



Getting Smart on the Iowa Values Fund

By Jonathan J. Miltimore

The Iowa Values Fund (IVF) is an economic development program designed to “expand and stimulate the state economy, increase the wealth of Iowans, and increase the population of the state.”¹ In exchange for government grants from the IVF (funds: \$700 million over ten years)² that can range into the millions of dollars, businesses bring an expanded tax base and the promise of new jobs.

A 1998 Time magazine report revealed that the average American pays the equivalent of two weeks pay each year financing such projects.³ In a recent collaborative study by Good Jobs First and the University of Illinois at Chicago Center for Urban Economic Development, authors Rachel Weber and David A. Santacrose write that aggregate “state and local spending is now estimated at more than \$50 billion a year.”⁴

In 2006, Public Interest Institute published a policy study that concluded that the IVF offered “more promise than performance” and there was reason to doubt that it would “be effective in stimulating Iowa’s economy.”⁵ Although it will be years before enough data is available to definitively determine the ultimate effectiveness of the program, it seems that other state economic development programs are experiencing the challenges of substituting free market enterprise with central planning.

One of the inherent problems with the IVF and programs like it is that businesses, after receiving lucrative grants or non-interest loans, often fail to fulfill their end of the bargain. Cities and states provide funds to companies out of self interest; they want to facilitate economic growth by enhancing their tax base and creating additional jobs. In theory, these cash incentives act as a short term investment for long term gain. In practice, a significant number of businesses will fail to create the number of jobs promised, while others will go bust or leave the state prematurely, taking with them not only the jobs and tax base, but a lucrative cash grant from the taxpayers.

As companies continue to develop increasingly sophisticated methods to squeeze dollars from economic development agencies, some states are beginning to fight back by adjusting their strategies. Herein Iowa may find a paradigm for improving the IVF.

“Clawback provisions” are contractual devices that allow governments to reclaim cash awards from businesses that fail to fulfill their agreements. If fewer jobs are created than promised or a company leaves prior to the agreed date, the government can recoup a portion of its investment. Numerous states have had such provisions in place, yet many have been reluctant to enforce them, while others suffer from weak statutes or imprecise language.⁶

The IVF does not have a “clawback” policy woven into its charter rules. Instead, section 1.5(2) of the charter states, “reimbursement requirements of the business or other penalties imposed on the business in the event the business does not fulfill its obligations described in the contract and other specific repayment provisions (“clawback provisions”) to be negotiated on a project-by-project basis.”⁷

Negotiating such provisions on a case-by-case basis is inefficient and improvident; not only will it increase litigation costs, it also invites favoritism and impropriety. As Colin Gordon — Professor of History at the University of Iowa and a Research Associate at the Iowa Policy Project — writes:

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[S]uch broad administrative discretion is not a good idea. It shields the terms of public assistance from public scrutiny. It invites prospective recipients to pit jurisdictions against each other, threatening to go elsewhere if the terms of assistance are too restrictive. The precise terms are less important than the fact that they should be — for the benefit of recipients, their employees, and taxpayers — explicit and transparent.⁸

Including a standard “clawback provision” within the text of its charter would strengthen the IVF. If Legislators are concerned that such a provision would be too rigid and hinder the ability of IVF officials to offer satisfactory incentive packages during exceptional situations, a stipulation can be included that would permit, with the approval of the IVF board, an exemption allowing a contract’s repayment provisions to be negotiated individually.

Another option would be to establish guidelines that would provide incentives incrementally. For example, an incentive package recently negotiated between North Dakota and Coventry Healthcare “contained a provision that gave Coventry incrementally larger payments as hiring progressed.” “Back loading” contracts make it far less likely that states or cities will lose considerable sums on a bad investment.⁹

Missouri, on the other hand, has created a highly innovative incentive program that allows the state to lower its financial risk considerably. In place of a lump sum reward, Missouri allows qualifying companies that offer high paying jobs “to keep the payroll taxes each new employee generates for five years, instead of sending the money along to the state.”¹⁰ By building incentives within the contract structure of economic expansion these states are at once encouraging business expansion and shielding themselves from risk.

Inherent problems exist within the IVF. A wiser (and fairer) course would be to make Iowa’s property tax system more equitable (commercial property bears a disproportionately heavy property tax burden) and lower Iowa’s corporate tax rate (the highest in the nation) to make Iowa more commerce friendly for all Iowa businesses.

But if state officials are determined to micro-manage Iowa’s economy by “investment through incentives,” they would be wise to take steps to make certain these investments pay dividends. Creating a standard “clawback provision” — or better yet, a payroll tax incentive system similar to Missouri’s program — would be a step in the right direction.

Endnotes

- 1) Grow Iowa Values Fund, Chapter 1, 264—1.2 (80GA,HF692,HF683) 1.2(1) a. <<http://www.legis.state.ia.us/Rules/Current/iac/264/2641/2641.pdf>> (June 24, 2007).
- 2) Robert N. Stewart, Laura P. Keith, Brad Cook, Jonathan Miltimore, Amy K. Frantz, and Dr. Donald P. Racheter, “The Iowa Values Fund: More Promise than Performance,” *Policy Study*, <<http://limitedgovernment.org/publications/pubs/studies/ps-06-1.pdf>> (June 2, 2007).
- 3) Donald L. Barlett and James B. Steele, “Corporate Welfare,” *Time*, November 9, 1998, <<http://www.cnn.com/ALLPOLITICS/time/1998/11/02/corp.welfare.html>> (June 2, 2007).
- 4) Rachel Weber and David A. Santacroce, “The Ideal Deal: How Local Governments Can Get More for Their Economic Development Dollar,” *Good Jobs First and the University of Illinois at Chicago Center for Urban Economic Development*, March 2007, <<http://www.goodjobsfirst.org/pdf/idealdeal.pdf>> (June 15, 2007).
- 5) Stewart, Keith, Cook, Miltimore, Frantz, and Racheter, “The Iowa Values Fund,” *Policy Study*, March 2006, p. 20.
- 6) Conor Dougherty, “Take the Money and Don’t Run: Encouraging More Job Creation,” *The Wall Street Journal*, June 11, 2007.
- 7) Grow Iowa Values Fund, Chapter 1, 264—1.5(80GA,HF692,HF683) 1.5(2), <<http://www.legis.state.ia.us/Rules/Current/iac/264/2641/2641.pdf>> (June 24, 2007).
- 8) Colin Gordon, “Bending the Rules: The Promise and Practice of the Iowa Values Fund,” *The Iowa Policy Project*, July 2004, <<http://www.iowapolicyproject.org/2002-2004docs/040708-ivf.pdf>> (June 21, 2007).
- 9) Weber and Santacroce, “The Ideal Deal,” *Good Jobs First and Center for Urban Economic Development*, p.12.
- 10) Dougherty, “Take the Money and Don’t Run,” *The Wall Street Journal*.

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