Securing Iowa's Economic Future:
Strengthening Skills, Work Supports and Economic Security for Working Families

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Executive Summary *January 2006*

Securing Iowa's Economic Future:

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By Charles Bruner and Mike Crawford

Iowa families work hard, but existing public policies often do not support them in achieving economic security. Particularly over the last decade, through tax credits and new grant programs, Iowa government has invested a great deal to stimulate business, but its investments in working families – both in skill development and in workforce supports – have lagged. Further, many of the business incentives have failed to focus upon working Iowans who most need jobs. They have contained few accountability and oversight provisions. For Iowa to grow and prosper, much greater policy attention needs to be directed to strengthening the skills and work supports of working families – both in government policies directed to education and human services, and those directed to economic growth and development.

Synopsis

This report offers a detailed picture of Iowa working families and their employment and economic security needs. It shows how economic development strategies in the state must focus much more attention on the needs of working families. It provides evidence that securing Iowa's future requires much more attention to the issues that working families face. In the end, one of the keys to Iowa's long-term economic growth and prosperity will be to ensure that "working pays off," both through:

- improving the education, skill and compensation levels of many individuals already in the workforce to take on new jobs that can spur Iowa's overall economic growth; and
- providing work supports so people who work hard have enough economic security to raise the next generation safely and well.

Overview of Working Families

Working families with children represent almost half the state's population and over 40 percent of the state's work force. While Iowa leads the country in families where both parents work or the only parent works, many struggle economically. This is particularly true for families with young (0-6) children (where 1 in 8 lives in poverty) and for single-parent families (where 1 in 4 lives in poverty). Minority families, rural families and inner-city families also are more likely to be living in poverty while working. The poverty figures only tell a part of the story, however, as it requires much more than poverty-level income for families to provide for their families' basic needs. The research all points to a figure closer to 200 percent of poverty ($29,360 for a family of three) for families to be economically self-sufficient.

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Improving the economic security of these working families is needed for Iowa's long-term growth and economic prosperity. This requires policy attention to: (1) the state's support of education and workforce skill development (Chapter Two); (2) the connection between state economic development policies and workforce development (Chapter Three); and (3) work supports to enable working families to meet their dual roles of employees, and parents and providers (Chapter Four).

Working Families and Education and Training Opportunities

Working Iowans are educated – to a point. Iowa's workforce (25-64) exceeds the national average in education up to a high-school or GED level (91.7 percent of all Iowans compared with 86.5 percent of Americans). At the same time, Iowa lags well behind the country as a whole in the proportion of workers with a bachelor's degree or better (24.8 percent of Iowans compared with 28.6 percent of Americans). Closing this 3.8 percent gap would require that 56,211 more Iowans from the current 25-64 population obtain undergraduate degrees. For the next 20 years, the majority of the Iowa workforce is working today, and closing this gap cannot be achieved simply by focusing upon getting more youth graduating from high school into college.

Iowa supports a variety of workforce development programs focusing upon the adult-age population, including vocational and technical education through the Perkins Act, adult literacy, Workforce Investment Act programs for adult and displaced workers, employment and training for persons of the Temporary Assistance for Needy Families (TANF) through PROMISE JOBS, and a set of community college and employer training programs called 260 programs. Collectively, these involve approximately $80 million in public funding, with 260 programs representing the single largest share of that amount. The $80 million translates into an average investment of only $127 per Iowa adult with a high-school diploma or less – well below the $5,302 investment in education for a school-age youth and the $3,347 for a college-age youth.

While the majority of these programs focus upon training to the lower-skilled and lower-wage workforce, the 260 programs do not. These programs, begun in the 1980s, have very little oversight and accountability. The majority of the public funding goes directly to businesses for wage subsidies or very specialized training that traditionally has been considered a business responsibility. Only a small share of the 260 funding actually supports community colleges and their responsibilities for adult education and skill development. The 260 programs need to have more transparency regarding the populations they serve and the types of training they provide. They should be restructured to ensure a larger share of this funding supports community colleges in enhancing the education and skills of workers with the greatest need for training.

Working Families and State Economic Development

Iowa's economy has changed dramatically through the last century, in part as the employment base has moved away from agriculture. Between 1980 and 2000, both Iowa's population growth and economic activity lagged well behind the United States and not solely due to this agricultural shift. Iowa policy makers generally have reached consensus on the need for Iowa to attract higher-wage industries for Iowa to prosper, with the higher-wage industries themselves requiring higher-skilled workers.

Over the last 20 years, Iowa has enacted a number of tax incentives to attract or retain businesses, as well as significant economic development spending programs. Collectively, these incentives amount to $437 million annually in costs to the state treasury or local government:

$155 million in state tax credits; $181 million in tax-increment financing through local property taxes; and $101 million in state economic development programs. These investments dwarf those made in workforce education and skill development.

As with the 260 programs, there is almost no focus in these business incentives upon the lower-wage or lower-skilled workforce. The tax credits and tax-increment financing provisions are not subject to annual appropriation and review. There is very little public disclosure in how these credits are used or what benefits they bring the state.

The imbalance between state investments on the business incentive side of the economic development coin and the workforce development side needs to be seriously reviewed. State policy makers should require much greater transparency and disclosure on economic development incentives offered by the state, including required periodic legislative review and approval if they are to be continued. There needs to be a specific focus upon their overall economic impact and their impact upon lower-income workers with the greatest needs.

Supports for Working Families

While there is good reason to increase the number and proportion of higher-skilled workers and higher-wage jobs in Iowa, there will continue to be substantial numbers of lower-wage jobs. Currently, about 1 in 5 jobs in Iowa and the United States is in a low-wage occupation ($9.28 per hour or less). Most represent hands-on jobs in the service industry that people rely upon and are not transferable out of state or overseas.

Ensuring that individuals who work full time in these jobs can economically support their families requires public supports in four areas: (1) child-care subsidies for families with younger children; (2) health-care coverage, particularly to cover family members other than the employee; (3) unemployment compensation benefits that meet the needs of those temporarily unemployed; and (4) tax policies that do not burden or discriminate against working families with children.

In each of these areas, Iowa's work supports have substantial gaps. Iowa's child-care subsidy eligibility level ranks Iowa 47th among states, creating a huge cliff effect when family earnings go above that cut-off level of 145 percent of poverty. While Iowa's Medicaid and *hawk-i* health insurance programs have helped to provide coverage to an increasing number of children to counter the recession and cost and availability of employer family benefits, 1 in 14 Iowa children is still uninsured and a larger percentage of their parents are uncovered. Iowa's unemployment insurance benefit coverage has declined substantially, to covering less than 1 in 3 unemployed Iowans. Iowa's state income tax system currently taxes families with children more heavily than those with no children and requires 70,000 families to pay state income taxes while they have no federal income tax liability.

Supporting low-wage working families helps society as well as the families – by ensuring that their children are safe and secure and grow into productive adults, and by enabling them to remain productive employees. There are straightforward actions that policy makers can and should take to improve these systems supporting working families, again at considerably less cost than the current series of direct incentives to business. These include: expanding the child-care subsidy to Iowans up to 200 percent of poverty; covering parents under Medicaid and *hawk-i* at least up to 150 percent of poverty; and restructuring the state income tax to increase personal exemptions, the standard deduction, and the state earned income tax credit.

Iowa Fiscal Partnership

January 2006

Securing Iowa's Economic Future

Strengthening Skills, Work Supports and Economic Security for Working Families

Introduction

Iowa families work hard. Families with children are the bedrock of Iowa's society and economy:

- providing the dependable and productive workforce that keeps the economy strong;
- raising the next generation of workers, leaders, and families; and
- helping ensure that seniors can live in dignity.

This report is about these working Iowa families with children. It focuses on working families who, despite employment, struggle financially. Creating greater opportunities for these families is essential to Iowa's overall economic growth and well-being. The picture presented here, through an extensive array of data and statistics, clearly shows the need to focus greater policy attention on working Iowa families. This policy focus includes:

- educational and training opportunities to improve skills;
- attention to upgrading employment efforts within state economic development programs and policies; and
- increased work supports and tax policies that ensure working families can meet basic family needs.

The future of Iowa's economy is inextricably linked to the ability of Iowa families to be both productive workers and nurturing parents. Iowa's economic development policies, as well as its social and educational policies, need to reflect this basic fact. This report provides the information necessary to take on this challenge and opportunity.

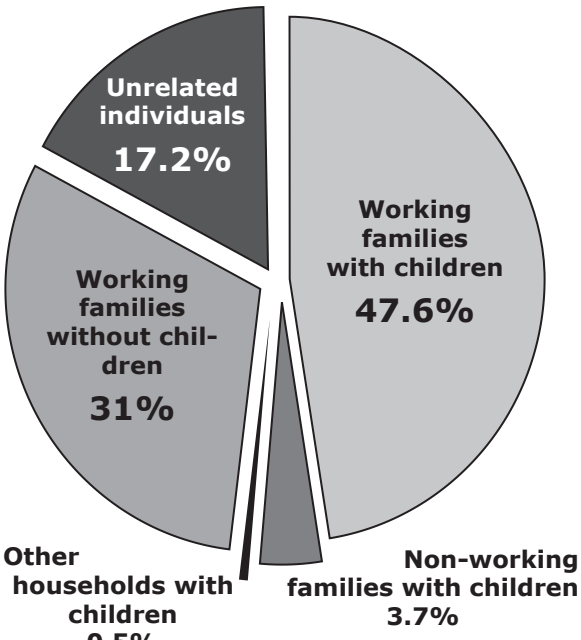
Chapter 1.

