

Business Incentives and Economic Development Expenditures: An Overview of Iowa's Program Investments and Outcomes

Summary

Across the country, state economic development incentives have evolved into a complex mixture of programs with diverse structures and goals. The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the [C2ER State Business Incentives Database](#), which includes detailed information about almost 2,000 state-administered incentive programs from every state; and the [C2ER State Economic Development Expenditures Database](#), a compilation of economic development expenditure budget data from every state. This report builds on that work by taking a deeper look at Iowa's full array of incentive programs and includes an analysis of the available outcome data that is used by state policymakers and program administrators to gauge program effectiveness.

In order to create a comprehensive picture of the economic development landscape, we reviewed and culled data from a range of state statutes, reports, and websites. The numbers contained in this report are CREC and C2ER's best estimate of the dollars spent on economic development incentives at the state level in Iowa.

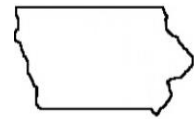
In Fiscal year (FY) 2014, the most recent year for spending data are available for all program types, the state spent \$216 million on economic development program expenditures and \$1.8 billion on economic development tax expenditures.¹

Overview of Business Incentives

Iowa has a moderate number of incentive programs, with a total of 40 active programs in 2015. The C2ER State Business Incentives Database defines state business incentives as state-administered programs designed to influence business investment behaviors. States design their programs to influence these behaviors through tax incentives, as well as through non-tax programs, such as grants, loans, business assistance, and other investment vehicles. These incentives help businesses address

[The Center for Regional Economic Competitiveness \(CREC\)](#) is working with The Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states. These leaders are working together to identify effective ways to manage and assess economic development incentive policies and practices, improve data collection and reporting on incentive investments, and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.

¹ Please see Appendices for detailed lists of all items included in this report as incentives, economic development program expenditures, and economic development tax expenditures.



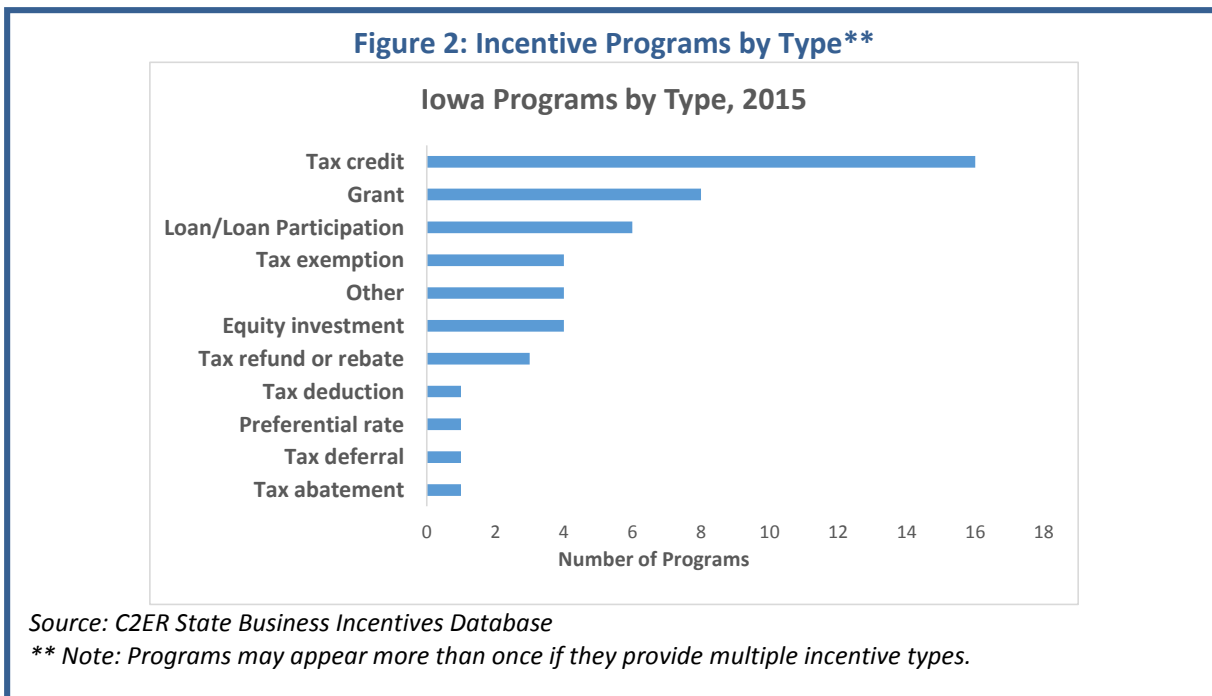
needs such as capital access, workforce training, technology development, site facility improvements, and others.²

