**Enterprise Zone Program Proposal**

The Enterprise Zone program (EZ) contains a “sunset” date after which no new zones can be designated. In 2011, IEDA offered a bill to revamp the program but the bill was not well considered or well received.[[1]](#footnote-1) In 2012, instead of reoffering the 2011 bill, IEDA pushed for a two-year extension of the program in its current form. The intent of that change was to allow time to develop a new proposal.

Since 2012, IEDA has been engaged with a number of stakeholders about the future of the Enterprise Zone (EZ) program. A working group was assembled to consider the program’s effectiveness and to discuss how the economic development community’s needs can be best served in this policy area, at both the state and the local levels. The goal of these discussions was to reach some agreement on the future of the program, and this document summarizes the resulting legislative proposal.

**Proposal Summary**

IEDA recognizes that local communities and developers have a great stake in the EZ program and that the program addresses some needs that no other IEDA program does. However, IEDA also recognizes that the program has significant administrative overhead as well as extensive overlap with the High Quality Jobs (HQJ) program, the IEDA’s largest tax-based business incentive program.

This goal of the proposed legislation is to keep the elements of the EZ program should be retained and amend or eliminate the ones that are duplicative. The bill itself has three main divisions, each one with a different purpose and a number of related changes.

**Division I Summary**

Division I makes a number of enhancements to the HQJ program to provide capabilities that it does not currently have. One notable feature of the EZ program is a clear focus on redevelopment of distressed areas, especially urban core areas. While HQJ has unemployment based distress criteria, there is currently no emphasis in HQJ on driving incentives into redevelopment of existing sites as opposed to green field development.

The bill adds the terms “brownfield” and “grayfield” into the HQJ program in order to provide additional incentives for revelopment. The existing HQJ wage thresholds are 120% of the laborshed wage unless a project is in a distressed county. The bill would allow a 90% wage threshold for any project that is developed on a brownfield site and a 100% wage threshold for any project that is developed on a grayfield site. The definitions of brownfield and grayfield are borrowed from the existing Brownfield and Grayfield Redevelopment Tax Credits program. This change not only puts a thumb on the scale of redevelopment, it is more flexible than the existing EZ program because the brownfield and grayfield wage thresholds would not be limited to a designated “zone” of a city or county. These new thresholds could be used on a site by site basis.

But in Iowa, it is not only the urban areas that are economically distressed. While HQJ currently does have distress criteria, there are only 31 counties eligible under the existing criteria. The EZ program currently allows approximately 45 counties to be eligible under its distress criteria. Therefore, Division I of the bill also increases the number of counties that are eligible for HQJ distress criteria from 25 to 33 for both short term unemployment and long term unemployment measures.

This change would result in a total of 41 eligible counties under the most current unemployment figures in use by IEDA. Below is the list of counties that would be eligible under the bill’s changes:

**Allamakee, Appanoose, Cerro Gordo, Chickasaw, Clarke, Clayton, Clinton, Davis, Des Moines, Dickinson, Fayette, Floyd, Guthrie, Hamilton, Hancock, Hardin, Henry, Howard, Jackson, Jasper, Jefferson, Jones, Keokuk, Lee, Louisa, Madison, Mahaska, Marshall, Monona, Monroe, Montgomery, Muscatine, Page, Scott, Tama, Van Buren, Wapello, Webster, Winnebago, Worth, Wright.**

While the total number of counties eligible under the bill does not quite match the existing number of EZ counties, the EZ program limits total zone area to 1% of a county’s area. Under HQJ’s distress criteria, when a county qualifies as distressed, the entire county is eligible for the lowered wage thresholds. Therefore, not only does the bill put much more of the state’s geography into the “distressed” category, it also greatly simplifies the administration of the program by dispensing with the need to create, track, manage, and market the approximately 1,400 existing enterprise zones, including the need for zone changes and incentive approvals at the local level.

**Division II Summary**

Division II of the bill creates a new “Workforce Housing Tax Credits” program. The EZ program currently provides partially transferrable income tax credits and sales tax refunds to housing developers who develop eligible housing projects in enterprise zones. The bill creates a new program that is structured in a similar way to the Housing Enterprise Zone (HEZ) credits but with some modifications. First, the new credits are not tied to a zone. They can be developed anywhere in the state as long as the project itself meets one of four project based criteria:

1. It’s a grayfield or brownfield site.

2. It’s the repair or rehab of dilapidated existing housing stock.

3. It’s an upper story project.

4. It’s new construction in a community with demonstrated workforce housing needs.

Second, like the HEZ credits, the new credits are available for housing projects that include four or more single family dwelling units or three or more units of a multi-family dwelling, but they are also available in an upper story project that consists of two or more dwelling units.