Working Families in Iowa

Working Families in Iowa: An Overview

In 2003, there were 364,393 families with children in Iowa. The vast majority (92 percent) were working. Of the 688,272 children living in Iowa, 9 in 10 lived in these working families. The pie chart shows that over half of all Iowans, 51.8 percent, live in families or households with children, with the vast majority of these being working families with children.[1]

Figure 1.1 Working Families in Iowa As Share of Population, 2000 Census
(Population by type of household)



See Appendix Table 1

The importance of working families to the Iowa economy also can be shown in terms of their overall contribution to the adult workforce. Working families with children provide 43.1 percent of the workers in Iowa's overall workforce, contributing 586,554 workers to Iowa's workforce of 1,360,080.[2]

Not only do Iowa families work hard; they are working more. One of the biggest changes in the paid workforce over the last three decades has been the increased participation of mothers. While 40.7 percent of mothers participated in the paid workforce in 1970, the proportion had grown to 80.8 percent by 2000. Among mothers with young children (0-5 years), the increase has been even more dramatic – from 29.9 percent in 1970 to 74.8 percent in 2000.[3] This increase in workforce participation has been a major contributor to growth in the state's, and country's, economy, but it also has created new demands upon families in terms of raising children.

Iowa leads the U.S. in the workforce participation rate of families with children. This can be shown in several ways:

- the percentage of families with children where both parents work, or the only parent works;
- the workforce participation of single parents with children, in particular; and
- the overall employment rate.

Definitions

In this report, ***"working families"*** are families where a parent in the household is engaged in work at least 39 weeks of the year.

"Poor families" are families with incomes below the poverty level.

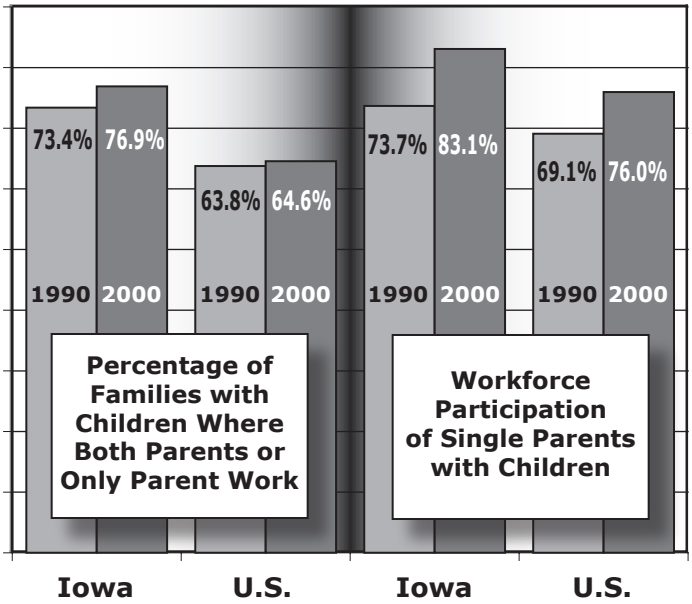
"Low-income families" are families with incomes below 200% of the poverty level.

Most low-income families struggle to meet basic needs in raising their children and cannot be considered economically ***self-sufficient.*** (See Page 5 for a discussion of economic self-sufficiency.)

Since 1990, the share of families where both parents work has increased in both Iowa and the U.S. In 2000, over three-quarters of all Iowa families with children fell into this category, well above the national average. The increase between 1990 and 2000 was led by single-parent families, whose work participation rose from 73.7 percent to 83.1 percent during that period.[4]

The high employment level among families with children in Iowa helps contribute to Iowa's overall low unemployment rate (4.8 percent in 2004), which consistently has been well below the national unemployment rate (5.5 percent in 2004).[5]

Figure 1.2. Working Parents in Iowa
Change from 1990 to 2000



See Appendix Table 2

While low unemployment represents a positive element of Iowa's economy, it also creates a challenge to economic growth in the state. It means that, to grow Iowa's economy, any or all of the following must occur:

- the current workforce must become more productive, primarily through increasing skills;
- people currently not working must join the workforce, with barriers to their entry addressed; or
- people currently not living in Iowa must be attracted to Iowa to work.

While this report will have a primary focus on the first of these issues, it will discuss the latter two in the context of Iowa families with children. In fact, Iowa has had very slow population growth over the last two decades, and the increase that has occurred can be attributed to immigration, particularly of an Hispanic population, with children leading the way in this greater diversity.

Low-Income Working Iowa Families

While many working families have good incomes, a substantial number are struggling. The percentage of Iowa's working families with incomes below the poverty level is about average among states, at 6.7 percent or 22,380 families. The percentage of working families with incomes below 200 percent of the poverty level is much higher, at 26.0 percent.[6] The full-page box on page 5 describes these income levels in terms of economic self-sufficiency, or the ability to make ends meet without outside help. As the one-page insert shows, most families need to earn at near the 200 percent of poverty level in order to be self-sufficient.

Not all poor and low-income families are working. Whether working or not, however, they are responsible for supporting their children. Society shares a responsibility in assuring children are cared for, which is why a number of means-tested public programs apply only to families with children.

In fact, three-quarters (76.6 percent) of all low-income and a majority (52.7 percent) of all poor

Self-Sufficiency and the Poverty Level

The official federal poverty level represents an income level at which families must struggle to get by, with most relying upon public support to meet at least part of their needs and experiencing significant hardships when faced with special economic needs.

The federal poverty level is determined by family size. At right is the 2003 federal poverty level and 200 percent of that level for different family sizes.[7]

	100%	200%
One person	$ 9,393	$ 18,786
Two persons	12,015	24,030
Three persons	14,680	29,360
Four persons	18,810	37,620
Five persons	22,245	44,490

Numerous studies have shown that the federal poverty level fails to reflect what families need to be economically self-sufficient – to meet their family's economic needs without outside government support. Researchers in many states have used available data on local living costs (e.g. housing, food, transportation, child care, health care) to calculate what families of different sizes and different child care needs require in order to meet basic needs and be economically self-sufficient. Iowa State University researchers, working for the Iowa Policy Project, produced the most recent estimates of the amount of income different Iowa working families need to be economically self-sufficient. These are shown below, varying primarily by the degree to which child care must be purchased to enable families to work.[8]

Family Description	2002 Income Needed	Pct. of 2002 Poverty Level
1 adult (F), 1 infant/toddler, 1 pre-K child	$27,600	190.4%
1 adult (F), 1 pre-K child, 1 school-age child	23,700	163.5
1 adult (F), 1 school-age child, 1 teen	20,400	140.7
2 adults (both work), 1 infant, 1 pre-K child	32,800	179.8
2 adults (both work), 1 pre-K child, 1 school-age child	30,000	164.4
2 adults (1 works outside home, 1 handles child care), 1 infant, 1 pre-K child	20,000	109.6

As the descriptions show, Iowa's working families require much more than poverty-level incomes to meet basic needs and be economically self-sufficient.

The public also recognizes the costs of raising families. A 2004 public opinion poll conducted for the Iowa Fiscal Partnership asked Iowa voters what amount of income a family of four needed "to make ends meet." Only 5 percent of those who responded indicated a family of four needed less than $25,000; 29 percent indicated between $25,000 and $35,000; 34 percent indicated between $35,000 and $45,000; and 32 percent indicated more than $45,000. The median response of between $35,000 and $45,000 is equivalent to earnings at 200 percent of poverty or above.[9]

State and federal government programs that are means-tested (e.g. use income and asset levels to determine eligibility) generally use higher eligibility cut-offs than the federal poverty level, including:

- **Food stamps** – 185 percent of poverty
- **Child Health Insurance Program (*hawk-i*)** – 200 percent of poverty; up to 250 percent of poverty if all income is from employment
- **Temporary Assistance for Needy Families** – up to 129 percent of poverty for working families where all income is derived from employment
- **Section 8 Housing subsidies** – 176 percent of poverty for family of four and 221 percent of poverty for family of two (Des Moines)
- **Free-and-Reduced Price Lunch School Program** – 185 percent of poverty
- **Child Care Subsidy Program** – 145 percent of poverty
- **Federal Earned Income Tax Credit** – actual credit up to 233 percent of poverty for single parent with one child and 206 percent of poverty for married couple with one child

This research and these statistics all point to the importance of examining state working family policies for their impact upon families at least up to 200 percent of the federal poverty level.

Iowa families with children are working families. Both these figures are well above national averages, again pointing to the fact that Iowans work hard. Yet despite work, families with children are more likely to be below 200 percent of poverty than are other working-age households. Over half of all individuals earning below 200 percent of poverty in Iowa come from working families with children.[10] As stated earlier, growing Iowa's economy requires developing strategies to enable Iowa families with children to be in the workforce and to earn enough to be economically self-sufficient. This requires a greater understanding of these poor and low-income families and their particular needs.

Low-Income Families in Iowa – Characteristics and Needs

Every family has unique needs as well as assets. There is no single program or service that will increase the self-sufficiency of all families with children. A variety of public services must be available to meet the needs of different families.

There are at least five important characteristics of low-income families in Iowa that deserve special discussion and statistical analysis. These are:

- the ages of the children;
- the number of parents in the household;
- the race and ethnicity of parent(s);
- the geographic location in the state;
- the education levels of the adults.

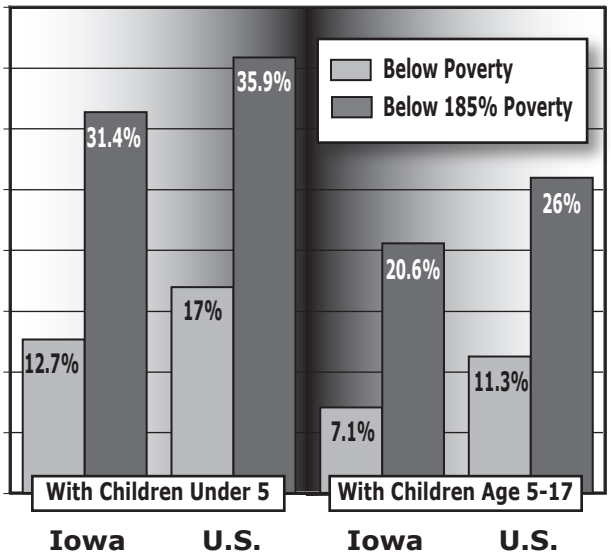
The first four are discussed below; the education level will be discussed in Chapter Two.