Figure 1: Iowa State Business Incentives by Agency, 2015

State Agency	Number of Programs
Iowa Economic Development Authority	26
Iowa Department of Revenue	4
Iowa Finance Authority	3
Iowa Department of Transportation	2
Iowa Department of Cultural Affairs	1
Iowa Department of Natural Resources	1
Iowa Capital Investment Corporation	1
Iowa Vocational Rehabilitation Services	1
Iowa State Treasurer	1

Source: C2ER State Business Incentives Database

In Iowa, the responsibility for administering business incentive programs are spread across nine different state agencies. However, the vast majority of incentives are managed by the Iowa Economic Development Authority (IEDA). The Iowa Department of Revenue and the Iowa Finance Authority administer a smaller number of programs. (See Figure 1).



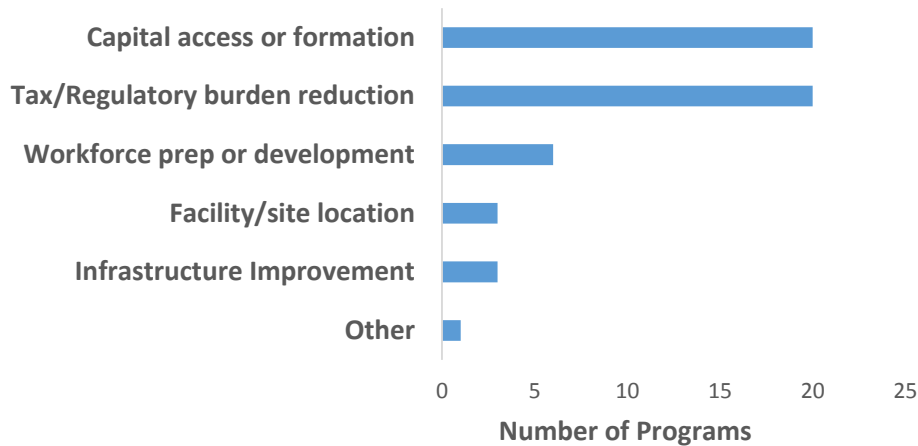
² The C2ER State Business Incentives Database definition of business incentives may differ from the definition used by the state of Iowa. For a current list of incentive programs as defined by the state, please see the [Iowa Economic Development Authority](#) website.



The largest types of incentive Iowa provides are tax credits. (See Figure 2). Agriculture plays a major role in Iowa's economy as well as several export industries that are related to agriculture: Agricultural Inputs and Services, Production Technology and Heavy Machinery, and Livestock Processing. Several of Iowa's incentive programs are geared towards investment in farms and businesses related to agriculture. Iowa has a particularly unique focus on tax credits for dealers and providers of renewable and alternative energy sources that reduce dependence on oil due to the state's long association with ethanol production. More of Iowa's recently created incentive programs reflect a greater diversity of types of incentives, particularly different types of tax incentives. Most of Iowa's incentives assist with capital access and/or reducing taxes. (See Figure 3).