Third, the new credits dispense with the local housing commissions and the need to submit information to such commissions. Instead, application materials are handled only and directly with IEDA and a standard application, project registration, and contract issuance process is created within IEDA so that the new credits can be administered in a manner similar to other existing IEDA credit programs such as the Brownfield and Grayfield Redevelopment Tax Credits program.

Fourth, the current HEZ credits allow incentives on the first $140,000 of per unit value. The bill makes the first $150,000 of investment eligible.

Fifth, the bill puts per unit cost caps on the credits to ensure they are targeted at middle-income housing. Projects with per unit cost up to $200,000 are eligible, unless the project is a historic preservation project in which case it is eligible up to $250,000 per unit.

Sixth, the bill simplifies the new credits in number of ways. First, by making all of the issued credits fully transferrable rather than just a few of them. This will ease administration by both IEDA and the department of revenue which have been separately tracking a subcap of transferrable credits under the program. Because this makes the financing more marketable, the bill also dispenses with certain IRS section 42 credit designations. Second, because the credit amounts issued under the program are relatively small and are no longer linked to HQJ or EZ program requirements, the bill sets the carryforward period on the tax credits at 5 years.

Finally, the new credits are capped at no more than $1 million in benefits per recipient and no more than $20 million in the aggregate. The program is also placed under IEDA’s maximum aggregate tax credit cap.

**Division III Summary**

Division III of the bill provides for the wind-down of the existing EZ program. The old code sections are eliminated, zone changes and new agreements are ended, and existing agreements are protected.

**Program Background Information**

The above portion of this document describes the details of the legislative proposal. The remainder of the document contains IEDA’s frank assessment of the current program and a comparison of the capabilities of both EZ and HQJ.

**EZ Program Assessment**

Despite its strengths, EZ also has a number of weaknesses that IEDA believes are addressed by the above legislative proposal. The following items are some of the program weaknesses identified by IEDA:

**The process for certification and management of zones is complex**

The process of designating and certifying zones is cumbersome and inconsistent, and it involves many decision-makers. For example:

* Cities and counties have different designation requirements. While they both use “distress criteria” in order to make designations, the county criteria are different than the city criteria. In addition, cities actually have two alternative sets of criteria to use for designations.
* Incentives are restricted to projects located in zones, but the zones themselves are limited in geographic size, resulting in the designation of many small zones in order to drive benefits to the desired projects.
* Zones are 10 year designations with 10 renewals, meaning that zones rarely roll off the list even in areas where distress criteria have improved.
* The caps on total area cause many communities to amend existing zone boundaries in order to accommodate new projects.
* Each time a zone is amended, compliance with the applicable distress criteria must be reassessed and new approvals must be obtained at both the state and local levels.
* While the incentives are targeted to businesses in order to spur job creation, none of the zone certification criteria directly incorporate high unemployment.

**The policy goals of zone designation are not closely aligned with program design**

Despite the fact that the zone designation criteria are based on a number of holistic measures of distress, program benefits are exclusively tax-based incentives for non-retail businesses. In other words, communities designate zones based on broad measures of distress, but the program isn’t very good at delivering benefits that directly target the criteria. For example:

* Counties can designate zones if the *county* meets certain county-level criteria, but the *zones* themselves don’t have to meet the criteria.
* Zones can be designated based on low wages and poverty measures, but the wage threshold is only 90% and it doesn’t increase over the term of the contract.
* Zones can be designated based on vacant housing and county poverty rates, but nothing in the program *requires* that an eligible business actually hire residents of the zone or even of the county.
* Zones can be designated based on population loss and aging populations, but the program has no assistance targeted directly at labor issues. The program offers housing tax credits and 260E training, but it’s unclear to what extent they actually counteract population loss and workforce shortages.
* Zones can be designated based on blighted conditions or property valuation losses, but program benefits are limited to business incentives. There is no assistance for brownfield clean-up. No assistance for historic preservation. No assistance for community development. And there are no tie-ins to the various state programs that do provide such assistance.
* Cities can designate “transportation enterprise zones” based on certain infrastructure criteria. But no assistance is available to local governments for building or repairing public infrastructure.
* In urban areas, residential areas often qualify as distressed, but are not compatible with industrial uses creating further asymmetry between the goals of zone designation and program benefits structure.
* All incentives flow to businesses and none to nonprofits or local governments, leaving all non-employment development needs unmet.