The Ages of Children. Families with young children (0-5 years) generally have lower incomes and more economic needs than families with only older children. First, the parents tend to be younger and newer to the workforce, at the beginning of their careers and in positions with commensurately lower salaries. Second, their young children demand more of their time and parents often must work fewer hours. Third, working generally requires that they secure child care for their children, which constitutes a significant additional cost (see the self-sufficiency discussion on page 5).

Families with young children are more likely to be below the poverty level and below 185 percent of the poverty level in both Iowa and in the country as a whole.[11] The implications of providing child care support for this group of families is discussed in more detail in Chapter Four.

Single Parenting. Single parents are faced with two demands – to be the primary wage-earners and the primary caregivers for their children. The enactment of welfare reform (Temporary Assistance for Needy Families, or TANF) in 1997 legislated this expectation of work.

Figure 1.3. Poverty Level
Families With Children, by Child Age



See Appendix Table 3

In fact, the workforce participation of single parents has increased over the last three decades, although at a lower rate than the increase in workforce participation of mothers in two-parent families. Most single parents work even when their children are very young, but are still more likely to be poor compared to two-parent families. In Iowa, the percentage of single-parent working families who live in poverty is 20.9 percent, almost eight times the rate for two-parent families.[12]

Table 1.1. Single-Parent Families and Poverty

	Percent of Families				In Poverty	
Head of Family	**1970**	**1980**	**1990**	**2000**	**1990**	**2000**
Two-Parent	91.1%	87.1%	81.4%	76.3%	6.3%	4.0%
Single-Parent	8.9%	12.9%	18.6%	23.7%	40.2%	26.3%

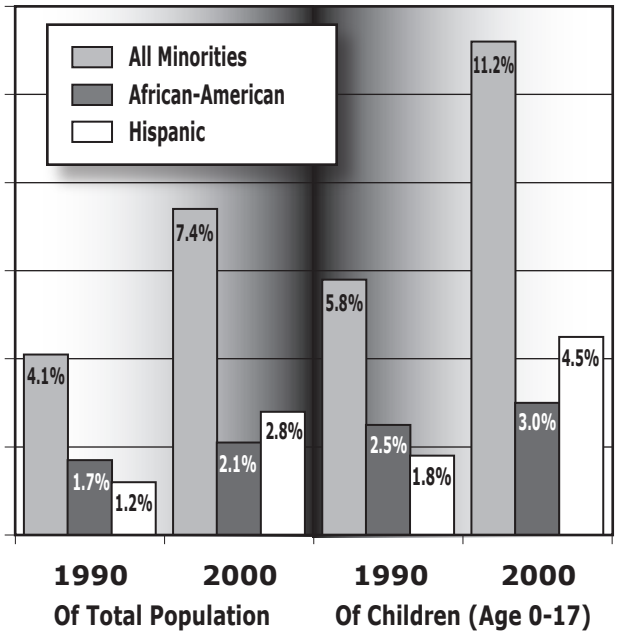
There has been a dramatic increase in the percentage of single parent families in Iowa, and these families are much more likely to live in poverty than their two-parent family counterparts (Table 1.1).[13]

Race and Ethnicity. While Iowa has been a relatively homogeneous state, this is changing. Iowa's population growth has been driven by an increase in the Hispanic population. Figure 1.4 below shows changes in Iowa's population, by race and ethnicity, from 1990 to 2000, for both the population as a whole and for children.[14] As the chart shows, the minority child population has nearly doubled over this period, to 1 in 8 children in the state. This has implications for both the adult workforce and the needs of working families of color to support their children, and to the education system and its needs to educate an increasingly diverse child population.

State population growth estimates between 2000 and 2003 show a continued rise of Iowa's Hispanic population, of 7.8 percent over that three-year period. Further, Iowa's white non-Hispanic population is older, while the Hispanic population has a much larger proportion of children and families. In 2003, for instance, the Hispanic population represented 3.1 percent of Iowa's total population, but 4.2 percent of families with children and 5.0 percent of children under 18.[15]

Working families headed by a minority are much more likely to be low-income than those headed by a white, non-Hispanic person. Over one-fourth, or 26 percent, of all working families headed by a white, non-Hispanic have incomes below 200 percent of poverty, compared with 44.9 percent of families headed by a minority.[16] In short, Iowa's families are becoming more diverse and present new challenges as well as new opportunities.

Figure 1.4. Iowa Minority Population
As Percentage of Population



Also see Appendix Table 4

Geography. Job growth and opportunity do not occur evenly across the state or the country. In fact, there are significant differences in the availability of employment and in the proportion of poor and low-income working families. One way to examine these geographic differences is to look at the proportion of working families earning below poverty by county. Table 1.2 below provides a composite percentage for the nine counties with population centers of 50,000 or more (metropolitan), the 45 counties with population centers of 5,000 to 49,999 (small urban), and the 45 counties with no population center above 4,999 (rural). As the table shows, Iowa's rural and small urban counties have the highest proportion of families with incomes below poverty.[17]

Table 1.2. Location of Working Families With Children
By County Size, 2000

	Working Families	Below Poverty	Percentage
Rural	117,211	5,622	4.8%
Small Urban	255,379	12,401	4.9%
Metropolitan	293,723	13,232	4.5%
State Total	666,313	31,255	4.7%
Polk County			
Non-Inner City	79,127	2,254	2.8%
Inner-City	6,775	1,091	16.1%

That only tells part of the story, however. The more metropolitan counties have substantial variations by census tract. Inner-city census tracts, which also have high levels of diversity, have very high proportions of working poor families – even higher than rural communities. For instance, in Polk County, a set of 12 census tracts that constitute Des Moines' inner-city represent 11.1 percent of the county's population, but have a much higher share of families with incomes below poverty. The census tracts in Iowa with demographics that make them most challenging for families to successfully raise their children are primarily located in inner-city neighborhoods in five Iowa cities – Council Bluffs, Davenport, Des Moines, Sioux City and Waterloo.[18]

In developing workforce strategies, Iowa needs to pay attention both to higher wage employment within rural communities and strategies to improve access to higher-paying employment for inner-city residents in metropolitan counties.

Conclusion and Take-Away Messages

If Iowa's economy is to grow, in large measure it will be the result of its working families. Iowa's working families represent the bedrock of the state's economy and its future economic growth.

Yet despite work, too many families struggle to make ends meet. This is particularly true for young families, single parent families, minority families, and rural and inner-city families. Iowa families work hard, and Iowa is a leader in family workforce participation. At the same time, Iowa's working parents need to strengthen their skills, earnings and ability to compete in the workforce. This requires a special focus within three areas of public policy:

- The adult and post-secondary education and training system;
- The state's economic development programs and strategies;
- The work support systems that enable families to meet their dual roles of bread-winner and care-giver.

These are the topics of the next three chapters of this report.

Chapter 2.

Working Families: Education and Training Opportunities

Introduction

Over the last decade, two issues have received the highest prominence in Iowa policy making – education and economic development. These issues are directly connected. The bipartisan policy goals established for Iowa over the last decade have included both a more educated and skilled workforce, and economic expansion within high-wage sectors of the economy.

The Iowa Business Council's 2000 Commission Report emphasized the demand and need for a more highly skilled workforce in Iowa.[19] The Iowa Association of Business and Industry's survey of its membership also showed a strong demand for entry-level workers.[20] The Governor's 21st Century Workforce Council similarly estimated that Iowa needed 54,600 new and replacement workers between 2000 and 2006, but noted Iowa has not been growing its workforce fast enough to meet this demand.[21] The economic development community continues to emphasize the need for an expanded and a more skilled labor pool. Governor Vilsack has called for action through the Iowa Learns Council to ensure that 90 percent of Iowans pursue post-secondary education – arguing it is necessary to build Iowa's economy.[22]

Efforts to develop a more educated and skilled workforce include raising the education levels of Iowa youth and, once they are educated, keeping them within the state. Still, it is important to remember that the majority of Iowa's future workforce already is here and working – those now age 25-44 comprise 34.3 percent of Iowa's current workforce, and most will remain in the workforce for the next 20 years.[23]

This chapter describes the education and earnings status of the adult working-age population (25-64), the majority of whom are part of working families with children. It goes on to describe Iowa's education and training programs and policies for this population.

The Adult Workforce and Education

The 25-64 population forms the lion's share of any state's workforce. While only 52.7 percent of Iowa's total population, the 1.5 million individuals in the 25-64 age group potentially represent 66.6 percent of the state's workforce.[24]

Iowans generally take pride in the quality of

Table 2.1. Iowa and U.S. Educational Attainment
Age 25-64

	Iowa		United States	
	Number	Percent	Number	Percent
Total Age 25-64	1,479,241		150,498,956	
Less Than High School Diploma	122,569	8.3%	20,297,155	13.5%
High School Diploma/GED	508,175	34.4	43,439,391	28.9
Some College, No Degree	328,996	22.2	31,898,206	21.2
Associate Degree	152,905	10.3	11,825,487	7.9
Bachelor's Degree	259,153	17.5	27,709,564	18.4
Graduate or Professional Degree	107,443	7.3	15,329,153	10.2

the state's educational system, which ranks near the top in the country on many educational indicators, such as literacy rates and high-school completion rates. As the table below shows, a comparison of Iowa's 25-64 population with that of the nation shows a high level of basic education achievement.[25] Only 8.3 percent of Iowans have less than a high-school diploma or general education diploma (GED) compared with a national figure of 13.5 percent.