Figure 3: Incentive Programs by Business Need**

Iowa Programs by Business Need (2015)



Source: C2ER State Business Incentives Database

** Note: Programs may appear more than once if they are intended to fulfill multiple business needs.



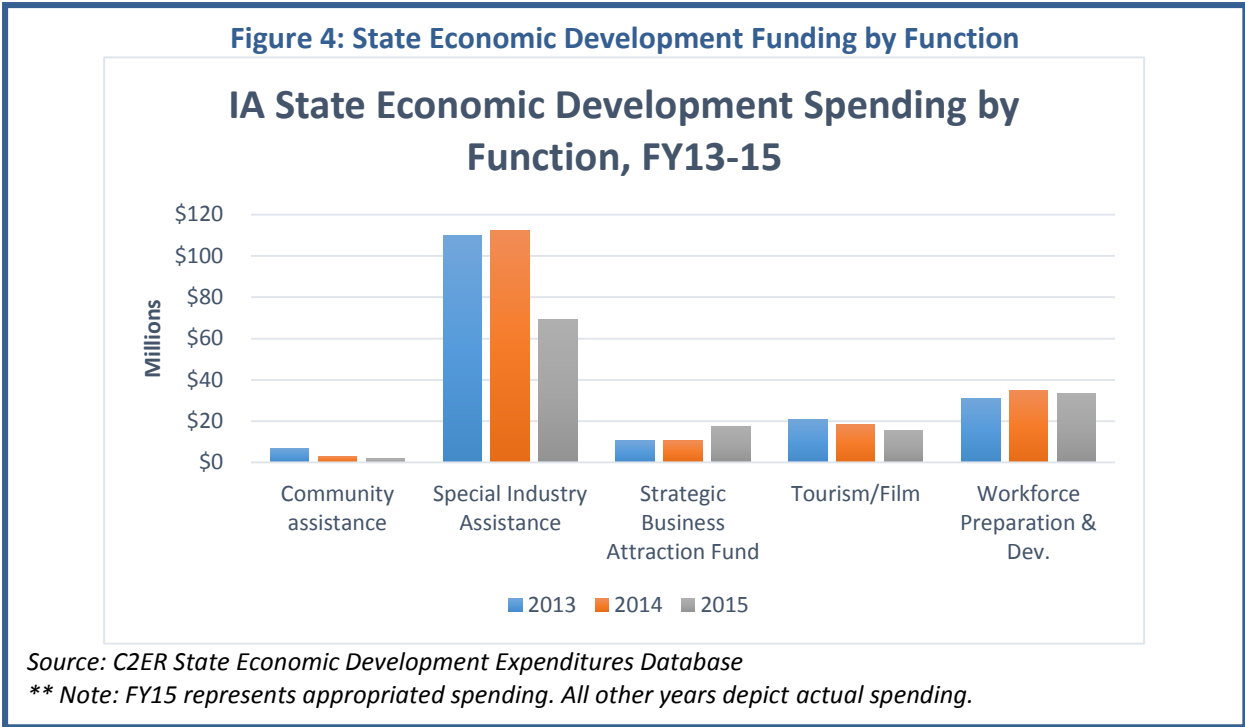
Economic Development Program Expenditures

Examining Iowa’s budget for economic development program expenditures reveals how various state agencies outlay money for economic development programs. Expenditures fall into 15 functional areas for economic development defined by the C2ER State Economic Development Expenditures Database.³ Iowa directs economic development spending especially to the functions of special industry assistances and workforce preparation & development. (See Figure 4).

According to Iowa’s [Fiscal Years 2016-2017 Governor’s Budget Recommendations](#), which details actual FY 2014 spending, the state spent \$216 million⁴ on economic development in FY 2014. This level of spending represents an average of \$2,158 per business, which is

**State Economic Development Expenditures
Function Areas**

- Business Finance
- Strategic Business Attraction Fund
- Business Assistance
- International Trade and Investment
- Domestic Recruitment/Out-of-State
- Workforce Preparation & Development
- Technology Transfer
- Entrepreneurial Development
- Minority business development
- Community Assistance
- Tourism/Film
- Special Industry Assistance
- Program Support
- Administration
- Other Program Areas

