	5.13%	12.62%
Mitchell	3,012	212	7.0%	\$457.20	-1.84%	21.57%
Monona	2,764	182	6.6%	\$398.00	-0.51%	23.93%
Monroe	2,215	125	5.6%	\$566.00	-1.92%	19.54%
Montgomery	3,268	211	6.5%	\$434.00	-1.27%	20.26%
Muscatine	11,353	720	6.3%	\$642.80	1.33%	12.94%
O'Brien	4,147	191	4.6%	\$397.60	-1.06%	21.13%
Osceola	1,943	117	6.0%	\$428.00	-0.74%	18.93%

Area	Poverty (families)			Wages	Population	
	Total	Number below poverty level	Percent	Average		
				Weekly Wage	1995-2000	2000
				(private)	% loss	% > 65
Page	4,506	366	8.1%	\$433.20	1.66%	19.82%
Palo Alto	2,685	177	6.6%	\$410.40	0.13%	21.32%
Plymouth	6,858	300	4.4%	\$563.20	2.05%	15.95%
Pocahontas	2,452	162	6.6%	\$409.20	-5.17%	21.72%
Polk	97,182	5,146	5.3%	\$692.80	6.38%	11.15%
Pottawattamie	23,739	1,522	6.4%	\$490.80	4.65%	13.65%
Poweshiek	4,899	306	6.2%	\$535.20	-0.38%	17.63%
Ringgold	1,532	144	9.4%	\$364.00	2.61%	23.99%
Sac	3,214	217	6.8%	\$396.00	-4.32%	22.67%
Scott	42,117	3,222	7.7%	\$579.20	1.27%	11.77%
Shelby	3,741	160	4.3%	\$413.60	0.32%	20.41%
Sioux	8,087	375	4.6%	\$460.40	1.16%	15.05%
Story	17,064	933	5.5%	\$490.80	7.25%	9.84%
Tama	4,997	379	7.6%	\$417.20	1.92%	18.73%
Taylor	1,920	164	8.5%	\$373.60	-2.69%	22.36%
Union	3,399	252	7.4%	\$440.00	-1.04%	18.66%
Van Buren	2,176	189	8.7%	\$436.80	0.56%	19.09%
Wapello	9,799	919	9.4%	\$499.20	1.16%	17.79%
Warren	11,268	420	3.7%	\$466.40	4.50%	11.84%
Washington	5,665	289	5.1%	\$433.20	0.75%	17.87%
Wayne	1,922	208	10.8%	\$368.40	-1.63%	23.79%
Webster	10,297	694	6.7%	\$545.20	2.40%	17.37%
Winnebago	3,182	160	5.0%	\$413.20	-1.82%	18.92%
Winneshiek	5,247	265	5.1%	\$492.40	1.77%	15.70%
Woodbury	26,746	1,931	7.2%	\$519.20	1.81%	13.36%
Worth*	2,256	143	6.3%	\$420.00	0.91%	19.37%
Wright	3,980	167	4.2%	\$474.40	-0.19%	21.19%

Source: U.S. Bureau of the Census, Decennial Censuses  
2000 Census: SF3, Tables P82, P90 and H6



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<sup>1</sup> See Iowa Fiscal Partnership, [Looking Behind the Curtain: Unveiling the Problem of Tax Expenditures in Iowa](#) (December 2006).

<sup>2</sup> This background is based on Alan Peters and Peter Fisher, *State Enterprise Zone Programs: Have They Worked?* (W.E. Upjohn Institute for Employment Research, 2002); Alyssa Talanker and Kate Davis [Straying from Good Intentions: How States are Weakening Enterprise Zone and Tax Increment Financing Programs](#) (Good Jobs First, 2003); and Ayse Imrohoroglu and Charles Swenson, “[Do Enterprise Zones Work](#)” (unpublished, 2007).

<sup>3</sup> Federal Criteria (under PL 103-66 [1993] requires that the area be “one of pervasive poverty, unemployment, and general distress,” which it defines as a poverty rate of not less than 20 percent for each census tract in the nominated area; not less than 25 percent for at least 90 percent of the area’s census tracts; and not less than 35 percent for at least 50 percent of the area’s tracts.

<sup>4</sup> Under [IA 403.17](#): “*Blighted area*” means an area of a municipality within which the local governing body of the municipality determines that the presence of a substantial number of slum, deteriorated, or deteriorating structures; defective or inadequate street layout; faulty lot layout in relation to size, adequacy, accessibility, or usefulness; insanitary or unsafe conditions; deterioration of site or other improvements; diversity of ownership, tax or special assessment delinquency exceeding the fair value of the land; defective or unusual conditions of title; or the existence of conditions which endanger life or property by fire and other causes; or any combination of these factors; substantially impairs or arrests the sound growth of a municipality, retards the provision of housing accommodations, or constitutes an economic or social liability and is a menace to the public health, safety, or welfare in its present condition and use.