At the same time, Iowa mirrors the rest of the United States in the percentage of its adult working age population with only a high school diploma or less – 42.6 percent of all 25-64 year-olds compared with 42.4 percent nationally. However, Iowa lags nationally in the proportion of adults with a bachelor's degree. While 28.6 percent of the country's 25- to 64-year-olds have college degrees, only 24.8 percent of Iowans do. Closing that gap of 3.8 percent would require that 56,211 more Iowans from the current 25-64 population obtain undergraduate degrees.

There also are gaps within Iowa by race and ethnicity. White, non-Hispanic Iowans are twice as likely to have bachelor's degrees as Hispanic Iowans and one-and-a-half times as likely to have bachelor's degrees as African-American Iowans.[26]

Education is a very important issue for working families, as national data show that education is the best predictor of adult earnings and the ability of families to support themselves and their children.[27] Further, the only education level at which earnings have risen relative to inflation over the last 30 years has been at the college-degree level. Between 1973 and 2000, the average earnings for a worker with a high-school diploma declined by 3.2 percent in real dollars (from $26,628 to $25,784), while the average earnings for a college graduate rose by 16.0 percent (from $38,823 to $45,029).[28]

One of the reasons for the gaps in Iowa's college-educated workforce is that many young Iowans leave the state after getting a college degree. For this reason, there has been a significant emphasis in economic development circles on keeping recent college graduates in Iowa or luring young adults and families back to the state. Yet, even with more success in retaining college-educated Iowans in the state, the gaps described here will not be significantly closed unless there are efforts to expand the skills and education of families currently working in the state. This is particularly important for low-income families.

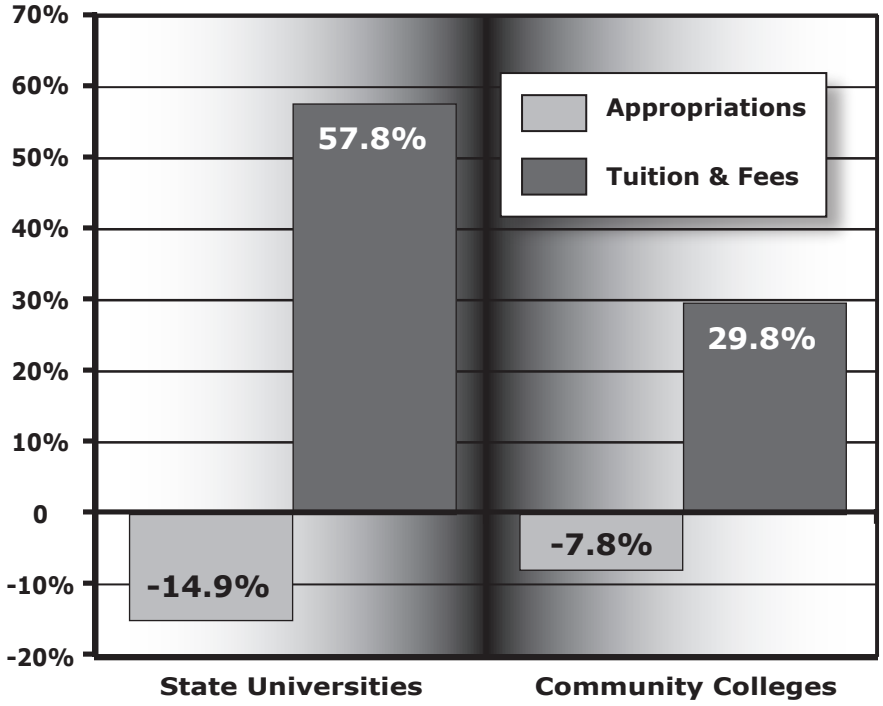
Iowa Programs and Policies Supporting Education and Career Skills Development

Iowa has three state universities, 15 community colleges and 37 private colleges and universities. The state government supports these institutions through direct appropriations to universities and community colleges, and through a tuition assistance program that supports student attendance at private colleges. (There also is a property tax levy for the community college system.) This higher education system is open to and used by people of all ages, although the majority of undergraduates at universities and private colleges are young adults (18-24) who recently completed high school.

Historically, state support for higher education has kept tuition low for in-state students. Budget cutbacks in the last few years, however, have resulted in increases in state tuition at community colleges and the three Regent institutions, as shown in Figure 2.1.[29] As a result, Iowa's community college system now has the third-highest tuition when compared to rates in surrounding

states. When compared with national tuition rates, Iowa's community college system is now 73 percent above the average, and the tuition at the three Regent institutions has moved from well below the average to above average.[30] In short, public higher education has become less affordable, particularly for students from lower income backgrounds.

Figure 2.1. Appropriations Down, Tuitions Up
Iowa General Fund Support, Student Tuition, 2001-04



Also see Appendix Table 5

The community college system serves as the first undergraduate experience for many high school graduates. In 2004, 68.5 percent of all freshmen enrolled in post-secondary education in Iowa did so at a community college, compared with 31.5 percent at a state or private college or university.[31] The community college system likely has an even higher percentage enrollment for youth coming from low-income families. This makes the community college system particularly important in examining educational opportunities as they relate to working, low-wage families.

Adult Education and Workforce Policies and Performance

In addition to general state support for post-secondary education, there are a number of state and federal programs designed to serve adults interested in developing skills and furthering their careers. Most of these are directly focused on low-wage working family members. These include both educational programs and specific workforce training programs.

In Iowa, the community college system provides the principal avenue for adults (25-64) to receive post-secondary instruction for a credential or associate degree. This includes federal programs such as Carl Perkins funding and adult basic education and literacy programs.

Both the community college system and Iowa Workforce Development provide job-specific training programs. The Iowa community college system also has developed a wide array of training programs specifically for Iowa businesses through the 260 program, the single largest public investment in training and education for the adult workforce in the state. Iowa Workforce Development supports regional workforce centers that administer federal Wagner-Peyser funds, displaced worker, adult and youth workforce investment action funds, and Temporary Assistance for Needy Families (TANF) funds for job search and training for welfare families, known in Iowa as PROMISE JOBS.

These programs, their general size and any special focus they have on low-income working families are described below.

The Perkins Act

The Perkins Act provides vocational and technical education to prepare individuals for employment in current and emerging occupations that do not require a baccalaureate or advanced degree. The program is designed to serve both youth in secondary education programs and adults returning for additional training. Programs include competency-based applied learning, which contributes to an individual's academic knowledge, higher-order reasoning, problem solving skills, and occupational-specific skills.

In 2004, Perkins Act funding flowed to all 367 Iowa local school districts and to Iowa's 15 community colleges. Over 93,000 students enroll in the secondary vocational programs, and 37,143 enroll in post-secondary community college programs. These students represent 32 percent of the total credit enrollment at community colleges. The latter group is more likely to include adults and working family members. In Fiscal Year 2004, the Perkins Act appropriation for Iowa was $14.1 million.[32]

Adult Literacy Program

The three main parts of the Adult Literacy Program include: GED programs; high-school diploma completion (which can only be accessed by drop-outs over the age of 18); and English-as-a-Second Language (ESL) programs for non-English speakers.

In 2004, the Adult Literacy Program served a total of 12,242 students -- 6,053 in Adult Basic Education (GED programs); 2,345 in Adult Secondary Education (high-school diploma completion) and 3,844 in ESL for non-English speakers. Many of the services of this program are provided by Iowa's community colleges. In Fiscal Year 2004, the Adult Literacy Program appropriation was $4.2 million.[33]

Workforce Investment Act (WIA) Programs

There are three Workforce Investment Act (WIA) programs: the adult program, the youth program and the dislocated workers program. The youth program is not described here, as it serves 14-21 year-old youth. The other programs focus upon the adult population, which includes many members of working families. Each has the goal of increasing occupational and education skills to help individuals find and keep a job, earn higher wages, and reduce their welfare dependency.

The purpose of the WIA Adult Program is to prepare adults (22 and older) for participation in the labor force by increasing their occupational and educational skills, resulting in improved long-term employability, increased earnings, and reduced welfare dependency. In Fiscal Year 2005, the WIA Adult Program appropriation was $3.4 million.[34]

The purpose of the WIA Dislocated Workers Program is to provide retraining and re-employment services to individuals who have been dislocated from their jobs and to displaced homemakers. In Fiscal Year 2005, the WIA Dislocated Workers Program appropriation was $4.1 million.[35]

PROMISE JOBS

PROMISE JOBS is the employment and training program for the Temporary Assistance for Needy Families (TANF) Family Investment Program (FIP) recipients. In order for Iowa to continue to receive the federal TANF block grant, it must achieve a minimum rate of participation in its work programs. PROMISE JOBS serves people in poverty with children, primarily single mothers. TANF, as a result of the Welfare Reform Law of 1996, replaced the Aid to Families with Dependent Children (AFDC) program on July 1, 1997. This legislation created new expectations for families with children to move quickly into the workforce.

The PROMISE JOBS program promotes independence and self-sufficiency through employment and enhancing basic works skills. Every FIP participant is assessed for the skills and training they need. The services they receive are then tailored to their individual needs.

PROMISE JOBS employment, training and family support activities include job search classes, unpaid community service, monitored employment, self-employment, high-school completion, GED and ESL classes, post-secondary and short-term vocational training, and training in life skills and parenting.

In Fiscal Year 2005, Iowa spent $17.5 million on the PROMISE JOBS Program. Federal funding accounted for $10.7 million while the state funding was $6.8 million. PROMISE JOBS served an average monthly caseload of 17,101 adults.[36]

Eligibility for all the programs described to this point is based upon some type of need on the part of the individual receiving the training or educational support, either economic or educational. The remaining major set of education and training programs, described below, however, is structured very differently.