In short, the EZ program seems focused primarily on job creation rather than the broader needs of distressed areas. If the program is a job creation tool, then it’s inferior to high quality jobs; but if it’s an urban renewal or rural development tool, then it needs to offer more than business incentives.

**Business incentives are not closely tied to job creation and are exclusively tax-based**

To be eligible for incentives under the program, a business must meet the following criteria:

* Be located in a designated zone.
* Not be inappropriately reducing or relocating operations.
* Not be a retail business.
* Provide sufficient benefits to employees.
* Pay at least 90% of the qualifying wage threshold.
* Create or retain 10 or more jobs.
* Make a capital investment of at least $500,000.

The incentive for eligible businesses is a 10% investment tax credit (ITC). That is, it’s 10% whether the business creates 10 jobs or 100. Whether it invests $500,000 or $5 billion. In contrast, the high quality jobs program (HQJP) uses a sliding scale to increase the incentive types and amounts as capital investment amounts and created jobs increase. Businesses in HJQJP don’t qualify for a 10% ITC until they invest $100 million and create 100 jobs.

In addition, the EZ program’s benefits are exclusively tax-based. Many business have no income tax liability or no eligibility for the R&D credit. In such cases, a loan/forgivable loan component often makes sense for a project, but the EZ program has no direct financial assistance for businesses.

**The local commissions and the zone boundaries create bureaucracy at two levels**

Every eligible business must first apply to the local commission, which must make an initial determination of eligibility, and only then submit the application to the authority for final action. Since the final determination on the application rests with the authority, the requirement of approval by local commissions is an unnecessary and bureaucratic requirement in order to obtain state incentives. The red-tape is particularly thick in cases where, in order to accommodate an important new project, the geographic boundaries of the zone must first be amended at the local level and approved by the state before the usual local and state application approvals can be obtained. In addition, zones are designated by legal property descriptions and not by addresses, making it impossible at the state level to accurately map designated zones.

**Signigicant overlap with the HQJ program creates complexity and additional administrative overhead**

The High Quality Jobs program (HQJ) and the EZ program have nearly identical capabilities. The following table compares the two programs:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Enterprise Zones | High Quality Jobs | Comments |
| Investment Tax Credits? | X | X | Corporate or individual income tax credits |
| Sales Tax Refunds? | X | X |  |
| R&D Tax Credits? | X | X | Supplemental awarded credits |
| New Jobs Withholding? | X |  | Available under 15A.7 and 260E. |
| Insurance Tax Credits? | X | X | Only insurers pay the premiums tax |
| Housing Tax Credits? | X |  | Targeted to developers |
| Property Tax Exemptions? | X | X |  |
| Wage Thresholds? | X | X | 90% in EZ; 100% or 120% in HQJ |
| Benefits Requirement? | X | X |  |
| Retail Excluded? | X | X |  |
| Statewide Eligibility? |  | X | EZ is limited to designated zones |
| Job Requirements? | X | X | EZ has minimums; HQJ has a sliding scale |
| Loans/Forgivable Loans? |  | X | EZ has no cash component; HQJ does |
| Distress Criteria? | X | X | HQJ is county level unemployment |
| Contract Administration? | X | X |  |
| Clawbacks? | X | X |  |

KEY: Red = EZ only capability; Green = HQJ only capability; Black = Both Programs

As the above table illustrates, the capabilities of the two programs are remarkably similar. However, IEDA must currently administer parallel sets of eligibility, parallel rules, parallel compliance, and parallel board approval and contract administration procedures all in order to deliver essentially the same set of program benefits under different sets of eligibility criteria.

A closer look at the table reveals two things:

(1) That HQJ has three critical capabilities that EZ doesn’t have: statewide eligibility, county level distress criteria, and loan-based assistance; and

(2) That if the housing credits, urban core/city-based distressed criteria, and the rural distress focus could be folded into HQJ, a single program could be made to do the work of what is now done under two programs. This would greatly simplify program offerings for businesses, remove unnecessary red-tape at the local level, and make program delivery more efficient at the state level.

IEDA believes that the legislative proposal addresses both of these items in a simple, effective, and efficient manner.

1. See 2011 SSB 1116 available at <http://coolice.legis.iowa.gov/linc/84/external/ssb1116_Introduced.pdf>. [↑](#footnote-ref-1)