

TRACKING TAX GIVEAWAYS Questions Need Answers on Proposed Earthpark Plan

Many of the concerns raised two years ago about providing a sales-tax rebate to one entertainment venue remain valid today with behind-the-scenes efforts by Earthpark and a related tourism facility near Pella to grab up to \$75 million in state assistance. The most troublesome part of the request is that the developers of the tourism facility would keep up to \$40 million in state sales tax receipts that otherwise would bolster the state general fund.

In 2005, state lawmakers granted owners of the new Iowa Speedway in Newton the ability to keep up to \$12.5 million in sales-tax revenues from the racetrack. This was despite:

- Warnings that such a tax giveaway would prompt similar requests;
- An investor's public statement that the project would proceed without the subsidy;
- Concerns about the fairness of offering this subsidy to one entertainment venue when others did not have the same opportunity; and
- Concerns about accountability, providing public funds without adequate guarantees of the quality of jobs to be created. Put another way: Are public funds being used to subsidize a project with substantial public benefits?

Earthpark, an indoor rain forest/environmental education project that has a \$50 million federal grant with a December 2007 deadline, has been highly controversial in Iowa. The sales-tax proposal reportedly is geared to help "the Point at Red Rock," a hotel/condominium/waterpark/marina development that includes 70 acres on which Earthpark would be built. This proposal is far greater in scope than the Newton racetrack, but raises the same critical questions:

- Where do tax giveaways stop?
- Is the subsidy necessary?
- Is the subsidy fair and equitable?
- Why is public involvement so limited in this process?

ACCOUNTABILITY

Take the last point first: Accountability. What we know of this proposal is based on a copyright story in the April 23, 2007, *Des Moines Register*: <http://desmoinesregister.com/apps/pbcs.dll/article?AID=/20070423/NEWS/704230335/1001>.

Iowa's 82nd General Assembly convened Monday, Jan. 8. On Monday, April 23 – four days from the targeted final day for the 2007 session – the *Register* story announced the details of the Earthpark/Point proposal, which to date had not been subject to a hearing in a legislative committee.

According to the *Register*, developers for the Point want state approval to keep up to \$40 million in sales taxes the project would generate after it's open, while Earthpark proponents want an extension of the state's Community Attraction and Tourism grant program to enable an application for \$25 million to \$35 million for the center's construction.

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The arguments for such public assistance should be made in a deliberative manner. In the case of tax breaks, this should be done in the context of the entire Iowa tax code, in a comprehensive review by state lawmakers. In the case of tourism grants, the established commission is the place for review of such grants.

A critical point of accountability in tax dollars is public understanding of why we pay taxes. Instead of a public service, such as education, public safety or health care, the purpose in this case would be designed for a private development.

PRECEDENT

Iowa does not provide for a sales-tax TIF – a tax-increment financing program that would use state sales tax revenues from a designated activity to pay for a privately owned operation.

When lawmakers allowed an exception for such a use in 2005 for the Newton speedway, they assuaged concerns by assuring us that it was a special, one-time deal. Some observers noted what had happened in 1994 when “one-time incentives” for a steel plant soon became statewide policy and continue to drain revenue from the state.

PUBLIC BENEFIT

Most would agree public money should be used for projects that benefit the public, including services to the new entertainment venue. In this case, sales-tax money would be plowed back into the hotel/condo/tourism facility known as the Point. This leaves other taxpayers to pick up the tab for the additional public expense created by the project.

FAIRNESS

Why should the Point receive this assistance when other private hotels and tourist attractions in the region would be forced to compete with a project receiving public dollars?

CONCLUSION

Lawmakers meeting at the State Capitol have some big decisions to make. They should be doing so in the open, with full scrutiny and a full understanding of the financial stakes, and implications for both tax and economic development policy in Iowa.

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>.

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