



## The Iowa Values Fund: More Promise Than Performance

By Amy K. Frantz and Robert N. Stewart

The Iowa Values Fund (IVF) is an economic development program that is used to lure new businesses to the state, and to keep existing businesses in Iowa. The creation of the IVF is a product of a national trend in which states are competing with each other to attract or retain businesses that will provide jobs for new and current citizens of the state.

Supporters of the Iowa Values Fund maintain that we must participate in this trend or risk losing jobs and population to other states. Opponents, however, argue that the government cannot pick economic winners and losers, and instead should focus on creating a pro-business tax and regulatory climate in the state.

The passage of the Iowa Values Fund was spearheaded by Governor Vilsack during the 2003 Iowa Legislative session. Unable to come to any agreement during the regular session, the Governor called the Legislature back into a special session. During this special session, the Legislature approved a package that included the Iowa Values Fund, as well as cuts in income taxes, tort reform, and workers compensation reform. Governor Vilsack approved the legislation, but line-item-vetoed the tax cuts and other reforms.

In response to these line-item vetoes, Republican Legislative Leaders took the Governor to court, alleging he had overstepped his authority in using this veto. The Iowa Constitution limits the Governor's use of the line-item veto to appropriations items only. In June of 2004, the Iowa Supreme Court ruled unanimously that the Governor had indeed exceeded his authority by vetoing those measures, but rather than enacting the previously-vetoed language, as is usually the case, the Court nullified the entire IVF legislation. Following the Supreme Court ruling, the Iowa Legislature and Governor agreed on a temporary fund to meet the commitments made prior to the nullification of the IVF.

In 2005, the Iowa Legislature approved and the Governor signed legislation recreating the Iowa Values Fund. The legislation commits \$700 million in funding from the state to the IVF over a period of ten years. The state will appropriate \$50 million annually for direct assistance and \$21 million annually for tax credits. The funding will be divided among the state's community colleges, the Board of Regents, state parks, the cultural trust fund, and economic development regional initiatives.

In exchange for economic development funds, the recipient businesses have pledged to create nearly 20,000 jobs in Iowa. Supporters of the IVF have repeatedly touted this number in claiming that the program is a success. But do the cold, hard facts support these claims?

The first award from the IVF was made in July of 2003, the first month of State Fiscal Year (SFY) 2004, to Wells Fargo, a San Francisco-based financial services company. Iowa Department of Economic Development (IDED) figures show that during SFY 2004, the state of Iowa provided a total of \$53.3

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million in forgivable loans, as well as \$3.5 million in non-forgivable loans. In return, the companies receiving these funds pledged to create 5,357 jobs, retain 2,042 jobs, and provide an additional 100 indirect jobs. A 2005 survey by IDED, "Business Services Investment Update," shows that overall, the job creation rate for the companies that responded to the survey was 33.9% and the job retention rate was 59.5%.

Looking at individual projects, Wells Fargo, who promised to create 2,000 new jobs between 2003 and 2007, has created 846; TransOva, who promised to create 235 new jobs between 2003 and 2013, has created four jobs; GCommerce, which promised to create 157 new jobs between 2003 and 2008, has created six jobs; Fort Dodge Animal Health, which promised to retain 1,041 jobs, has met that goal; and Wells Dairy, which promised to create 129 jobs between 2004 and 2008, has created 59.

In SFY 2005, IVF recipients received \$15.1 million in forgivable and non-forgivable loans, and promised to create 2,106 direct jobs, retain 949, and create 117 indirect jobs. According to IDED's 2005 survey, these companies have created only 67 new jobs and retained 528 jobs.

While the Iowa Values Fund has only been in existence for two years, the companies that have received IVF funds have not made much progress on fulfilling the promises made for job creation and retention in our state. This lack of progress, however, has not stopped IVF supporters from proclaiming the program a success.

A review of the economic literature regarding state economic development programs finds that the vast majority of the research in this area demonstrates that government economic development plans do not work. In a 1999 study conducted by Grant Gulibon of the Commonwealth Foundation, the ten states with the lowest per-capita economic development expenditures experienced an average job growth rate that was 30 percent higher than the ten states with the highest per-capita spending on economic development. The low-spending states also saw personal income grow 10 percent faster than in the high-spending states.

The Iowa Values Fund is yet another attempt to substitute failed central economic planning for the success of free markets in allocating capital and jobs. The businesses that have received funding from the IVF have yet to live up to the promises they made of job creation and retention. Previous studies of economic development programs have shown that government is rarely successful when it comes to picking winners and losers in the economic development race. Rather than continuing to provide economic development funds to a few chosen companies, the state should instead provide tax and regulatory relief that would benefit all current and potential businesses in Iowa.

*Amy K. Frantz is Senior Research Analyst and Robert N. Stewart is a Research Analyst with Public Interest Institute, Mt. Pleasant, Iowa.*

*Public Interest Institute has recently published a Policy Study, [The Iowa Values Fund: More Promise Than Performance](#), evaluating the performance of the Iowa Values Fund and job creation in Iowa. To read this Study, visit the Institute's website at [www.limitedgovernment.org](http://www.limitedgovernment.org), or call 319-385-3462 to request a copy.*

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