Community College-Based Workforce Training Programs (260E, F, G Programs)

Iowa has a unique set of three employer-directed job-training programs that have been created by the Iowa General Assembly over the past 25 years. These three job-training programs serve different employment issues, but share a common funding mechanism – the issuance of revenue bonds paid off through the diversion of employee state income tax withholding that otherwise would be paid to the state. In effect, they represent an open-ended draw upon the state treasury, like an appropriation of state funds. Unlike appropriations, however, they do not require annual legislative action, as do direct appropriations. All three programs are delivered through Iowa's 15 community colleges.

Established in 1983, the Iowa Industrial New Jobs Training Program (260E) is the largest of these and assists businesses that are creating new jobs in Iowa. The community college enters into an agreement with the business on directly providing or financing a set of training supports and wage supplements to cover part of the employee's salary while in training.

Training funds can be used to pay for 100 percent of any direct training expenses either by the community college, the employer, or an outside trainer. The community college also receives funding for the issuance of the bonds and for administration and management.

The cost of the 260E program varies from year to year, depending upon the deals individual community colleges negotiate with businesses. In Fiscal Year 2004, community colleges issued $26.6 million in bonds for the 260E program.[37]

A measure more reflective of the actual cost of the program to the state treasury is that related to the actual credits of withholding paid by companies to community colleges. For the most recent four quarters, this figure was $42.2 million.[38] The breakdown of expenditures for all active 260E projects during FY2004 is provided below:

- Community college training – 13.0 percent
- Company training – 20.9 percent
- Contract training – 11.4 percent
- On the job training/wage subsidies – 31.7 percent
- Community college program administration – 23.1 percent[39]

Established in 1985, the Iowa Jobs Training Program (260F) supports growth and competitiveness in Iowa's business and industry by increasing workforce skills and expertise. The major emphasis of this program is customized training for current employees. The Iowa Jobs Training Program has a similar funding mechanism to the Iowa Industrial New Jobs Training Program. In 2003, Iowa businesses claimed $6.0 million in credits through the 260F program.[40]

A third program, the Accelerated Career Education Program (260G), was established to assist Iowa's community colleges to either establish or expand programs that train individuals in the occupations most needed by Iowa businesses. The goal of the program is to build a more skilled workforce in Iowa. In 2004, the 260G Program was capped at $4.0 million; Iowa businesses claimed $3.9 million in credits.[41]

The total federal and state investments in the work and training aspects of these programs is shown in Table 2.2. Neither the wage subsidies nor the community college administration and management share of the 260E program are included in these figures, as they do not represent training, per se.

Table 2.2. Workforce Development Programs
In Millions

FY2004	The Perkins Act	$14.1
FY2004	Adult Literacy Program	4.2
FY2005	Workforce Investment Act – Adult	3.4
FY2005	Workforce Investment Act – Displaced Worker	4.1
FY2005	PROMISE JOBS	17.5
FY2004	Iowa Industrial New Jobs Training Program (260E)	26.6*
FY2003	Iowa Jobs Training Program (260F)	6.0
FY2004	Accelerated Career Education Program (ACE 260G)	3.9
	TOTAL	**$79.8**

** Does not include wage subsidies/on-the-job training under the 260E program (included in economic development program incentives in Chapter 3). See Also Appendix Table 10.*

As the Table 2.2 shows, $79.8 million is invested in this array of workforce and training programs, with nearly half ($36.5 million or 45.7 percent) provided through the 260 programs. While the other programs all have some eligibility guidelines or directions that focus upon low-income and less-skilled individuals, the 260 programs have no such criteria.

This figure of $79.8 million translates to a per Iowa adult investment of $58. It translates into an investment of $127 for each of the 630,744 Iowa adults (25 to 64) with a high-school diploma or less. This $127 figure can be contrasted with educational investments in the elementary and secondary (K-12) and higher education years. A 2003 study of Iowa's investment in the education and development of children and youth by child age showed that, on a per child or youth basis, federal, state and school district investments in Iowa were:

- $5,302 for each school-aged youth (6-18 year-olds)
- $3,347 for each college-aged youth (19-23 year-olds)
- $127 for each working-aged adult (25-64) with a high-school diploma or less.[42]

While society generally recognizes a much greater obligation to the education and development of children than adults, these figures show the very small amount of resources that Iowa currently devotes to adult education and training. At the same time, if Iowa is to raise its workforce skill levels substantially over the next two decades, it cannot achieve this simply by seeking to improve youth's entry into and completion of post-secondary education programs. The majority of the workforce 20 years from now is in the workforce today, and Iowa's growth depends in part on improving the skill and education level of these adult workers, a majority of whom are breadwinners in working families.

Conclusion and Recommendations

The data presented in this chapter paint a sober picture for the development of a more skilled workforce in Iowa, although that is what is most likely to be needed for future economic growth.

Recent tuition increases at both the state Regent institutions and the community colleges have made higher education less affordable and accessible to the general population.

At the same time, the overall investment in work and training programs for the current working age population remains very modest, although this adult working age population will need more training and skills if Iowa is to grow and develop. This is particularly true as Iowa's own adult population becomes more diverse.

The 260 programs initiated by the state over two decades ago represent the largest single investment in education and training for the working age population, but operate more as economic development incentives for business than as training and skill enhancement programs for workers. The very structure of these programs lacks traditional accountability and oversight. Although 260 programs essentially expend tax dollars, they do not go through the state appropriations process nor do they need to justify themselves in terms of providing a public benefit.

The 260 programs have been very popular with community colleges as a means of reaching out to business and securing additional resources and training opportunities. At the same time, the approximately $37 million annual cost they represent to the state treasury might be more effectively deployed in other ways to improve workforce preparation and development.

At a minimum, the 260 programs need to have more transparency and oversight regarding the populations they serve and the types of training they actually provide. The business community generally acknowledges that businesses can and should cover the costs of training activities specific to the business's own unique needs, with government's responsibility that of general workforce development in terms of education and overall workforce skills. The $37 million might be much better directed toward these ends than through the mechanism established for the 260 programs, and a larger share might go directly to community college instruction and support to more specifically focus upon workers with the greatest needs for skill development. The effectiveness of Iowa's current workforce development efforts might be greatly enhanced by a restructuring of the 260 programs and redirecting the significant investments made in them.

Chapter 3.

Economic Development

Introduction – Challenges to Economic Growth

Iowa's economy has changed dramatically throughout the last century. While Iowa has half of the country's most prime agricultural land and is the nation's leading producer of corn and soybeans, the size of the agricultural workforce has declined. Technology has enabled the land to be farmed by fewer workers, and a variety of policies have moved some of the livestock industry – both raising and slaughtering – out of the state. Further, both improved transportation and the declining farm population have impacted small towns. Rural residents do much more of their own business outside the small towns they once helped support, driving to shopping malls in larger communities and purchasing supplies through national and international retailers. While agriculture remains a key part of Iowa's economy, it does not support the rural workforce it once did.

This is reflected in an aging and declining population in most of rural Iowa, with an overall population shift to more urban areas of the state. In large part as a result of this decline, Iowa's overall population growth ranks near last in the country and the estimates are for continued population decline in rural parts of the state, absent major changes in economic growth and development. As Table 3.1 shows, Iowa had virtually no growth in population between 1980 and 2000, while the United States as a whole grew by nearly one-quarter. Iowa's gross state product grew by 30.6 percent, but well below the growth rate for the gross domestic product of 80.8 percent, and at a much slower rate even when adjustments are made for population. Iowa also experienced a significant shift in the farm economy to fewer family farms.

Table 3.1. Change in Iowa and the U.S., 1980-2000
Population, Gross Domestic/State Product, and Number of Farms

	Iowa		United States	
	1980	**2000**	**1980**	**2000**
Population	2,913,808	2,926,324	226,545,805	281,421,906
Growth		+0.4%		+24.2%
Gross Product Billions $	68.6	89.6	5,508.3	9,958.7
Growth		+30.6%		+80.8%
	1982	**2002**	**1982**	**2002**
No. Farms	115,413	90,655	2,240,976	2,128,982
Change		-21.5%		-5.0%

Also see Appendix Tables 6-8

While some of the stagnation in population growth over this period is the result of Iowa's rural character, that does not explain everything. Between 1990 and 2000, Iowa experienced some population growth that offset the population loss between 1980 and 1990. Even in the more metropolitan areas, however, Iowa's overall economy has been concentrated in what has been considered the old economy. Over this decade, Iowa's population growth in both rural and urban areas has lagged behind neighboring states. Between 1990 and 2000, Iowa's population

in its rural counties increased 2.2 percent, while the states surrounding Iowa had increases ranging from 2.9 percent to 10.1 percent in their rural counties. In urban areas, Iowa's population increased 9.2 percent with the neighboring states increasing in the 9.5 percent to 15.4 percent range.[43] In short, Iowa's slow growth is partly attributable to demographics related to Iowa's rural character.

In order to grow and prosper during the 21st century, Iowa will require both a more skilled and educated workforce, and a private sector that employs that skilled and educated workforce, particularly in new information- and technology-oriented industries. Chapter Two described the "supply side" of this economic development coin – building the skills of the workforce. This chapter describes current activities to create the "demand side" – building the highly skilled employment base. In both instances, however, these activities must recognize that a major share of the challenge must focus upon increasing both the skills and job prospects for current low-income working Iowa families currently contributing to the economy.

State Economic Development Activities

Over the last decade, Iowa policy makers have enacted a broad range of policies and economic incentives to spur economic growth. These have included a number of tax incentives as well as a number of specific economic development program grants. Once enacted, many of these policies, particularly the tax incentives, have been subject to very limited ongoing review and oversight. Moreover, there has not been a systematic effort to compile all these efforts into an overall picture of state economic incentives and investments, and to assess whether they collectively work together or produce real results. In almost all instances, they have not been examined in terms of their impact upon working families, let alone low-income working families. This section describes most of the major economic development policy incentives in Iowa and begins to put together an overall picture of the size of the investments being made. It starts with tax policies and goes on to examine economic development programs.