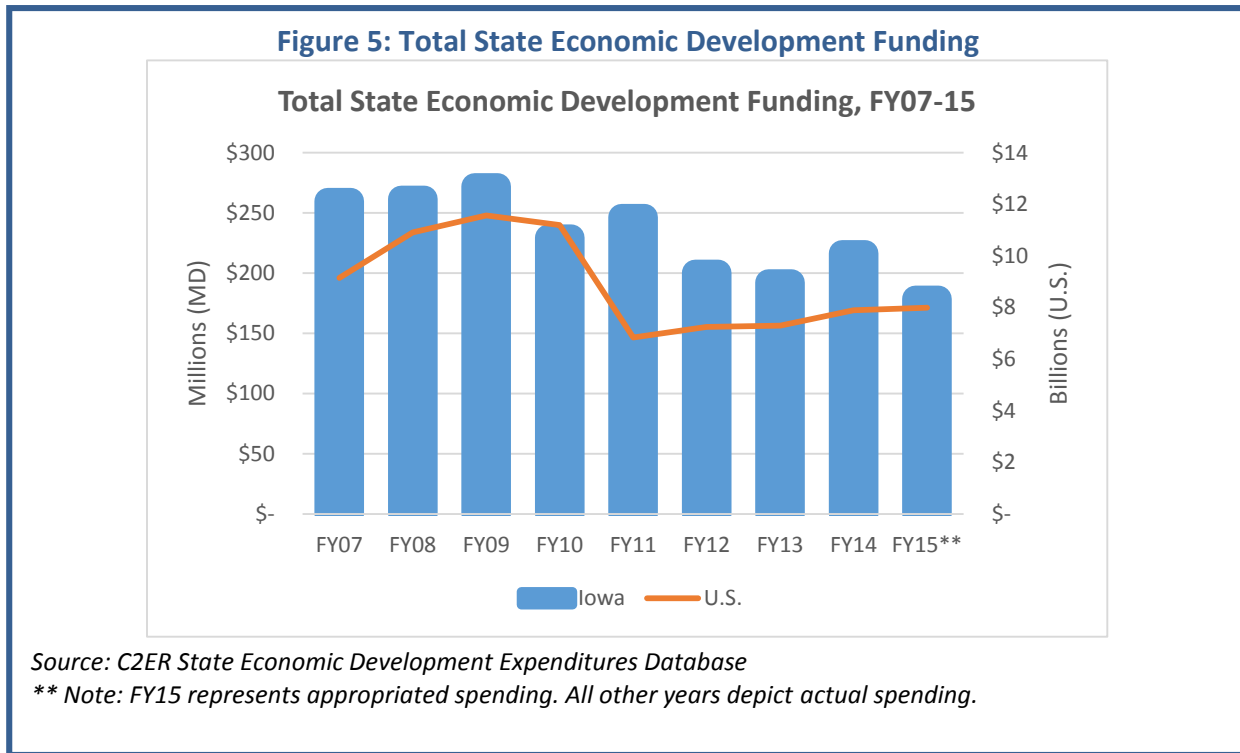


³ See Glossary definitions here - http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf

⁴ This total excludes all federal and local economic development expenditures.



considerably higher than the median average of \$877 per business spent in other states for that fiscal year. The majority of Iowa economic development expenditures went to the Iowa Economic Development Authority, Department of Agriculture, and the Board of Regents. The IEDA received the bulk of funding, with more than a quarter of total state spending.



Between FY 2007 and FY 2009, economic development spending increased in Iowa, increasing from \$259 million in FY 2007 to \$271 million in FY 2010. Economic development program expenditures then began a relatively steady decline to their current in FY 2016 of \$178 million. This follows a significant increase in spending for FY2015 following years of declining spending. This is fairly consistent with national trends in economic development spending, as most states decreased spending in FY 2011 following the Great Recession and have since made very gradual spending increases. (See Figure 5).

Economic Development Tax Expenditures

Tax expenditures can be defined as “revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures.”⁵ *Economic development tax expenditures* in this context represent those tax provisions that use the state tax system to promote business investments that promote state economic priorities.