<sup>5</sup> While the State hopes to leverage employer-provided health care for all subsidized jobs, federal law (ERISA) prohibits it from *requiring* such benefits: hence the allowance for a “monetary” equivalent.

<sup>6</sup> See [IA 260E](#).

<sup>7</sup> The Iowa research activities credit (RAC) was established in 1985. It piggybacks on a slightly older federal program designed to encourage firms to increase their basic research spending. The federal program establishes a baseline of research spending (by industry) for established firms. Tax credits are available for research spending above that baseline. Under the Iowa RAC, such spending can include wages for qualified research services performed in Iowa, the cost of supplies used in conducting qualified research in Iowa, the rental or lease cost of personal property such as computers used in Iowa in conducting qualified research, and 65 percent of contract expenses. Iowa is one of 38 states with its own RAC program. Unlike the federal program (and all but 4 of the other state programs), the Iowa RAC is fully refundable and can be claimed above and beyond a firm’s tax liability. Rather than simply eliminating taxes owed, the Iowa RAC can generate large payments—an average of nearly \$30 million a year in Iowa since 2000, most of which has been claimed by a small number of firms. See Iowa Fiscal Partnership, [Spotlight on Secret Checks: Research Activities Mystery: Big Benefits. But for Whom?](#) (February 2008); and Iowa Department of Revenue, [Iowa’s Research Activities Tax Credit: Tax Credits Program Evaluation Study](#) (January 2008).

<sup>8</sup> These numbers are based on the IDED, [Enterprise Zone Program Report](#) (March 2007). The IDED count is \$250 million in eligible credits. I have adjusted this total as follows: Since the New Jobs and RAC credits are — by definition — doubled up, I have counted them twice (including the non-EZ portion of the credit). I have also estimated the RAC for those projects listed as eligible, but for which IDED has yet to estimate the probable credit, by calculating the ratio between total investment and RAC awards for those reporting a RAC, and assuming the same ration for those not reporting and RAC. These adjustments bring the 4-year estimate from \$250 million to about \$298 million. Line item budget estimates are from Iowa Fiscal Services Division, [Summary of FY 2009 Budget and Governor’s Recommendations](#) (January 2008).

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<sup>9</sup> Iowa Department of Revenue, [Iowa's Research Activities Tax Credit: Tax Credits Program Evaluation Study](#) (January 2008), p.23.

<sup>10</sup> See, for example, Robert Lynch, *Rethinking Growth Strategies : How State and Local Taxes and Services Affect Economic Development* (Washington, D.C.: Economic Policy Institute, 2004); and Alan Peters and Peter Fisher, "The Failures of Economic Development Incentives." *Journal of the American Planning Association*, vol. 70, no. 1: Winter 2004, pp. 27-38.

<sup>11</sup> Peter Fisher, "The Fiscal Consequences of Competition for Capital." Chapter 3 in Ann Markusen, editor, *Reining in the Competition for Capital* (Kalamazoo, MI: Upjohn Institute for Employment Research, 2007).

<sup>12</sup> Dan Y. Dabney, "Do Enterprise Zone Incentives Affect Business Location Decisions?" *Economic Development Quarterly*, Vol. 5, No. 4, pp.325-334 (1991).

<sup>13</sup> IDEED, [Enterprise Zone Program Report](#) (March 2007) p.15

<sup>14</sup> IDEED, [Enterprise Zone Program Report](#) (March 2007), p.5

<sup>15</sup> Leslie Papke, "What Do We Know About Enterprise Zones?" in James Poterba, *Tax Policy and the Economy 7* (Cambridge: MIT Press, 1993), 37ff.

<sup>16</sup> See Timothy Bartik, *Who Benefits from State and Local Economic Development Policies?* (Kalamazoo, Michigan: Upjohn Institute for Employment Research, 1992).

<sup>17</sup> We explore the way in which wage thresholds might bid down local wages in Iowa Policy Project, [Bending the Rules: The Promise and the Practice of the Grow Iowa Values Fund](#) (2004), pp.4-8.

<sup>18</sup> Of course, these higher standards also make them less likely to apply to those most likely to be working at low wages, with commensurate low skills. Such investments also need to be contrasted with direct investments in workforce development strategies to raise worker skills or programs such as the earned income tax credit designed to improve ability of low wage workers to make ends meet.

<sup>19</sup> See note 7 above.

<sup>20</sup> See Rachel Weber and David Santacrose, [The Ideal Deal: How Local Governments Can Get More for Their Economic Development Dollar](#) (Good Jobs First, March 2007)

<sup>21</sup> Economic development deals can be tracked by program, locality, and project status at <http://www.iowalifechanging.com/compliance/search.asp>