State Income Tax Credits

The Iowa General Assembly has created a variety of economic development tax incentives to create and retain jobs. These include a number of refundable tax credits. The major economic development tax credits include:

- New Jobs and Income Program (NJIP)
- Iowa New Jobs Credit
- New Capital Investment Program
- Research Activities Credit
- Enterprise Zone Program
- Housing Enterprise Zone Program
- Venture Capital Credit – Investments in Qualifying Business and Seed Capital Funds
- Venture Capital Credit – Investments in Venture Capital Funds
- Venture Capital Credit – Contingent Tax Credit for Investments in Iowa Fund of Funds
- Wage-Benefit Tax Credit
- Economic Development Region Revolving Fund Tax Credit
- High Quality Job Creation Program

Most of these tax credits have been established in the last decade, as the state has focused

more of its resources on use of the tax code rather than direct expenditure programs to stimulate economic development. The total state expenditure for these tax credits is estimated to be almost $155 million annually.[44] None are targeted to the low-wage sector of the job market and few have any disclosure and accountability provisions.

The $155 million estimate covers only the cost of credits taken by Iowa businesses that are incorporated as C-Corporations and pay Iowa corporate income tax (see Table 3.2). Yet most of these tax credits also are available to individuals who receive income from Limited Liability Corporations (LLC's), Partnerships, S-Corporations and proprietorships, and who pay taxes under the individual income tax. Therefore, the $155 million underestimates the total size of the investment being made since it excludes credits utilized by these other forms of business organization, the so-called "pass-through entities." In addition, other changes to tax law, such as repeal of the insurance premium tax, have been established as necessary to retain business in the state. The repeal of the premium tax represents a $120 million reduction in state revenues.

Table 3.2. Tax Credit Programs in Iowa
In Millions of Dollars

FY2005	New Jobs and Income Program	$ 45.5
FY2005	Iowa New Jobs Credit (under 260E)	2.4
FY2005	New Capital Investment Program	18.4
FY2003	Research Activities Credit	31.8
FY2005	Enterprise Zone Program	45.8
FY2005	Housing Enterprise Zone Program	10.5
FY2006	Venture Capital Credit – Investments in Qualifying Business and Seed Capital Funds	0.3
FY2006	Venture Capital Credit – Investments in Venture Capital Funds	0.2
FY2005	Venture Capital Credit – Investments in Iowa Fund of Funds	NA
TOTAL		$154.9
New Program	Wage-Benefit Tax Credit	10.0
New Program	Economic Development Region Revolving Fund Tax Credit	2.0
New Program	High Quality Job Creation Program	NA

Same as Appendix Table 9

Some of these tax credits were established based upon estimates of their costs to the treasury which did not reflect their actual use and overall costs. For instance, the refundable research activities credit, when enacted, was projected to result in costs to the state treasury of $6 million annually. In 2003, the cost of that credit was $31.8 million, and in one instance a check was issued to a corporation in the amount of $11 million over and above the corporation's tax liability, in effect a state grant to that corporation.[45]

Tax Increment Financing Districts

In addition to state tax credits, the state also provides the option for local governments to provide tax incentives through Tax Increment Financing (TIF), first established in 1979, but subsequently modified and expanded. Cities and counties can establish specific geographic areas within their boundaries as TIF districts, and then can use the property tax revenue from the subsequent increase in assessed value within the district to provide abatements or rebates to developers in the district. Originally, TIFs were designed for "blighted" areas in need of re-development, but in recent years they have been used much more broadly. Currently, $181 million in increased property tax valuation is being diverted by elected city councils and

county boards to pay for local and regional economic development projects through TIFs.[46] There is very little oversight of local decisions that create Tax Increment Financing districts or the decisions about how the redirected property taxes are spent to promote economic development. While the geographic area for TIFs may be designated as low-income, the TIFs themselves may do little to create economic activity that benefit the low-income residents in the TIF, nor is such an objective part of TIF oversight or expectation.[47]

Economic Development Programs

Over the last decade, Iowa has established a wide variety of economic development programs aimed at creating new jobs and retaining existing jobs. They range from direct cash assistance and grants to loans and forgivable loans.

Table 3.3. Economic Development Programs in Iowa
In Millions of Dollars

FY2003/04	Grow Iowa Values Fund	$ 50.0
FY2004	Community Economic Betterment Account (CEBA)	5.3
FY2005	Community Development Block Grants – Econ. Dev.	3.5
FY2004	Revitalize Iowa's Sound Economy (RISE)	20.5
FY2005	Physical Infrastructure Assistance Program	5.2
FY2005	Value-Added Agricultural Products and Processes Financial Assistance Program	3.7
FY2005est.	Wage subsidy aspects of 260E program	13.0
TOTAL		$101.2

Iowa's major state economic development programs are described in Table 3.3. State spending on these economic development programs amounts to over $100 million annually, with the wage subsidies from the 260E program (see Chapter Two) included.[48]

Grow Iowa Values Fund. The largest direct economic development program in Iowa is the Grow Iowa Values Fund (GIVF). Created in 2003, the GIVF provides direct financial assistance to companies. The GIVF also makes appropriations for several other purposes that enhance quality of life in Iowa communities.

The purpose of the Grow Iowa Values Fund is to grow Iowa's economy, create jobs and help generate wealth for Iowans. While its stated emphasis is upon higher wages and "new economy" jobs, some of its investments have been directed to retaining existing businesses and "old economy" employers.

The GIVF provides support for business development and assistance, university research and development, workforce training, regulatory assistance, regional economic development, historic preservation, cultural entertainment, quality of life and tax incentives.

Community Economic Betterment Account. The purpose of the Community Economic Betterment Account (CEBA) program is to increase the employment opportunities for Iowans by stimulating economic development in the state. The program provides loans and forgivable loans to companies to create new jobs and retain existing jobs that are in jeopardy of being lost to the state.

Community Development Block Grants. The Iowa Community Development Block Grant (CDBG) program provides grants to cities and counties for a variety of purposes, including public facilities, housing rehabilitation, neighborhood revitalization and economic development.

Revitalize Iowa's Sound Economy Project. The Revitalize Iowa's Sound Economy (RISE) Project fund was created by the Iowa General Assembly in 1985 to assist in promoting economic development in Iowa through the construction or improvement of Iowa roads.

Physical Infrastructure Assistance Program. In 1996, the Iowa General Assembly passed enabling legislation to implement the Physical Infrastructure Assistance Program (PIAP) to provide financial assistance for the physical infrastructure necessary to aid in community and/or business development or redevelopment projects which involve substantial capital investment and provide the opportunity for creating quality, high-wage jobs.

Value-Added Agricultural Products and Processes Financial Assistance Program. The purpose of the Value-Added Agricultural Products and Processes Financial Assistance Program (VAAPFAP) is to support the increased utilization of agricultural commodities produced in Iowa. The program provides financial assistance to new and innovative value-added agricultural businesses and to renewable fuel facilities.

Taken together, the size of the tax incentives and government programs targeted to business growth and development dwarf those investments in adult workforce training and education. As Table 3.4 shows, the combined public expenditures on economic development incentives is well over $400 million annually. These represent a potpourri of economic breaks for businesses.

Table 3.4. Economic Development Incentives to Businesses in Iowa

Tax Credit Programs	$154.9 Million
Tax Increment Financing	181.0 Million
Economic Development Programs	101.2 Million
TOTAL	$437.1 Million

[Note: This does not include other tax expenditures and tax law changes promoted as needed to support economic development, such as the phase-out of the premium tax ($120 million), changes to Iowa's personal income tax in rates and capital gains treatment ($150 million+), and changes to Iowa's corporate income tax ($50 million+). It includes only a small portion of the 260 programs ($13 million for wage subsidies of the overall $50 million program.]

As has been noted in the individual descriptions, a few of these programs do have targets for higher-wage employment or stress growth and development in the new, higher-tech economy. None, however, have goals or expectations related to increasing skills and wages for those currently in low-wage employment. This is true even for Tax Increment Financing districts, where eligibility is defined on the basis of a district's economic distress, since the TIF funds need not be used to benefit the residents in the district experiencing that distress.

Conclusions and Recommendations

In all, as this chapter and the previous chapter have shown, there are at least six economic development programs, 10 tax credits and seven job training and skill enhancement programs designed to stimulate economic growth through providing direct financial incentives to business. Further, an individual business is eligible to receive benefits from several programs at once. In fact, the Department of Economic Development often helps businesses in putting together packages of incentives from this array of programs and tax credits to maximize their use.

At the same time, there is no comprehensive tracking system to determine what any individual business has applied for or received in public expenditures for job creation or worker training.

There is no system for tracking how companies make use of the different programs or how workers benefit as a result of these programs. Tax expenditures are not subject to annual review by the General Assembly nor is information available publicly on which businesses use these tax incentives.

While there is some tracking of job creation and job retention promises made by businesses receiving assistance on an individual program basis, there is very little accountability. In particular, there is little by which to assess the costs and benefits of any of these public expenditures.

Technology, however, has made tracking such information a great deal easier. The Iowa Department of Revenue and Finance is working to establish a new tracking system to capture information on what individual companies are requesting and receiving in state tax credits, although it will require legislative action for this information to be publicly available. In time, the Department hopes to develop a system to track tax credits and assistance from other economic development programs by individual tax filer. Some states have adopted "transparency" legislation that makes public the use of specific tax incentives by tax filers, so their benefits to society (as opposed to the individual business or filer) can be examined.

The investments on the business (demand) side of the economic development coin clearly dwarf those made on the workforce development (supply) side. This imbalance needs to be reviewed. First, there needs to be substantially more transparency in economic development incentives provided by the state. Second, the state needs to examine the impact of these incentives on those who most need increased economic opportunity: working low-income families with children. Third, the state needs to provide greater accountability for investments that are made, in terms of their overall economic impact and their particular impact upon low-income workers.

