Legislative Services Agency

MINUTES

Targeted Jobs Withholding Tax Credit Study Committee

October 25-26, 2005

MEMBERS PRESENT:

Senator Thomas Courtney,
Co-chairperson
Senator Ron Wieck,
Co-chairperson
Senator Gene Fraise
Senator Mark Zieman

Representative Clarence Hoffman,
Co-chairperson
Representative Chuck Soderberg
Representative Roger Wendt

MEETING IN BRIEF

Organizational staffing provided by: Mike Goedert, Senior Legal Counsel, (515) 281-3922

Minutes prepared by: Susan Crowley, Senior Legal Counsel, (515) 281-3430

I. Procedural Business.
II. Overview of Proposed Legislation.
III. Fiscal Overview of Tax Consequences as a Border Community.
IV. Competitiveness in the Siouxland Region.
V. Economic Impact of Tri-State Competitiveness and Tax Structures.
VI. Testimony From Area Businesses — Palmer Candy Company and State Steel Supply.
VII. Western Iowa Tech Community College.
VIII. Job Loss and Competitive Disadvantages as a Border Community.
IX. Tax Considerations for Companies in the Tri-State Area.
X. History of Targeted Jobs Withholding Tax Credit Proposal.
XI. Committee Discussion.
XII. Recommendation.
XIII. Materials Filed With the Legislative Services Agency.

I. Procedural Business.

Introduction. The Targeted Jobs Withholding Tax Credit Study Committee met Wednesday, October 25 and Thursday, October 26, 2005, in Sioux City, Iowa. The charge of the Committee is to "meet in Sioux City to discuss a proposal for a pilot project for a targeted jobs withholding tax credit."

Premeeting Events. The Committee members, legislative staff, and Sioux City officials breakfasted at the Floyd Boulevard Organic Market in Sioux City. They then boarded a bus for a tour of the local tri-state area, which includes Sioux City, Iowa; South Sioux City, Nebraska; and North Sioux City, South Dakota; and the neighboring town of Dakota Dunes, South Dakota. The group returned to City Hall of Sioux City for lunch and the afternoon's presentations.

Election of Co-chairpersons. Representative Soderberg nominated Temporary Co-chairpersons Courtney, Wieck, and Hoffman as permanent Co-chairpersons. The motion was seconded by Representative Wendt and adopted by voice vote.

Adoption of Rules. Co-chairperson Hoffman moved adoption of the proposed rules previously distributed to the Committee members. The motion was seconded by Representative Soderberg and the proposed rules were adopted by voice vote.

Introduction of Members and Certain Audience Members. After the Committee members were introduced, Co-chairperson Wieck recognized Mayor Karen Van de Steeg who thanked the Committee members for holding the meeting in Sioux City and also thanked the General Assembly for establishing the Committee.

Adjournment. The Committee adjourned at 11:10 a.m. on Wednesday, October 26, 2005.

II. Overview of Proposed Legislation.

Co-chairperson Wieck recognized Mr. Michael Goedert, Senior Legal Counsel with the Legal Services Division of the Legislative Services Agency, to provide a brief overview of the proposed legislation, "An Act for a targeted jobs withholding tax credit to be used for funding improvements in certain urban renewal areas" (LSB 3488XC 81).

Mr. Goedert explained that the bill allows two pilot project cities to enter into withholding agreements with certain businesses located in an urban renewal area in order to assist in funding projects in their urban renewal areas by means of a targeted jobs tax credit from withholding. The tax credit from withholding would be available for new jobs of an existing business in the urban renewal area or of a business newly locating to the urban renewal area. A business already located in the area or elsewhere in the state is required to either create 10 new jobs or make at least $500,000 in capital investment within the area. The bill defines pilot project city as the largest city in a county with a population of 95,000 to 110,000 and the largest city located in a county with a population of 81,000 to 88,500. This refers to Sioux City and Council Bluffs.

