



Business incentive fund cut 60 percent at new state agency



Written by

DONNELLE ELLER
deller@dmreg.com

4:06 AM, Jul. 21, 2011|

Iowa will battle for jobs with a new economic development agency that will be leaner, more strategic and focused on sparking startups, state leaders say.

The agency also will have a lot less money for business incentives, a change that one lawmaker says will make Iowa less competitive in a nationwide war for jobs.

"I feel we're drastically underfunding our economic development efforts on several different fronts," said Sen. Bill Dotzler, a Democrat who leads the economic development appropriations committee. "We're in a race for jobs, and other states are offering aggressive incentives. I'm afraid we're going to fall short."

Even backers of the new Iowa Partnership for Economic Progress, an economic development authority that Gov. Terry Branstad signed into law Monday, said pursuing growing companies with less money will be challenging.

"We'll look at all the program funding that we have ... and refocus on what is our core mission," said Debi Durham, the state leader charged with creating the new economic development authority and a nonprofit group that will be established to jump-start innovation in the state.

State money for business incentives shrinks to \$8.55 million this fiscal year from \$21.4 million last year, a 60 percent cut. Before the recession, the state pumped \$30 million or more yearly into loans and grants for businesses.

The money goes toward attracting businesses to the state and helping existing companies grow.

Iowa isn't alone in pulling back economic development spending. States' spending on economic incentives dropped nearly 8 percent to \$10.4 billion last fiscal year compared with three years earlier.

"State-to-state competition is still there. But states are cautious about how they spend,

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because there's less to spend. And there are fewer projects to chase," said Mark White, vice president for research at the Center for Regional Economic Competitiveness, a nonprofit in Virginia.

Mike Ralston, chief of the Iowa Association of Business and Industry, likes the new public-private economic development model, saying it has worked well at creating jobs in cities like Des Moines and states like Utah. But he said he was surprised at the incentive cuts.

"The question is whether it's enough," Ralston said. "If we're going to compete, we have to have something to compete with."

The new authority and board are expected to be in place by September. Until then, the existing agency and board will continue operating.

Among Iowa's approaches to handling reduced incentives:

- "Stage incentives" that phase grants and loans for big projects over multiple years, Durham said. To stretch funding further, the state may require companies to hit project milestones before tapping additional incentives, she said. It's also likely more incentives will be in the form of low-interest loans that must be repaid vs. forgivable loans, primarily grants to companies unless they fail to reach job creation or investment goals.

- Re-evaluation of the agency's economic development activities. That may include nixing funding for tiny programs that fail to

contribute significantly to creating jobs and placing greater scrutiny on key activities like marketing and travel, said Durham.

"We're not talking about pulling back our sales force," said Durham. "We're just going to be a lot more strategic."

The agency also must incorporate the state's energy independence office into the new authority. The program is centered on former Gov. Chet Culver's \$100 million Power Fund that's being phased out.

The economic development agency's own operating budget is smaller as well, a 10 percent cut to \$9.8 million. Durham expects to cut a similar percentage from the agency's 130-employee staff.

Rep. Steve Lukan, R-Dubuque, said some Iowa Republicans have "gotten tired of an incentive-heavy approach to economic development."

"We want to fix the business climate," including lowering the corporate income

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rate and commercial real estate taxes, two efforts that failed in the last legislative session, said Lukan, an economic growth committee member and IPEP author.

"It's a lot easier to retain and help existing businesses grow than go out and bring in new companies," he said.

Branstad campaigned on all fronts - creating the new economic development authority, cutting commercial property taxes 40 percent and cutting the top corporate income tax rate in half to 6 percent. Branstad wanted to eliminate the existing economic development agency, calling it scandal-ridden following mismanagement of the state's film tax credit program.

The initiatives, Branstad says, are important to meeting his goals of creating 200,000 jobs over the next five years and boosting income 25 percent.

Dotzler agrees that economic development is more than incentives. But Republicans also have chosen to cut state cultural and recreational initiatives that make communities more attractive to workers and companies, he said. "These things are just about as important as incentives in luring companies," said Dotzler.

White, the national economic development researcher, said more and more, "states are focusing on growing their own businesses through economic gardening."

States' efforts include improving worker education, encouraging startups and

helping existing companies grow, he said.

The new law includes similar initiatives: New tax credits should help the state's new innovation corporation raise as much as \$100 million in a seed fund from private investors to pump into young companies. Tax credits will also be available to investors in startups.

"States will always chase the next new thing," White said. "But there are just fewer and fewer big projects out there to chase.

"The days of attracting big manufacturing plants are gone," he said.

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Economic development

The amount of money that mostly goes to provide incentives to growing businesses has dwindled in recent years as lawmakers struggled with budget shortfalls. Iowa also provides economic development money to the state's three universities, community colleges, efforts to spark startups and other initiatives to make Iowa more attractive for businesses and workers.

Economic development incentives*

FY06	\$35 million
FY07	\$33 million
FY08	\$30 million
FY09	\$24 million
FY10	\$27 million**
FY11	\$21.4 million
FY12	\$8.55 million

*Doesn't include the economic development agency's operating budget.

**Lawmakers reduced budget to \$5 million because of revenue shortfall; agency used money carried over from previous year to supplement budget.

Source: Iowa Department of Economic Development

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New board draws applicants

The Iowa Department of Economic Development will continue working with businesses interested in expanding until the new economic development authority, called the Iowa Partnership for Economic Progress, is established.

The Iowa Economic Development Board will meet to weigh business incentives until September or October, when the new authority is expected to be created. Already, the state says it is getting applications for the authority's new board. The Register has requested the names of Iowans interested in the board, but they have not yet been released.

A host of details must be worked out, from legally creating the new authority to printing new cards and letterheads.

Once the new authority and its board are created, they will create the new nonprofit corporation that's focused on sparking innovation in Iowa.

That group will work hand in hand with the Iowa Innovation Council, a group of statewide business leaders interested in jump-starting the next generation of innovative products.

The nonprofit innovation corporation is expected to raise as much as \$100 million in private investment that can be used to invest in startups across the state.

Separately, Gov. Terry Branstad is expected to create, by executive order, a CEO-led board that will provide broad economic development strategy for the state.

The board was cut from the IPEP legislation.

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