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[HF 2065](#) – Rural Economic Development (LSB5580YH)  
Staff Contact: Jeff Robinson (515.281.4614) [jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov)  
Fiscal Note Version – New

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## **Description**

[House File 2065](#) creates enhanced tax incentives under the High Quality Jobs Program (HQJP) for eligible projects located in rural communities. A rural community is defined in the Bill as any city with a population of 30,000 or less located in a county with a population of 50,000 or less. Provisions are made for cities that are located in more than one county. The Bill provides maximum HQJP Investment Tax Credit levels for projects in rural communities that are higher than the current HQJP incentive maximums.

The Bill also establishes population criteria for the determination of the amount of local community matching funds required for a project to receive assistance under a number of assistance programs offered by the Economic Development Authority (EDA). Under current law, the EDA is directed to consider the amount and type of local government match provided in each application for assistance, but no specifics as to the evaluation criteria are provided. Under the Bill, a criterium is added for community match funding that must equal at least the specified percentage of an eligible business's project expenditures. The community match criteria established in the Bill include:

- A city with a population of less than 5,000, 0.0%.
- A city with a population between 5,000 and 14,999, 5.0%.
- A city with a population between 15,000 and 29,999, 10.0%.
- A city with a population of 30,000 or more, 20.0%.

The changes take effect upon enactment.

## **Background**

The HQJP provides three significant State financial assistance mechanisms for qualified businesses. The maximum level of incentives a business may be awarded for a qualified project depends on the level of investment, the number of employees, and the employee wage level. The ultimate level of incentive awarded to a particular project is negotiated between the qualified business and the EDA. The State incentive mechanisms include:

- An Investment Tax Credit of up to 10.0% of a business's investment in the project.
- A sales/use tax refund for construction materials.
- A Supplemental Research Activities Tax Credit.

Iowa Code section [15.119](#) limits the dollar amount of tax incentives that the EDA may award for a fiscal year under several of the State's economic development programs. However, the total amount awarded in any fiscal year has not reached the annual limit since FY 2013. For FY 2014 through FY 2019, the average annual aggregate amount awarded under the HQJP was \$72.0 million, well below the average \$115.0 million limit for those same fiscal years.

All Iowa cities with a current population in excess of 30,000 are located in counties with a population in excess of 50,000. Therefore, the HQJP population thresholds effectively limit the enhanced incentives to locations not within the 10 most populous counties in Iowa. Those 10 counties are:

- Black Hawk
- Dallas
- Dubuque
- Johnson
- Linn
- Polk
- Pottawattamie
- Scott
- Story
- Woodbury

### **Assumptions**

- Incentive awards under the HQJP have not reached the annual limits specified in the Iowa Code since FY 2013. It is assumed that for the foreseeable future, this situation will continue, and it is further assumed that the addition of enhanced tax incentives for projects in rural communities will not result in the HQJP reaching the current annual limits specified in the Iowa Code.
- Over the past five completed fiscal years, incentives awarded under the HQJP have averaged \$72.0 million, and the Department of Revenue estimates that 44.1% of awards under the HQJP are for projects in Iowa counties with a population of less than 50,000. It is assumed that future fiscal years will experience the same \$72.0 million and 44.1% statistics under current law.
- The Department of Revenue calculates that the average tax incentive package awarded under the HQJP equals 8.0% of the project amount financed by the owners. The Department estimates that the average tax incentive package under the proposed rural community incentive enhancements will average 9.0%.
- Citing research completed by Devereux, Griffith, and Simpson, the Department of Revenue estimates that the increased incentive percentage will result in a 0.5% increase in project incentives awarded in rural areas.
- Combining the previous assumptions, the Legislative Services Agency projects that the enhanced tax incentives for rural communities will increase tax incentive awards under the HQJP by \$4.1 million each fiscal year.
- The Department of Revenue estimates that based on historical awards under the HQJP, future incentive packages awarded by the EDA will be distributed as follows:
  - Investment Tax Credits = 55.0%
  - Sales/use tax refunds = 35.0%
  - Supplemental Research Activities Credits = 10.0%
- Not all projects that receive awards are completed, and not all completed projects receive the full benefit of the original award. The Department of Revenue estimates that awarded benefits will be redeemed in the following percentages:
  - Investment Tax Credits = 68.0%
  - Sales/use tax refunds = 57.0%
  - Supplemental Research Activities Credits = 100.0%
- The actual redemption of tax incentives depends on the length of time between the award of the incentives, the time needed to complete the project, and the tax liability of the entity benefiting from the tax incentives. The average length of time it takes all the incentives to be awarded and redeemed for a particular completed project is assumed to be:

- Investment Tax Credits = Nine years
- Sales/use tax refunds = Six years
- Supplemental Research Activities Credits = Three years

**Fiscal Impact**

The combination of assumptions involving awards, project completions, and actual tax incentive redemptions results in a projected increase in tax credits awarded of \$4.1 million each fiscal year, and those annual awards are projected to result in redemptions over a number of years totaling \$2.4 million. The projected reduction in net General Fund revenue that is the result of the increased tax incentive awards is presented in the following table.

<b>Projected Net General Fund Revenue Change</b>	
In Millions	
	<u>Amount</u>
FY 2021	\$ 0.0
FY 2022	-0.1
FY 2023	-0.5
FY 2024	-0.8
FY 2025	-1.1
FY 2026	-1.4
FY 2027	-1.8
FY 2028	-2.0
FY 2029	-2.1
FY 2030	-2.3
FY 2031 and after	-2.4

**Sources**

Department of Revenue  
 Economic Development Authority Board monthly reports  
[Devereux, Griffith, and Simpson \(2007\)](#)  
 Legislative Services Agency analysis

/s/ Holly M. Lyons

February 17, 2020

Doc ID 1130155

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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