Chapter 4.

Supports for Working Families

Introduction: The Structure of the Economy and the Presence of Low-Wage Jobs

While there is good reason for Iowa to seek to increase the number and proportion of highly skilled workers and high-wage and high-skilled jobs in Iowa, there still will be a substantial number of low-wage jobs (see box at right) as part of any economy. Some of these will be held by those beginning their careers as entry level workers. Others will be filled by those not equipped to move into higher wage positions.

Workers in these positions still need to be able to earn enough to raise families. Low-wage jobs cover a wide range of occupations that provide many goods and services used by many Americans. One role of government is to provide sufficient supports so parents who work full-time can meet their families' basic needs. This is particularly true in light of federal welfare reform and the expectation that parents of children be in the workforce, even when their children are very young.

Low-Wage Jobs

A low wage is defined here as a wage below the full-time, full-year wage required to keep a family of four out of poverty. In 2004, a family of four required $19,307 annually (or $9.28 per hour) to stay out of poverty. Clearly, there is no direct translation from specific wage levels to what an individual family needs to be economically self-sufficient, because:

- The availability of benefits, particularly health benefits, contributes to the family economic self-sufficiency;
- Families of different sizes require different incomes;
- Two-parent families have the opportunity for two workers to contribute to family income and self-sufficiency; and
- Living costs vary by state and community.

The figure selected here of $9.28 per hour is useful, however, for showing the general structure of the wage economy and for comparing Iowa's wage picture with other states.

Table 4.1 shows (Page 24), for both Iowa and the nation, the median hourly wages for eight of the largest low-wage occupations, along with the numbers and percentages of the workforce in these occupations. Collectively, these low-wage occupations account for 20.5 percent of all Iowa jobs.[49] Several of the care-giving occupations – home health worker, nursing home attendant and child-care worker – fall within these occupations, employ a good share of workers, and will remain particularly important to Iowa's economy due to Iowa's aging population.

These low-wage occupations provide many of the hands-on services that Iowans and Americans count on in their daily lives. They are unlikely to be replaced through technology and they cannot be transferred overseas. They are fundamental to society and the economy. The challenge is to assure that persons holding these jobs receive sufficient support so that they also can raise their children well.

Work Supports

There are a number of ways that public policies can support workers in low-wage occupations. Four of the most important are discussed below:

- Child-care subsidies
- Health-care coverage and benefits
- Unemployment compensation benefits
- Tax policies

Table 4.1. Occupations and Income
Largest Low-Wage Occupations, Iowa and U.S.*

	Iowa		United States	
Occupation	Number Employed	Median Wage/Hr.	Number Employed	Median Wage/Hr.
Cashiers	38,110	$ 7.35	3,438,070	$7.81
Food Preparation	121,660	6.96	10,507,390	7.58
Home Health Aides	8,850	8.97	596,330	8.81
Maids/Housekeeping	10,100	8.08	880,150	8.13
Janitors/Building Cl.	24,500	8.96	2,103,490	9.04
Packers/Packagers	9,330	8.30	872,260	8.25
Retail Salespersons	46,060	8.40	4,130,470	8.98
Personal Care, incl. Child Care	33,710	8.02	3,099,550	8.68
Subtotal	292,320	$ 8.13	25,627,710	$8.41
All Occupations	1,423,170	$12.53	128,127,360	$13.83
Low Wage as % Of All Occupations	20.5%		20.0%	

**Bureau of Labor Statistics data*

Child Care Subsidies. Parents with young children tend to be younger parents at the lower end of the wage scale. As Chapter One showed, families with young children (0-4) are more likely to have incomes less than 185 percent of poverty than families with older children (31.4 percent vs. 20.6 percent). Further, because of their need for child care in order to work, their actual living costs are greater, while the official poverty thresholds do not take child care expenses into account.

At the federal level, both the Child Care Development Block Grant and the Temporary Assistance for Needy Families programs provide funding to states to subsidize child care for low-income working families. States also contribute to the child-care subsidy program.

The federal program allows states to provide subsidies to families up to 85 percent of the state median family income ($52,658 in Iowa for a family of four, or 273 percent of the federal poverty level in 2004).[50]

Iowa, however, has a very low eligibility cut-off for its child care subsidy program, 145 percent of poverty. This ranks Iowa 47th among the 50 states.[51] As the insert shows, this results in a major “cliff effect” for a family who receives only a small pay increase, but that increase results in loss of the child-care subsidy.

The consequence is that working families with young children often face major dilemmas in getting ahead, including having to choose less desirable child care in order to continue working.

Health Care Coverage. Rising health insurance costs have produced dilemmas for working, low-income families, as well. Iowa provides coverage for children under either Medicaid or *hawk-i* (Iowa’s SCHIP program) up to 200 percent of poverty (with 20 percent of earned in-

Cliff Effect Illustration

The mother in a working family of three, with a toddler in a child-care center, receives a 50-cent increase in her hourly wage. This wage increase puts the family over the eligibility limit for receiving help from the state child care subsidy program because its income is now above the 145 percent poverty level. While the wage increase raises her family's income by $1,040, the family's additional child-care costs from the loss of the subsidy are $4,475. The family is economically worse off by $3,435 after the raise, a financial "cliff" that they have fallen off. The costs of continuing the child care would require nearly one-quarter of the family's total income.[52]

come not counted, eligibility can go as high as 250 percent of poverty). Adults in these families are covered under Medicaid only if eligible under TANF, at most up to 84 percent of poverty for a family of four.

Iowa's *hawk-i* program imposes a modest premium of $10 per month for one child and $20 per month for two or more children for families with incomes above 150 percent of poverty, which is lower than a number of other states. Iowa's *hawk-i* program also provides fairly comprehensive benefits.

Iowa's Medicaid and *hawk-i* programs now provide health coverage to more than one-quarter of all Iowa children and have a significant outreach component. They have enabled Iowa to achieve one of the highest rates of overall health coverage for children in the nation, with only 7 percent of the state's child population uninsured.[53]

The same cannot be said for parents in these families, however. A number of states have chosen to provide health coverage to adults in low-income families at much higher levels than Iowa. Two states and the District of Columbia cover adults up to at least 200 percent of poverty in their state Medicaid and SCHIP programs.[54] Currently, approximately 1 in 7 (14 percent) of Iowa's working-age (19-64) population is uninsured.[55]

Maintaining high rates of coverage for children and addressing the adult uninsurance challenge will require continuing support for Iowa's Medicaid and *hawk-i* programs, as they have helped to avert a crisis in coverage that otherwise would be affecting the child population, due to increases in health costs, the recession, and the cutbacks in coverage provided by employers.[56]

Unemployment Insurance. The unemployment insurance program provides temporary income protections to workers who have lost their jobs. The uninsurance benefits that are provided in Iowa provide some protection, but are modest, at best, replacing only one-quarter to one-third of prior wages. The ability to draw down these benefits, moreover, has shown significant decline over the last few years.

In the fourth quarter of 2001, 50 percent of unemployed Iowans received unemployment insurance. By the fourth quarter of 2004, that number had dropped to 30 percent.[57] The first safety-net program to provide support upon losing one's job is unemployment insurance (UI). Yet, fewer and fewer of those who lose their jobs receive unemployment insurance. There likely are several explanations for this. More jobs are part time, temporary and low wage. For workers in these jobs, it is difficult to meet Iowa's strict eligibility requirements. Other workers

may be forced to leave their jobs to care for a sick parent or for other compelling personal reasons. These workers do not qualify for unemployment insurance in Iowa. Finally, more Iowans are long-term unemployed and have simply exhausted their benefits before finding work in this soft job market. In 2004, 17 percent of unemployed Iowans had been unemployed for six months or more.[58] For the 30 percent receiving UI, the weekly benefits are modest, replacing only between one-third and one-half of lost wages.

State Income Tax Policy. At the federal level, the Earned Income Tax Credit (EITC) eliminates income tax liability for most low-income working families with children. Instead, it provides them with a tax refund in excess of what they owe in income tax and represents one of the most significant and successful federal anti-poverty programs.

In 1990, Iowa became one of the first states in the country to establish a state earned income tax credit. However, Iowa has not expanded upon that credit and now has one of the smaller such credits in the country.

Iowa's credit does not offset the state income tax obligations for most low-income working families with children. In addition, unlike the federal income tax, which provides substantial personal exemptions and a child tax credit to recognize the basic costs of raising a child, Iowa's income tax provides only a small personal credit, which means that even families with very low incomes are taxed. In fact, many Iowa families with incomes below $15,000 have state income tax liabilities, while at the same time they are receiving substantial federal income tax credits.

Tax experts generally agree that income taxes should exempt from taxation the amount needed by the taxpayer (individual or family) to simply provide for basic living costs. That is the reason for the standard deduction, personal exemptions, and child credit on the federal income tax. Iowa's tax system, however, has not adequately incorporated such features.

Table 4.2. Iowa and Federal Taxes, 2004
Families With Incomes of $20,000 and $35,000*

	Iowa Tax		Federal Tax	
	$20,000 income	$35,000 income	$20,000 income	$35,000 income
Single Parent/Two Children	79	1,284	(4,519)	(506)
Two Parents/Two Children	65	1,270	(4,730)	(1,575)

* *income amounts selected are slightly above 100 percent of poverty ($20,000) and slightly below 200 percent of poverty ($35,000) for a family of four*

The table shows both the Iowa and federal income taxes on selected low-income families. An estimated 70,000 Iowa families with children must pay state income taxes, while the federal EITC provides them with a tax credit or at least zeros out their federal tax obligation.[59]

As a result, Iowa's income tax works at cross-purposes with the federal income tax as it relates to supporting low-income families with children.

