

Iowa Fiscal Partnership *news release*

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EZ Money — Iowa's Monster Enterprise Zone Program Costly, Poorly Targeted

IOWA CITY, Iowa (April 21, 2008) — Iowa spent about \$300 million in enterprise zone subsidies from 2003-07 in a “monster” program that needs a major overhaul to meet its goal of helping distressed communities.

“The enterprise zone (EZ) program promises to promote development in distressed areas with targeted assistance, but it does a poor job of targeting assistance and largely fails to improve or significantly improve wages,” said Colin Gordon, a University of Iowa history professor and also senior research consultant at the nonpartisan Iowa Policy Project.

Gordon’s new report for the Iowa Fiscal Partnership (IFP) showed the enterprise zone (EZ) program of subsidies and tax credits is “expansive” with a record that is “unimpressive at best and disturbing at worst.”

“There are nearly 1,300 enterprise zones in the state, and the subsidies offered are hard to pin down and review,” he said.

“In short, Iowa has created a monster, a practical and fiscal disaster in need of major reform. It must better target assistance in a timely manner, and assure more public scrutiny to allow better accountability.”

The report recommends:

- Careful targeting to assure few communities qualify and do so only on the basis of sound, current data.
- Setting wage thresholds that assure efforts to improve local wages.
- Capping subsidies on a cost-per-job basis, which the report projected could save over \$60 million annually.
- Assuring that current residents in distressed areas benefit from any assistance provided.
- Eliminating or capping “refundability” of tax credits — which permits subsidy checks beyond forgiveness of tax liability.

In particular for tax credits, the report notes use in the EZ program of the Research Activities Credit, or RAC, which other IFP work has shown to be a source of what amount to secret checks from Iowa’s treasury to large corporations, with little accountability.

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“While nearly 40 states run a research activities tax credit program, only five (including Iowa) make such a credit fully ‘refundable,’” the report noted.

Gordon noted an assessment of the EZ program is complicated by the difficulty of measuring claims that business “incentives” actually stimulate or attract investment. He noted much research has concluded that “by and large, incentives have a very small effect on growth.”

In addition, the EZ program’s wage thresholds use artificially low “target” wages for each county that could allow EZ awards to actually “bid down” local wages. In contrast, the Iowa Department of Economic Development runs another program, the Community Economic Benefit Account (CEBA), that requires firms to pay new employees at least 130 percent of the average county wage.

“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,” the report stated.

Gordon noted per-job costs of the EZ program range wildly — from about \$640 per job to \$880,000 per job in two instances, and an average potentially of over \$100,000 per job. The report recommends setting a per-job cost cap, noting the U.S. Department of Housing and Urban Development uses such a benchmark, at \$35,000 per job.

“Beyond this, the cost of the public subsidy is likely to exceed any public benefit,” the report stated. “If the Iowa EZ program had hewed to this standard, the annual subsidy cost would fall from about \$75 million to about \$12 million.”

The Iowa Fiscal Partnership (IFP) is a tax and budget policy analysis initiative of two nonpartisan, Iowa-based organizations — the IPP in Iowa City/Mount Vernon and CFPC in Des Moines. IFP reports are available at <<http://www.iowafiscal.org>>.

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