Mr. Goedert explained that the credit is equal to 3 percent of the amount of gross wages paid to employees by the business of each targeted job of the business in the area. A targeted job is one whose wage is at least equal to 100 percent of the countywide average wage of the county where the pilot city is located. The amount of the credit is paid to the pilot city to be used to pay obligations incurred in assisting the business in the urban renewal area. The bill provides that a withholding agreement shall not be entered into after June 30, 2010, unless it is an extension of an existing agreement. Such an extension is limited to 10 years in duration or until urban renewal debt obligations are satisfied, whichever is earlier.

III. Fiscal Overview of Tax Consequences as a Border Community.

Testimony. Co-chairperson Wieck recognized Mr. John Meyers, Finance Director, City of Sioux City. Mr. Meyers stated that although Sioux City effectively utilizes statutory economic development programs, the city needs additional flexibility to strengthen its economy and more successfully compete with Nebraska and South Dakota. He noted that the city is experiencing economic distress which is evidenced by its property tax situation. In terms of property taxation, he said, Sioux City has the lowest taxable valuation per capita in the state for a city its size. Furthermore, in terms of local funding of elementary and secondary schools, Sioux City has the lowest taxable valuation per student in the state for a school district its size. He stated that the proposed legislation would assist Sioux City in attracting larger industrial projects and professional arts projects.

Discussion. In response to a question from Co-chairperson Courtney, Mr. Meyers said that people moving from Iowa to South Dakota are saving anywhere from 5 percent to 8 percent in personal income tax liability. Mr. Meyers stated that eliminating the state income tax was considered, but it would require a large increase in the sales tax rate so the proposal was dropped. The property taxes collected are roughly similar between the two states, he said. South Dakota has a higher sales tax rate and much broader sales tax base than does Iowa, he stated.

Mr. Meyers agreed with Co-chairperson Hoffman that retail business is a bright spot in Sioux City's economy, and he cautioned against Iowa increasing its sales tax rate or broadening its base because Sioux City wants to continue to attract retail shoppers from the Siouxland region. What the General Assembly can do, he averred, is to give Sioux City a development tool that would entice business to locate there and that would at least negate some of the advantages that South Dakota has.

In response to a question from Representative Soderberg, Mr. Meyers stated that the permissible uses of the amount of the withholding credit created in the proposed legislation are the same as the uses of incremental property taxes under the urban renewal chapter. Co-chairperson Wieck stated that the intent is to give broad authority to the city as it pertains to expenditure of the withholding credit moneys in order to address the many issues that Sioux City faces in trying to attract new businesses and retain existing businesses.

IV. Competitiveness in the Siouxland Region.

Testimony. Co-chairperson Wieck recognized Mr. Steve Corrie, Chairperson of the Siouxland Chamber of Commerce Government Relations Committee. Mr. Corrie informed the Committee that in 1988 the chamber representatives of Sioux City, Iowa; South Sioux City, Nebraska; and North Sioux City, South Dakota formed the Siouxland Initiative, a regional private/public partnership, to bring capital investment and jobs with good wages into the area. Mr. Corrie stated that the cooperative economic development approach has made the entire tri-state area more viable economically. Mr. Corrie briefly described the primary economic development tools provided by statute in the three states. He stated that the wage requirements of the Grow Iowa Values Fund are problematic. First, 130 percent of the average county wage unfairly eliminates some industries and does not take into account whether the county is more rural or more urban, he said. To highlight this point, Mr. Corrie and Representative Soderberg recounted the case of Masaba Mining Equipment Company. The company is a third-generation family business in Iowa. It recently relocated from Akron, Iowa, to Vermillion, South Dakota, expanded from 35 employees to 45, and has further plans to expand to 50 employees. Akron could not apply for Grow Iowa Values Fund money as part of a package to retain the company because, although the wages paid by the company were the highest paid in Akron, they were not 130 percent of the average county wage. Second, Mr. Corrie expressed concerns that awards from the Grow Iowa Values Fund would be directed more to $30 per hour jobs rather than $12 per hour jobs, even though the $12 per hour jobs meet the wage requirement for the particular applicant county.