The latest tax expenditure analysis for Iowa comes from two sources. Iowa’s last complete tax expenditure posted on the [Iowa Department of Revenue's website](#) occurred in 2010. Since 2010, Iowa

⁵ *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm



has provided tax expenditure data solely on tax credits. Most recently, this data was released in the *March 2015 Tax Contingents Liabilities Reports*, which provided tax data from 2014. Both reports were used for analysis in this section. Data was collected by reviewing and recording all line items in the report related to economic development, including all tax credits, abatements, deductions, and exemptions that are designed to influence business investment behaviors.

In FY 2010, the state of Iowa's economic development tax expenditures totaled approximately \$1.73 billion. Iowa administered its tax expenditures related to economic development primarily through the Department of Revenue, although for some incentives, state agencies like the Iowa Economic Development Authority were involved in marketing the incentives and evaluating applicants for discretionary incentives.

For FY 2010, approximately 59 percent of Iowa's economic development tax expenditures were directed towards special industry assistance. Most of these taxes for special industry assistance were directed to two industries: agriculture and manufacturing. Fifty-five percent of FY 2010 tax expenditure funds were directed towards agriculture while 44 percent went to manufacturing.

Most of Iowa's economic development tax expenditures in FY 2010, 88 percent, come from sales and use taxes. The rest comes from corporate and individual income taxes. The vast majority of these FY 2010 tax expenditure also take the form of tax exemptions.

Iowa's economic development tax credit expenditures in FY 2014 totaled approximately \$216 million. A percentage of these expenditures for tax credits were directed specifically to agriculture with a minimal amount directed to other industries.

Analysis of Available Outcome Data

Several departments related to Iowa's economic development programs produce reports on a mostly annual basis to track performance and record expenditures. The Iowa Economic Development Authority (IEDA) puts out [annual reports for each fiscal year](#) that focuses on recording the financial award provided and jobs created or retained. IEDA's reports do not delineate by economic incentive program but instead list the funding that each business or organization received and listing the number of jobs that were created, retained, or contracted. IEDA provides two annual reports: one that divides these businesses and organizations by the county of their location and another that divides the businesses and organizations by the status of their project with IEDA.

The Iowa Finance Authority (IFA) releases an annual [Performance Report](#) that analyzes the results of providing financing for housing and community and economic development. The report lists all of the programs organized by IFA, the performance targets for each program, and their actual programs.

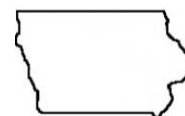
The Iowa Department of Revenue creates several reports on tax usage. Each quarter, the Department of Revenue puts out a report on [tax credits' contingent liabilities](#) that details several allocations related to tax credits for each year and projections for future years. However, as stated earlier, it does not analyze other tax expenditures. Analysis of tax claims is not provided as often. In July, the Department of Revenue released a report on [Iowa's 2012 tax credit claims](#). The data provided includes withholding tax



credits claimed each quarter, annual tax credit awards, and tax credit expected claims and contingent liabilities. Two annual reports published by the Department of Revenue on singular incentive programs reviews the Research Activities Tax Credit and the Solar Energy System Tax Credit. Iowa also compiled a [list of available tax credits](#) that was most recently updated in 2014.

Conclusion

Iowa administers a moderate number of business incentive programs. In terms of program expenditures per business establishment, Iowa spends at a higher rate than the national average. As an agricultural state, the state has a substantial contingent of tax credits and program expenditures that focus on the farming industry in Iowa. The state also places an emphasis on promoting the renewable energy sector. Iowa has a number of reports that analyze their fiscal impact and other metrics on a quarterly or annual basis. IEDA's annual reports also are a good evaluation of the employment impact of business incentives; however, it does not make clear the impact of specific programs.

