Iowa Fiscal Partnership

Executive Summary

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EZ Money

Assessing Iowa's Enterprise Zone Program

By Colin Gordon

Iowa's **Enterprise Zone Program** identifies counties and cities in economic distress, and offers a range of tax breaks to firms that meet thresholds of new investment and new employment in those areas. The program, according to its legislative intent, is designed "*to promote new economic development in economically distressed areas by encouraging communities to target resources in ways that attract productive private investment*." This report assesses those basic claims. Does the program attract new economic development? Does it effectively target that development in distressed areas or communities? And, to the degree that it accomplishes these goals, does it do so at a reasonable cost?

Our findings are as follows:

- Although the subsidies received under the program are difficult to pin down, the raw numbers are daunting: Between 2003 and 2007, zone businesses racked up nearly $300 million in tax credits.
- The program does a poor job of targeting assistance: There are too many zones; more than 1,100 zones scattered across 40 counties and 16 cities. And the criteria by which zones qualify (1990 and 2000 census data) are at least 8 years old and in some cases 18 years old.
- Because the program does a poor job of targeting assistance, it is unlikely that its tax breaks can be credited with conjuring up much new investment or employment. Indeed, most research on this question suggests that tax incentives are not decisive factors in investment or location decisions; and that public money is chasing growth that would have occurred anyway.
- There is little evidence that the program has done much for zone residents, in large part because the wage thresholds are too low. About a third of the new jobs claimed by the program fall short of the current average wage for the county in which they are located; about half fall short of the standard (130 percent of the county average) set by other state economic development programs.
- Even when new jobs are generated, we know little about who is employed or whether they already resided in the enterprise zone. Improving a particular geographic area can be done at the expense of current residents, as well as in support of them. Current enterprise zone rules do not address this issue.
- Although the flow of tax credits is hard to measure, it is clear that it is not following the program's intent into new industries and distressed areas. Of the hundreds of millions in credits for 2003-07, nearly a quarter (over $80 million) were claimed by a few well-established insurance, financial service, agricultural processing, and agricultural equipment firms.
- The state's calculation of the program's performance vastly overestimates its benefits and underestimates its costs. Our reassessment finds each new job created under the program to cost — on average — over $100,000.

Our recommendations follow from these conclusions, and aim for a program that targets fewer areas and better jobs; and whose price tag is both smaller and easier to understand. Specifically, we recommend that:

- The program should be much more carefully targeted, so that fewer areas qualify and so that they do so based on the most current available data.
- Wage thresholds should be much higher, ensuring that publicly subsidized new employment raise the local wage floor.
- Subsidies should be capped on a per-job basis.
- Criteria should be established to ensure that current residents in those distressed areas are not disadvantaged and are a significant share of the beneficiaries.
- The program should cap, if not eliminate, the "refundability" of the research activities credit.
- Program reporting should be more accessible, more transparent and more complete.