Discussion. In response to a question from Co-chairperson Hoffman, Mr. Corrie noted that the Initiative has taken advantage of other Iowa economic development programs such as Endow Iowa and the Fund of Funds. However, the existence of these programs and others needs to be better marketed, he said.

Senator Zieman stated that Sioux City has made a lot of progress since he last visited four or five years ago. He asked what economic development tools, besides tax incentives, the General Assembly could provide to help create an even better business climate in Sioux City and around the rest of the state. Mr. Corrie stated that Iowa is in a positive competitive position when it comes to quality of life and a well-educated, reliable workforce. However, he said, economic development tends to be driven by tax policy, which is one reason the proposed legislation relating to targeted jobs withholding tax credits is so attractive.

In response to a question by Representative Wendt, Mr. Corrie said that the wage level requirement in the proposed legislation, 100 percent of the county average wage, is appropriate.

V. Economic Impact of Tri-State Competitiveness and Tax Structures.

Testimony. Co-chairperson Wieck recognized Mr. Ken Beekley, Executive Vice President of the Siouxland Economic Development Corporation. Mr. Beekley stated that each state is constantly competing with neighboring states and there is no better example of this than the Siouxland region where three states converge within a single contiguous urban area. A significant factor in the competition among states or communities is the business tax climate, i.e., the tax burden and the structure and complexity of the tax system. State legislators need to be vigilant in ensuring the competitiveness of their respective business tax climates and make changes that will improve their position for the long term, he averred. Two truths are important for legislators to keep in mind. First, taxes matter to business, and competition — both domestic and foreign — forces businesses to constantly search for more tax-friendly environments. Second, states do not legislate tax changes in a vacuum; changes to tax law change the competitive position of a state relative to other jurisdictions.

Mr. Beekley discussed two research studies on comparative business tax climates that rank Iowa and the states bordering Iowa. The first study, the "State Business Tax Climate Index," was published by the Tax Foundation in October 2004. It ranked the states based on the burden of each state's corporate and individual income tax, sales and gross receipts tax, unemployment insurance tax, and each state's fiscal balance. The fiscal balance ranking indicates a state's degree of statutory restraint regarding taxing and spending, he explained. Mr. Beekley stated that it appears from this study that Iowa's business tax climate is the least competitive with those in South Dakota and Missouri, more or less comparable with Illinois, somewhat favorable compared to Nebraska, and very competitive relative to Minnesota and Wisconsin. The second study discussed by Mr. Beekley was the "Small Business Survival Index 2005: Ranking the Policy Environment for Entrepreneurship Across the Nation" published in October 2005 by the Small Business & Entrepreneurship Council. This study included a broader range of factors than the first study. Based on these studies, Mr. Beekley was able to arrive at several significant findings concerning all of the states' business tax climate rankings. These findings include: 1) all four states without a corporate income tax are among the top 10 favorable business tax climates and among the top 10 that have a corporate income tax, three have just one bracket and one a moderate rate; 2) all of the seven states without an individual income tax rank in the top 10; and 3) seven of the states with the best business tax climates also scored in the top 10 on fiscal balance. He also found that, generally, states in the overall top 10 in terms of business tax climate raise sufficient tax revenue without imposing at least one of the three major taxes — corporate income, personal income, or sales. He concluded by stating that, assuming Iowa continues to impose all three of the major taxes, it might prove beneficial to consider the impact of tax simplification in terms of reducing the number of tax brackets and lowering the applicable rates. This, he stated, would improve its ranking for both corporate and personal income tax, as well as its "fiscal balance" ranking.