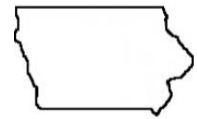


Appendix A: Full List of Iowa State Business Incentives (2015)

Program Name	Program Provider	Business need	Type
Targeted Small Business Assistance Program (TSB)	Iowa Economic Development Authority	Capital access or formation	Loan/Loan Participation
Small Business Linked Investments for Tomorrow (LIFT)	Iowa State Treasurer	Capital access or formation	Loan/Loan Participation
Iowa Self-Employment (ISE)	Iowa Vocational Rehabilitation Services	Capital access or formation	Grant
Enterprise Zones	Iowa Economic Development Authority	Capital access or formation; Tax/Regulatory burden reduction	Tax abatement; Tax credit; Tax deduction; Tax deferral; Tax exemption; Tax refund or rebate
Tax Increment Financing	Iowa Economic Development Authority	Capital access or formation; Tax/Regulatory burden reduction	Other
Iowa Pollution Control and Recycling Exemption	Iowa Department of Revenue	Capital access or formation; Tax/Regulatory burden reduction	Tax exemption
New Jobs Tax Credit	Iowa Economic Development Authority	Workforce prep or development; Tax/Regulatory burden reduction	Tax credit
Research Activities Credit	Iowa Economic Development Authority	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
Assistive Device Tax Credit	Iowa Economic Development Authority	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
Export Trade Assistance Program (ETAP)	Iowa Economic Development Authority	Capital access or formation	Grant
Revitalize Iowa's Sound Economy (RISE)	Iowa Department of Transportation	Infrastructure Improvement	Grant
Public Facilities Set-Aside Program (PFSA)	Iowa Economic Development Authority	Infrastructure Improvement	Other
Economic Development Bond Program	Iowa Finance Authority	Capital access or formation	Other
Iowa Industrial New Jobs Training Program (260E)	Iowa Economic Development Authority	Workforce prep or development	Other
Iowa Jobs Training Program (260F)	Iowa Economic Development Authority	Workforce prep or development	Grant



Accelerated Career Education (ACE)	Iowa Economic Development Authority	Workforce prep or development	Grant
Solid Waste Alternatives Program (SWAP)	Iowa Department of Natural Resources	Other	Loan/Loan Participation; Preferential rate
Railroad Revolving Loan and Grant Program	Iowa Department of Transportation	Infrastructure Improvement	Grant
High Quality Job Creation Program	Iowa Economic Development Authority	Capital access or formation; Facility/site location; Tax/Regulatory burden reduction	Tax credit; Tax exemption; Tax refund or rebate
Demonstration Fund	Iowa Economic Development Authority	Capital access or formation	Equity investment
Brownfield/Greyfield Tax Credit Program	Iowa Economic Development Authority	Facility/site location; Tax/Regulatory burden reduction	Tax credit
Targeted Jobs Withholding Tax Credit Pilot Program	Iowa Economic Development Authority	Facility/site location; Tax/Regulatory burden reduction	Tax credit
Endow Iowa Tax Credit Program	Iowa Economic Development Authority	Tax/Regulatory burden reduction	Tax credit
Iowa Capital Access Program (ICAP)	Iowa Economic Development Authority	Capital access or formation	Equity investment
Iowa Small Business Loan Support Program	Iowa Economic Development Authority	Capital access or formation	Loan/Loan Participation
Loan Participation Program	Iowa Finance Authority	Capital access or formation	Loan/Loan Participation
Apprenticeship Program	Iowa Economic Development Authority	Workforce prep or development	Grant
Qualifying Businesses Tax Credit	Iowa Economic Development Authority	Tax/Regulatory burden reduction	Tax credit
Community-Based Seed Capital Funds Tax Credit	Iowa Economic Development Authority	Tax/Regulatory burden reduction	Tax credit
Iowa Innovation Acceleration Fund	Iowa Economic Development Authority	Capital access or formation	Equity investment
Iowa Fund of Funds	Iowa Capital Investment Corporation	Capital access or formation; Tax/Regulatory burden reduction	Loan/Loan Participation
Innovation Fund Tax Credit	Iowa Economic Development Authority	Tax/Regulatory burden reduction	Tax credit
Renewable Energy Tax Credit	Iowa Department of Revenue	Tax/Regulatory burden reduction	Tax credit
Economic Development Set-Aside (EDSA)	Iowa Economic Development Authority	Capital access or formation	Loan/Loan Participation

