

Executive Summary

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

Charles Bruner
Mike Crawford

January 2006

Iowa Fiscal Partnership

www.iowafiscal.org

The Iowa Policy Project

318 2nd Ave. N,
Mount Vernon, IA 52314
(319) 338-0773 • www.iowapolicyproject.org

Child & Family Policy Center

1021 Fleming Building • 218 Sixth Ave.
Des Moines, IA 50309
(515) 280-9027 • www.cfpciowa.org

Iowa Fiscal Partnership

Executive Summary

January 2006

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

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.

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.

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 develop-

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.

Charles Bruner is executive director of the Child & Family Policy Center, a nonprofit organization in Des Moines established in 1989 "to better link research and policy on issues vital to children and families."

Mike Crawford is senior research and administrative associate for CFPC. He directs the Iowa Kids Count Initiative and works in data collection and analysis.

ment 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.

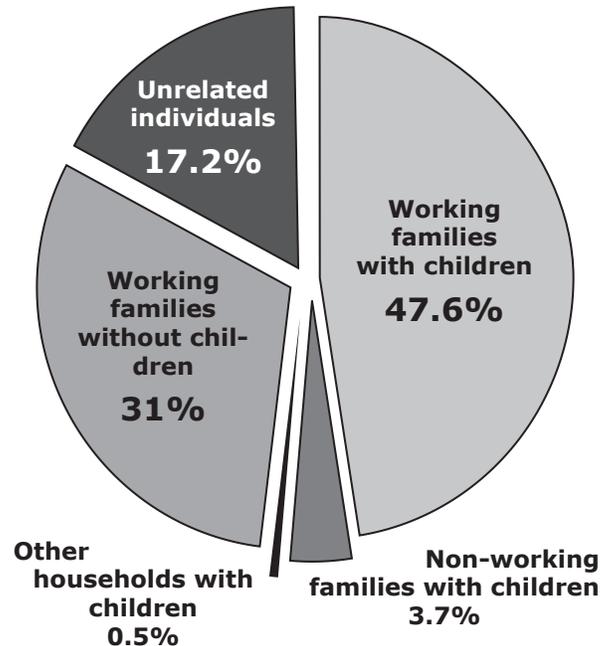
The \$80 million translates into an average investment of only \$127 per Iowa adult with a high-school diploma or less – well below the \$5,302 investment in education for a school-age youth and the \$3,347 for a college-age youth.

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

Figure 1. Working Families in Iowa As Share of Population, 2000 Census
(Population by type of household)



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 on 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

**Table 1. Relative Investments:
Adult Education & Training vs. Business Incentives**

Workforce Development Programs (Millions of Dollars)	
The Perkins Act	\$14.1
Adult Literacy Program	4.2
Workforce Investment Act – Adult	3.4
Workforce Investment Act – Displaced Worker	4.1
PROMISE JOBS	17.5
Iowa Industrial New Jobs Training Program (260E)	26.6*
Iowa Jobs Training Program (260F)	6.0
Accelerated Career Education Program (ACE 260G)	3.9
TOTAL Workforce Development Funding	\$79.8
<i>* Does not include wage subsidies/on-the-job training under 260E program.</i>	
Business Incentives (Millions of Dollars)	
Tax Credit Programs in Iowa	
New Jobs and Income Program	\$ 45.5
Iowa New Jobs Credit (under 260E)	2.4
New Capital Investment Program	18.4
Research Activities Credit	31.8
Enterprise Zone Program	45.8
Housing Enterprise Zone Program	10.5
Venture Cap. Credit – Invest. in Qual. Bus./Seed Capital Funds	0.3
Venture Cap. Credit – Investments in Venture Cap. Funds	0.2
Venture Cap. Credit – Investments in Iowa Fund of Funds	NA
SUBTOTAL State Business Tax Credits	\$154.9
Economic Development Programs in Iowa	
Grow Iowa Values Fund	\$ 50.0
Community Economic Betterment Account (CEBA)	5.3
Community Development Block Grants – Economic Development	3.5
Revitalize Iowa's Sound Economy (RISE)	20.5
Physical Infrastructure Assistance Program	5.2
Value-Added Ag Products/Processes Assistance	3.7
Wage subsidy aspects of 260E program	13.0
SUBTOTAL State Econ. Devel. Programs	\$ 101.2
Local tax-increment financing projects	181.0
SUBTOTAL Local Econ. Devel. Programs	\$ 181.0
TOTAL Business Incentives Listed	\$437.1

Note: Data for this table are drawn from the most recent fiscal year available, which varies by program, but in all cases is from 2002-03 or later.

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.

	100%	200%
1 person	\$ 9,393	\$ 18,786
2 persons	12,015	24,030
3 persons	14,680	29,360
4 persons	18,810	37,620
5 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.

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.

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.

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.

View the full report at Iowa Fiscal Central, <http://www.iowafiscal.org>.

Iowa Fiscal Partnership

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