Discussion. In response to questions from Committee members, Mr. Beekley stated that, in the absence of restructuring the entire tax system, tax incentives such as the targeted jobs withholding tax credit for businesses in an urban renewal area are a good thing for the state to consider enacting because they induce development or expansion and this, in turn, helps to level the playing field between Sioux City and its bordering communities in Nebraska and South Dakota. In the long term, however, Iowa's tax system in general needs to be changed to make the state more competitive in terms of business climate, he said. He also stated that a greater degree of analysis in all border communities in Iowa would be helpful to see if what is occurring in the Siouxland area is peculiar to South Dakota and Sioux City. He noted that there has also been business relocation from Nebraska to South Dakota because of South Dakota's more favorable business climate.

VI. Testimony From Area Businesses — Palmer Candy Company and State Steel Supply.

Testimony — Palmer Candy. Co-chairperson Wieck recognized Mr. Marty Palmer, President of Palmer Candy Company. Mr. Palmer stated that his company is the kind of business the state should be seeking out — it makes payroll, pays taxes, and has never experienced a layoff. Although he is very loyal to Iowa, Mr. Palmer noted that Nebraska and South Dakota offer economic development programs that are a serious inducement to locating business there. No income taxes in South Dakota also serves as an inducement to locating business there, he said. Mr. Palmer spoke in favor of the proposed legislation providing a withholding tax credit to certain businesses in an urban renewal area. The 100 percent of county wage requirement in the bill makes good sense, he said, but the $500,000 level of asset commitment required in the bill is probably a little low. He stated that in order to reduce economic vulnerability, the emphasis of the proposed legislation, and of economic development in general, should be on attracting many companies with a labor force of 150 to 250 employees, rather than a couple of companies with over 1,000 employees.

Testimony — State Steel Supply. Co-chairperson Wieck next recognized Mr. Dave Bernstein of State Steel Supply. Mr. Bernstein stated that the company has several scrap yards and steel product manufacturing plants in Minnesota, Nebraska, South Dakota, and Iowa, and the company has been expanding every couple of years for the past 15 years. Two of the expansion projects located in Iowa involved the Enterprise Zones Program and it worked really well for the company, he said. However, because the company's expansion has been capital intensive and has not added a lot of jobs, many of the state economic development assistance programs have not proved to be beneficial to the company. He stated that although the company pays decent wages and provides good benefits, it probably would not have projects that meet the 130 percent of average county wage requirements contained in the Grow Iowa Values Fund law. Mr. Bernstein spoke favorably of the proposed legislation allowing a withholding tax credit for certain businesses in urban renewal areas, stating that the local flexibility provided by the legislation and the 100 percent of average county wage requirement were key to the future success of the legislation.

Discussion. In response to a question from Senator Zieman, Mr. Bernstein stated that if an employee health benefits requirement was added to the proposed legislation, it should be a fairly conservative requirement. He noted that his company's health care plan pays 60 percent of costs for families and singles. This is a lot more expensive than paying 80 percent for singles and not providing family coverage at all, he said.

VII. Western Iowa Tech Community College.

Testimony. Co-chairperson Wieck recognized Dr. Julie Stoik, Executive Director of Institutional Advancement and Governmental Relations at Western Iowa Tech Community College (WITCC). Dr. Stoik informed the Committee that WITCC serves six counties — Woodbury, Plymouth, Cherokee, Ida, Monona, and Crawford. Dr. Stoik described the New Jobs Training Program available under Code chapter 260E. This program allows the community colleges to train new employees of businesses by utilizing a withholding tax credit funding mechanism similar to that in the proposed legislation. The New Jobs Training Program provides flexible funding to meet a variety of training and employee development needs from highly specialized educational programs to basic skill training for new positions. She stated that WITCC views the proposed targeted jobs withholding tax credit legislation as complementary to the New Jobs Training Program and these two tax credits together would be an effective tool for attracting businesses to newly locate in Iowa or to provide incentives for current Iowa businesses to expand operations in Iowa. She noted that WITCC considers it essential that the proposed legislation protect the current funding mechanism available to the New Jobs Training Program so that they work together as parallel funding streams.