Iowa does have a significant refundable child-care tax credit and its credit phases out at a fairly low level for families. Overall, the value of the child-care tax credit to Iowa families is $6.4 million annually.[60]

Conclusions and Recommendations

Iowa families work hard, but many do not earn enough to be economically self-sufficient without some government support. This is particularly true for families with young children and child-care needs.

Iowa's work support systems lag those in many other states, particularly in the areas of providing child-care subsidies to support working parents, in extending health coverage to parents as well as children under Medicaid and SCHIP, and maintaining an income tax system that recognizes the costs families incur in raising children.

There are straightforward actions that Iowa policy makers could take in each of these areas that would improve the security of working families. Each would have a significant cost, but also a significant benefit both to the families and to their employers and society – in more dependability and productivity in the workforce.

These actions include:

- Expanding the child-care subsidy at least up to 200 percent of poverty, on a sliding fee schedule
- Covering parents under Medicaid and *hawk-i* at least up to 150 percent of poverty
- Restructuring the state income tax to increase personal exemptions, the standard deduction and the state earned income tax credit.

Taken together, these measures would require much less in public funds than the state currently spends on the many business incentives and tax breaks described in Chapter Three. These actions need to be examined in that light.

This report has made the case that securing Iowa's future requires attention to the issues that working families face. In the end, one of the keys to Iowa's long-term economic future will be to ensure that "working pays off," both through:

- Raising the education, skill and compensation levels of many individuals already in the workforce to take on new jobs that can spur Iowa's overall economic growth, and
- Providing work supports so people who work hard have enough to raise the next generation safely and well.

Notes

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Appendix Table 1. Working Families in Iowa as Share of State Population

2000 Census

People living in:		
Working families with children	1,353,996	47.6%
Non-working families with children	105,900	3.7
Other households with children	14,977	0.5
Families without children	881,593	31.0
Unrelated individuals	489,623	17.2
Total population	2,846,089	100.0%

Appendix Table 2. Parents in the Workforce, Iowa and U.S.

Percentage of Families with Children Where Both or the Only Parent Works

	Iowa	United States
1990	73.4%	63.8%
2000	76.9%	64.6%

Workforce Participation of Single Parents With Children

	Iowa	United States
1990	73.7%	69.1%
2000	83.1%	76.0%

Appendix Table 3. Poverty Level and 185% of Poverty Level of Families

By Child Age

Percentage of Families with Children Where Both or the Only Parent Works

		Iowa	United States
Less Than Poverty	Families With Children < Age 5	12.7%	17.0%
	Families With Children Age 5 – 17	7.1%	11.3%
Less Than 185% Poverty	Families With Children < Age 5	31.4%	35.9%
	Families With Children Age 5 – 17	20.6%	26.0%

Appendix Table 4. Iowa Population by Race and Ethnicity

1990

	Total	Percent	Age 0-17	Percent	Families w/Children	Percent
Total	2,776,755	100.0%	718,880	100.0%	365,103	100.0%
White Non-Hispanic	2,663,840	95.9%	676,890	94.2%	349,505	95.7%
White Hispanic	19,250	0.7%	7,567	1.1%	2,276	0.6%
Black	48,090	1.7%	17,639	2.5%	7,354	2.0%
American Indian, Eskimo or Aleut	7,349	0.3%	2,780	0.4%	1,128	0.3%
Asian or Pacific Islander	25,476	0.9%	8,709	1.2%	2,996	0.8%
Other Race	12,750	0.5%	5,295	0.7%	1,844	0.5%
All Hispanic	32,647	1.2%	12,859	1.8%	4,339	1.2%

2000

	Total	Percent	Age 0-17	Percent	Families w/Children	Percent
Total	2,926,324	100.0%	733,638	100.0%	376,433	100.0%
One Race						
White Non-Hispanic	2,710,344	92.6%	651,482	88.8%	347,290	92.3%
White Hispanic	38,296	1.3%	15,016	2.0%	4,964	1.3%
Black or African American	61,853	2.1%	22,040	3.0%	9,534	2.5%
American Indian and Alaska Native	8,989	0.3%	3,148	0.4%	1,347	0.4%
Asian	36,635	1.3%	10,305	1.4%	4,593	1.2%
Native Hawaiian and Other Pacific Islander	1,009	0.0%	261	0.0%	121	0.0%
Some Other Race	37,420	1.3%	14,424	2.0%	5,513	1.5%
Two or More Races	31,778	1.1%	16,962	2.3%	3,071	0.8%
All Hispanic	82,473	2.8%	32,727	4.5%	11,330	3.0%

2003

	Total	Percent	Age 0-17	Percent	Families w/Children	Percent
Total	2,839,868	100.0%	688,272	100.0%	364,393	100.0%
One Race						
White Non-Hispanic	2,610,646	91.9%	605,473	88.0%	332,819	91.3%
White Hispanic	49,887	1.8%	20,044	2.9%	9,327	2.6%
Black or African American	55,288	1.9%	17,194	2.5%	7,201	2.0%
American Indian and Alaska Native	7,965	0.3%	1,153	0.2%	1,158	0.3%
Asian	42,975	1.5%	10,257	1.5%	4,619	1.3%
Native Hawaiian and Other Pacific Islander	1,252	0.0%	113	0.0%	104	0.0%
Some Other Race	31,699	1.1%	10,261	1.5%	4,926	1.4%
Two or More Races	40,156	1.4%	23,777	3.5%	4,239	1.2%
All Hispanic	88,869	3.1%	34,190	5.0%	15,355	4.2%

Appendix Table 5. State of Iowa Appropriations and Tuition for Community Colleges and Regent Institutions

	State Appropriations	Community Colleges Average Tuition	Regent Institutions Average Tuition
2001	$ 827,891,901	$1,937	$2,906
2002	765,325,328	2,162	3,116
2003	748,633,446	2,378	3,692
2004	715,734,086	2,571	4,342
Change	-13.5%	32.7%	49.4%

Appendix Table 6. Population Trends and Economic Growth, Iowa and U.S.

Total Population

	Iowa	United States
1900	2,231,853	76,212,168
1910	2,224,771	92,228,496
1920	2,404,021	106,021,537
1930	2,470,939	123,202,624
1940	2,538,268	132,164,569
1950	2,621,073	151,325,798
1960	2,757,537	179,323,175
1970	2,824,376	203,211,926
1980	2,913,808	226,545,805
1990	2,776,755	248,709,873
2000	2,926,324	281,421,906
Percent Change	31.1%	269.3%

Source: United States Census Bureau website, Historical Population Tables.

Appendix Table 7. Number of Farms, Iowa and U.S.

	Iowa	United States
1974	126,104	2,314,013
1978	121,339	2,257,775
1982	115,413	2,240,976
1987	105,180	2,087,759
1992	96,543	1,925,300
1997	90,792	1,911,859
2002	90,655	2,128,982
Percent Change	-28.1%	-8.0%

Source: U.S. Department of Agriculture website, 2002 Census of Agriculture National Table 1 and State of Iowa Table 1.

Appendix Table 8. Gross State and Gross Domestic Product

2000 Dollars (Billions)

	Iowa	United States
1970	$ 73.6 (1977)	$ 4,439.6
1980	68.6	5,508.3
1990	72.6	7,584.5
2000	89.6	9,958.7
Percent Change	21.7%	124.3%

Source: United States Department of Commerce, Bureau of Economic Analysis website, National and State Tables.

Appendix Table 9. Tax Credit Programs
(Millions)

FY2005	New Jobs and Income Program	$ 45.5
FY2005	Iowa New Jobs Credit (under 260E)	2.4
FY2005	New Capital Investment Program	18.4
FY2003	Research Activities Credit	31.8
FY2005	Enterprise Zone Program	45.8
FY2005	Housing Enterprise Zone Program	10.5
FY2006	Venture Capital Credit – Investments in Qualifying Business and Seed Capital Funds	0.3
FY2006	Venture Capital Credit – Investments in Venture Capital Funds	0.2
FY2005	Venture Capital Credit – Investments in Iowa Fund of Funds	NA
TOTAL		$154.9
New Program	Wage-Benefit Tax Credit	10.0
New Program	Economic Development Region Revolving Fund Tax Credit	2.0
New Program	High Quality Job Creation Program	NA

Appendix Table 10. Iowa Industrial New Jobs Training Program (260E)

Community College	FY 2004 Dollars Awarded	FY 2004 Jobs to Be Created	FY 1983-2004 Dollars Awarded	FY 1983-2004 Jobs to Be Created
Northeast Iowa	$ 2,195,000	350	$ 23,235,000	8,103
North Iowa Area	965,000	286	18,235,000	6,644
Iowa Lakes	935,000	170	7,650,000	3,247
Northwest	1,125,000	228	12,380,000	2,896
Iowa Central	95,000	25	22,960,000	5,268
Iowa Valley	2,265,000	480	25,085,000	6,117
Hawkeye	2,810,000	782	34,817,000	12,046
Eastern Iowa	6,785,000	973	44,078,000	11,989
Kirkwood	2,550,000	422	93,477,495	19,523
Des Moines Area	886,500	203	103,777,813	27,413
Western Iowa Technical	0	0	26,370,000	7,129
Iowa Western	0	0	32,020,000	8,359
Southwestern	3,110,000	504	14,534,000	4,994
Indian Hills	2,240,000	370	31,500,500	5,751
Southeastern	640,000	199	12,065,000	3,786
Total	$26,601,500	4,992	$502,184,808	133,265

Iowa New Jobs Training Program began in 1983.
The 260E Program cost of training per job created averaged $3,768 since FY1983.
Between FY1983 and FY2004, 1,918 projects were funded.
In FY2004, 89 projects were funded.

Source: Iowa Department of Economic Development
Reproduced from: Legislative Services Agency, Fiscal Services Division, 2004 Iowa FACTBOOK, page 52.