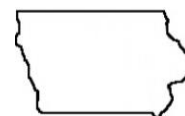


Community College Consortium	Iowa Economic Development Authority	Workforce prep or development	Grant
Fuel Tax Credits	Iowa Department of Revenue	Tax/Regulatory burden reduction	Tax credit
Beginner Farmer Loan Program	Iowa Finance Authority	Capital access or formation;	Loan/Loan participation
Employee Stock Ownership Program (ESOP) Formation Assistance	Iowa Economic Development Authority	Capital access or formation; Tax/regulatory burden reduction	Tax credit
Sales and Use Tax Rebate on Raceway Facilities	Iowa Department of Revenue	Tax/regulatory burden reduction	Tax refund or rebate
State Historic Preservation Tax Incentive Program	Iowa Department of Cultural Affairs	Tax/regulatory burden reduction	Tax credit



Appendix B: IA Economic Development Program Expenditures (2014)

Function	Activity	Total State Funding
Business Finance	Loans available to Business	\$2,948,369
Community assistance	Community center revitalization	\$578,711
Community assistance	Funding for targeted geographic zones	\$1,196,048
Community assistance	Infrastructure (e.g., road/sewer/telecommunications)	\$1,311,410
Domestic Recruitment/Out-of-State	Prospect Site Location Assistance	\$16,900,000
Entrepreneurial Development	Other Entrepreneurial Development	\$5,700,000
Program Support	In-state regional offices	\$8,600
Program Support	Other Program Support	\$70,000
Special Industry Assistance	Advanced manufacturing	\$3,708,333
Special Industry Assistance	Agriculture/agribusiness	\$100,872,429
Special Industry Assistance	Biotechnology/life sciences	\$7,500,000
Strategic Business Attraction Fund	Other Strategic Business Attraction Fund	\$10,383,260
Technology Transfer	Technology commercialization	\$11,753,491
Tourism/Film	Tourism development	\$17,282,388
Tourism/Film	Tourism promotion (exc. Advertising)	\$1,164,000
Workforce Preparation & Dev.	Customized training	\$3,789,953
Workforce Preparation & Dev.	Other Workforce Preparation & Dev.	\$31,239,497
TOTAL		\$216,406,489



Appendix C: IA Economic Development Tax Expenditures (2014)

Description	Total Funds
Accelerated Career Education, Withholding Tax Credit	\$4,600,000
	\$0
Added Wage Deduction-All Businesses*	
Added Wage Deduction-Small Businesses*	\$0
Advertising Envelopes	\$1,800,000
Advertising Materials Out-Of-State	\$3,400,000
Agricultural Assets Transfer Tax Credit	\$1,800,000
Agricultural Chemicals	\$36,700,000
Agricultural Drainage Tile	\$6,900,000
Agricultural Feed	\$219,600,000
Agricultural Feed for Farm Deer and Bison*	\$0
Agricultural Packaging*	\$0
Air Charters Transportation Services	\$6,100,000
Automotive Fluids to a Retailer	\$1,400,000
Biodiesel Blended Fuel Tax Credit	\$5,700,000
Breeding Stock	\$15,400,000
Business Transfer of Vehicles*	\$0
Casual Sale - Not Business Liquidation	\$2,600,000
Central Office Equipment for Telecommunication Companies	\$700,000
Clothing Sales Tax Holiday	\$4,400,000
Commercial Amusement Enterprises	\$8,900,000
Commercial Fertilizer and Lime	\$103,600,000
Community Action Agency	\$1,800,000
Core-Making, Mold Making, and Sand-Handling Equipment	\$1,300,000
Digital Goods	\$7,900,000
Domesticated Fowl	\$8,900,000
Draft Horses	\$100,000
E85 Gasoline Promotion Tax Credit	\$1,500,000
E911 Service Surcharge	\$1,000,000
Economic Development Region Revolving Fund Tax Credit*	\$0
Electricity to Private Water Companies	\$2,400,000
Employment Placement Out-of-State*	\$0
Endow Iowa Tax Credit	\$2,900,000
Enterprise Zone Housing Investment Tax Credit	\$3,900,000
Enterprise Zone Program (EZ) Sales Tax Refund	\$568,000
Ethanol Promotion Tax Credit	\$3,700,000
Farm Machinery - Self-Propelled	\$96,900,000
Farm Machinery - Special Purpose	\$12,900,000