Discussion. Co-chairperson Hoffman asked how community colleges in Iowa are competing with Nebraska and South Dakota community colleges. Dr. Stoik stated that Northeast Community College in Nebraska is building a new campus. She said that 40 percent of the operating costs of community colleges in Nebraska is funded by local property tax. This is a much higher local level of support than in Iowa. WITCC charges $108 per credit hour for in-state students, while Nebraska's Northeast Community College charges $75 per credit hour for out-of-state students. She added that the University of South Dakota in Vermillion is considering eliminating out-of-state tuition for Iowa students. In response to a question from Representative Soderberg, Dr. Stoik stated that many of the current New Jobs Training Program contracts involve businesses in Woodbury County. Co-chairperson Wieck stated that utilization of the community colleges' New Jobs Training Programs is an important element of Iowa's economic development strategy.

VIII. Job Loss and Competitive Disadvantages as a Border Community.

Testimony. Co-chairperson Courtney recognized Ms. Patty Heagel, Economic Development Director for the City of Sioux City. Ms. Heagel stated that the Siouxland region is a unique tri-state region that can generate opportunities through collaboration. However, where the growth and activity occurs makes a difference if it continually increases the imbalance of economic health among the tri-state communities. Sioux City houses the majority of the area's workforce with over 60 percent of Sioux City's tax base classified as residential property. It is imperative that Sioux City create a broader, sustained commercial and industrial base, she said. Instead, what is happening in Sioux City is an alarming trend of loss of manufacturing jobs, high-tech jobs, value-added agriculture jobs, and medical jobs. Many companies that were located in Sioux City and needed to update or expand elected to move to South Dakota and/or Nebraska, she said.

Ms. Heagel stated that economic development obstacles faced by Sioux City include no income taxes imposed in South Dakota and Nebraska's economic development tax incentive programs. Ms. Heagel provided the Committee with a description of several of these Nebraska programs. She noted that job creation wage levels in these programs range from 60 percent of the state average to 125 percent of the state average. One program simply states a wage requirement threshold of $8.57 per hour. She said this is one reason why the wage requirement in the proposed legislation should not exceed its current 100 percent of the average county wage. She informed the Committee that Woodbury County's median hourly wage is $13.92 per hour. She is not suggesting that Iowa favor such low wage rates, she said, but Iowa's legislators should consider industry standards, labor shed studies, and reasonable expectations when setting wage requirements for economic development programs. Passage of the proposed legislation is critical to providing border communities the opportunity to compete and to experience economic growth.

Discussion. In response to questions from Co-chairperson Hoffman and Representative Wendt, Ms. Heagel stated that Sioux City has made extensive use of the additional penny sales tax, the urban renewal (tax increment financing) program, the Community Economic Betterment (CEBA) Program, the Value-Added Agricultural Products and Processes Financial Assistance Program, and the Enterprise Zones Program. However, she said, the ability to tap into the state's economic development programs is becoming narrower because, in the state's attempt to streamline the application process, all of the programs have come under the Grow Iowa Values Fund criteria which includes a high percentage of the countywide average wage. She noted that the Enterprise

Zones Program, which has been extremely beneficial to the Sioux City area, is set to expire in 2008. If the program is continued, the criteria, particularly the residence requirements, need to be reexamined, she asserted. Some of the most distressed areas in Sioux City are those where no one lives, she said. She added that if the proposed legislation would become law, the tax credits would be used for capital investment.

