



HF 590 – Iowa Partnership for Economic Progress (LSB 2042HV)
Analyst: Kenneth Ohms (Phone: (515) 725-2200) (kenneth.ohms@legis.state.ia.us)
Fiscal Note Version – New

Description

House File 590 replaces the Department of Economic Development (DED) with the newly created Iowa Partnership for Economic Progress (IPEP), consisting of an advisory board, an authority, and a nonprofit corporation.

The Partnership for Economic Progress is a seven-member advisory board.

- The Board is chaired by the Governor or Lieutenant Governor.
- Members are appointed by the Governor and subject to confirmation by the Senate.
- Board members are appointed for staggered two-year terms.
- Mandated to meet at least quarterly.
- Mandated to develop a strategic vision for economic development in Iowa.

Major changes from the DED to the Economic Development Authority include:

- The Authority's Board consists of nine voting members. The current Board for the DED consists of fifteen voting members.
- The Board appoints the Director of the Authority and is not subject to confirmation by the Senate.
- The Authority is directed to form a nonprofit corporation.
- The Authority may delegate duties to the Economic Development Corporation for specific services. The Bill specifies that compensation for all services will be at "fair market value."
- The Director of the Authority must classify and fix the compensation of identified key personnel outside of the current employee classification system. The Director cannot designate more than five employees as key personnel.
- The Bill gives the Authority the power to sell bonds. The types of bonds sold are not specified in the Bill; however, one possibility is Industrial Revenue Bonds (IRBs). Currently, IRBs are issued by cities, counties, and the Iowa Finance Authority (IFA). Other possible bonds that could be issued by the Authority include 501(c)(3) Hospital Revenue Bonds or any disaster bonds that are created.
- If the Economic Development Authority sold IRBs in a manner similar to the Iowa Finance Authority they could expect the following results:
 - Application and closing fees for all conduit bonds the IFA has issued from FY 2008 to FY 2011 year-to-date have averaged \$153,000.
 - The IFA fee for allocations of private activity bond cap is 2 basis points (0.02%). If \$50.0 million of cap is allocated to projects, this would generate \$10,000.
 - The IFA charges a closing fee for conduit bond issues. For \$50.0 million of IRBs, at 10 basis points (0.10%), closing fees of \$50,000 will be generated.
 - When IFA is the issuer for conduit bonds, legal counsel costs are paid by the entity issuing the bonds.
- All employees of the DED will transfer to the Authority without the loss of years of service and other state employee benefits.

- The Iowa Office of Energy Independence (OEI) will integrate into the Economic Development Authority.
 - All funds, programs, contracts, and licenses will transfer to the Authority.
 - The 25.77 federally-funded FTE positions will transfer to the Authority.
 - The 0.90 FTE position funded by the Building Energy Management Fund will transfer to the Authority.
 - The 4.0 FTE positions authorized for Power Fund administration will be eliminated. The titles of these four positions are Director, Deputy Director, Executive Secretary, and Executive Officer 2. Only the Deputy Director and Executive Secretary positions are currently filled.

The Economic Development Corporation:

- Is created by the Economic Development Authority qualifying under section 501(c)(3) of the Internal Revenue Code.
- Receives no appropriations from the General Assembly.
- Will be governed by the articles for incorporation that are created for its internal structure and management.
- Will submit an annual report to the Governor, General Assembly, and Auditor of the State pertaining to the operations and activities that have been delegated to it by the Authority.

The Bill also does the following:

- Renames the Grow Iowa Values Fund the Economic Development Fund.
- The Authority assumes the administration of the Iowa Commission on Volunteer Service from the Governor's Office.
- Eliminates the Iowa Code authority that authorizes the current Iowa Department of Economic Development Foundation.

Assumptions

- The Department is expected to use current resources to make the transition to the Authority.
- All employees (except 4.0 FTE positions authorized for the Power Fund), funds, contracts, rules, and licenses, transfer from the DED or OEI to the newly created Economic Development Authority.
- The Director's designation of key personnel is subject to change.
- All accounts, funds, and FTE positions for the Iowa Commission on Volunteer Service in the Governor's Office will be transferred to the Authority.

Fiscal Impact

The table below represents the total resources and expenditures of the current Department of Economic Development.

Department of Economic Development Resources and Expenditures			
	Actual FY 2010	Estimated FY 2011	
Appropriations			
General Fund	\$ 14,017,679	\$ 12,715,422	
Other Fund	36,324,000	83,265,000	
Other Receipts¹	290,172,672	203,120,550	
Other Resources	207,722,279	170,654,715	
Total Resources	\$ 548,236,630	\$ 469,755,687	
Disposition of Resources			
Expenditures	\$ 371,708,686	\$ 310,784,917	
Other Dispositions ^{1,2}	176,527,943	158,954,862	
Total Dispositions	\$ 548,236,629	\$ 469,739,779	

¹ Due to the limitation of the State Budget System, the data above double accounts resources and expenditures when transfers take place within the agency.

² Other Dispositions includes transfers, balance carry forwards, reversions, etc.

The table below reflects the current FTE positions for the Department of Economic Development and the proposed transition under HF 590.

Transition of FTE positions for HF 590				
	Actual FY 2009	Actual FY 2010	Estimated FY 2011 ¹	HF 590 (FY 2012)
Department of Economic Development	142.81	117.33	139.95	0
Governor's Office-Statewide Volunteer Program	2.01	1.95	2.00	0
Office of Energy Independence	4.81	18.55	29.77	0
Economic Development Authority	-	-	-	171.72
Total	149.63	137.83	171.72	171.72

¹ Estimated FY 2011 FTE positions are current department estimates and are likely to change before the close of the fiscal year.

Additional information on the DED's current budget is available from the LSA upon request.

The following are partial fiscal impacts of HF 590:

- Supporting the new Partnership for Economic Progress Advisory Board will require a minimal annual increase in costs.
- The cost of supporting the smaller Authority Board will provide minimal annual savings compared to the current size and budget of the DED Board.
- The one-time costs associated with creating new logos, updating websites, and attorney fees associated with filing new trademarks is expected to range from \$80,000 to \$100,000.

- There will be minimal one-time costs for fees associated with the establishment of the nonprofit corporation that will require a one-time increased expense.
- In FY 2010, the Iowa Department of Economic Development Foundation received \$817,000 in private donations. However, it cannot be determined if donors will continue to give these donations to the new Corporation.
- The transfer of the Iowa Commission on Volunteer Service from the Governor's Office to the Economic Development Authority will have a minimal fiscal impact.

The complete fiscal impact of [HF 590](#) cannot be determined for the following reasons:

- The amount of revenue generated by any fees that the Authority may charge cannot be determined due to lack of information.
- The services and contract amount between the Authority and the Corporation is unknown.
- If the Authority chooses to sell bonds, the type, amount, and start date for any possible bond sales are unknown.
- It is unknown how the Director will utilize the key personnel designation.
- Additional legal counsel services may be necessary to draft the articles of incorporation for the Economic Development Corporation.
- It is unknown if the Authority will use their existing authorized FTE positions to transfer the remaining 2.0 FTE positions for administration of the Power Fund. If the Authority does this, there will be an increased annual cost of \$214,000. The Authority will need to identify funding for these positions.

Sources

Department of Economic Development
Department of Management
Iowa Finance Authority
Legislative Services Agency Analysis

/s/ Holly M. Lyons

March 22, 2011

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to Code [Section 2.56](#). Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