Film Expenditure Tax Credit	\$400,000
Film Investment Tax Credit*	\$0
Film Production Income*	\$0
Food Manufacturer's Tangible Personal Property Rental*	\$0
Food Sales by Promoter of Iowa Products*	\$0
Food Sales Purchased with Food Stamps	\$32,200,000
Franchise Tax Credit	\$15,800,000
Fuel and Electricity for Information Technology Facilities*	\$0
Fuel for Implements of Husbandry	\$34,400,000
Fuel to Heat/Cool Greenhouses	\$155,000
Fuel to Heat/Cool Livestock Buildings	\$9,100,000
Fuel Used in Aquaculture*	\$0
Fuel Used in Grain Drying	\$12,200,000
Gambling Boat Games and Admissions	\$364,900,000
Goods for Clothing Maintenance and Repair	\$600,000
Grain Dryers	\$900,000
High Quality Job Program (HQJ) Sales Tax Refund	\$3,507,000
Historic Preservation and Cultural and Entertainment District Tax Credit	\$31,200,000
Industrial Machinery, Equipment and Computers*	\$92,100,000
Inert Gases	\$6,700,000
Information Services	\$8,400,000
Installation of New Industrial Machinery*	\$0
Interest-Beginning Farmer Bonds	\$900,000
Investment Tax Credit	\$15,600,000
Iowa Capital Gains Deduction for Agricultural Assets	\$13,000,000
Iowa Capital Gains Deduction for Business Assets	\$22,700,000
Iowa Industrial New Jobs (260E) Income Tax Credit	\$3,400,000
Iowa Industrial New Jobs (260E) Supplemental Withholding Tax Credit	\$4,700,000
Iowa Industrial New Jobs (260E) Withholding Tax Credit	\$41,900,000
Irrigation Equipment for Farming	\$400,000
Livestock Ear Tags*	\$0
Livestock or Fowl Bedding*	\$0
Long-Term Room Rental	\$1,800,000
New Products Used in Processing	\$229,600,000
Packaging Containers	\$72,000,000
Processing Chemicals	\$39,700,000
Processing Electricity and Steam*	\$0
Processing Photography	\$2,900,000
Processing Power and Fuel	\$61,100,000
Processing Services*	\$0
Processing Services and Goods for Food Products	\$3,100,000



Processing Tire Retreading	\$2,400,000
Racetrack Pilot Program	\$500,000
Reconditioning Services	\$4,000,000
Recycling and Waste Reprocessing Equipment*	\$0
Redevelopment Tax Credit*	\$0
Refundable Investment Tax Credit*	\$700,000
Renewable Energy and Wind Energy Production Tax Credit Sales Tax Refund*	\$0
Renewable Energy Tax Credit	\$2,400,000
Rental or Broadcast of Entertainment Media	\$12,400,000
Research Activities Tax Credit	\$38,100,000
Software Maintenance or Support Contract	\$1,500,000
Solar Energy Equipment*	\$0
Speculative Shell Building*	\$0
Supplemental Research Activities Tax Credit	\$15,100,000
Targeted Jobs Withholding Tax Credit	\$1,200,000
Third Party Sales Tax Credit*	\$0
Venture Capital Tax Credit-Iowa Fund of Funds*	\$0
Venture Capital Tax Credit-Qualified Business or Community-Based Seed Capital Fund	\$1,200,000
Venture Capital Tax Credit-Venture Capital Funds*	\$0
Wage-Benefit Tax Credit	\$3,700,000
Wages Paid to Certain Individuals*	\$0
Water Sold to Farmers	\$700,000
Web Search Portal and Data Center Business Purchases	\$5,700,000
Wind Energy Conversion	\$700,000
Wind Energy Production Tax Credit	\$700,000

* Data not available in budget