IX. Tax Considerations for Companies in the Tri-State Area.

Testimony. Co-chairperson Courtney recognized Mr. John Williams, certified public accountant and shareholder, with the firm of Henjes, Conner & Williams located in Sioux City. Mr. Williams stated that when a business reviews the costs associated with locating in a particular state, the corporate income tax is obviously a factor. However, because of the corporate income tax structure in Iowa, Nebraska, and South Dakota, it is not a major factor. Both Iowa and Nebraska use the single factor of sales, without a throwback provision, to determine the proportion of a business's net income subject to tax in those states, while South Dakota has no corporate income tax. Mr. Williams explained that a throwback provision is a requirement that a company include in its sales in its state of domicile those sales made in another state that either were insignificant enough to not require filing a return in that state or those sales made in a state that did not impose an income tax on business income. Mr. Williams gave the Committee examples of the apportionment of taxable income to various states based upon locality of company, the number of factors used in apportioning, a throwback provision, and a state with no income tax. He also did a comparison based upon the current law in Iowa, Nebraska, South Dakota, and Minnesota. In addition, he provided comparisons of individual income tax liability for businesses and employees if domiciled in Iowa, Nebraska, or South Dakota. He stated that South Dakota's lack of a personal income tax is a large hurdle to overcome, particularly when it comes to highly paid management personnel or business owners with substantial income from interest and dividends. In addition, from the business owner's perspective, moving the business to South Dakota is equivalent to giving each of its employees who lives and works in South Dakota a raise at no cost to the business. Mr. Williams stated that the proposed targeted jobs withholding tax credit legislation is a step toward leveling the playing field with South Dakota and Nebraska.

X. History of Targeted Jobs Withholding Tax Credit Proposal.

Testimony. Co-chairperson Courtney recognized Mr. Marty Dougherty, city council member, City of Sioux City, who provided the Committee with a history of the development of the proposed legislation providing a withholding tax credit for businesses creating targeted jobs in certain urban renewal areas. He stated that Sioux City has been successful in the retail business arena and in attracting the value-added agriculture industry. For a city its size, Sioux City has made significant investments in its infrastructure and in its own department of economic development which has worked successfully with both the state Department of Economic Development and the Siouxland Initiative, he said. But, despite all of these local efforts, Sioux City has lost business, he said. The city council decided that Sioux City needed a new and different kind of economic development tool to more successfully compete with South Dakota and Nebraska. The city council consulted with the local department of economic development, the area community college, and business people in the community and developed the proposed legislation. Mr. Dougherty stated that the city council decided to propose pilot project legislation because the council was mindful of the difficulties of the legislative process and because the issue of economic development incentives is a complex one.

Mr. Dougherty stated that one great aspect of the proposal is that when a business increases payroll by creation of jobs, the businesses will have more money at their disposal for “bricks and mortar” investment. Another attractive aspect is that it amends a current economic development statute already available to local governments, i.e., the urban renewal chapter. The proposed legislation will be available to manufacturing businesses and to retail, service, and professional businesses, he said. This will help Sioux City in its efforts to keep the city’s economy diverse. Also, the fiscal impact on state and local government revenues is minimal, he said, because new jobs are being created, and those jobs that would have been lost to relocation are retained in Sioux City. Enactment of the proposed legislation is of the highest priority for Sioux City, Mr. Dougherty declared, because it will assist in leveling the playing field in the tri-state area, and it will encourage increased economic activity in Sioux City.

XI. Committee Discussion.

The Committee ended the two-day meeting by discussing the presentations and the proposed withholding tax credit. Co-chairperson Wieck stated that inducing business to newly locate in Iowa or to stay in Iowa is a complicated task because the necessary inducements change from company to company. There is not any one or two things the state can do to balance the scale between Iowa and competing states. He said that it impressed him that Sioux City got wholeheartedly involved in improving its economic situation, instead of waiting for a handout from the state. This fact made it easy for him to support the proposed legislation, he said. The General Assembly needs to encourage Sioux City to continue in its economic development efforts, he said, and he is willing to work with the city as it continues to take innovative approaches to becoming more competitive in the Siouxland region. Furthermore, he believes that if a proposal such as this proves good for northwest Iowa, it will be good for the entire state. In conclusion, Co-chairperson Wieck thanked the members of the Committee for being willing to hold this two-day meeting in Sioux City.

Co-chairperson Courtney stated that he recognizes the need for the state to provide economic development tools to local governments. Perhaps the General Assembly should consider making the proposed pilot legislation applicable to all border areas in western Iowa, he said. He reminded the Committee that solid infrastructure, good schools, and well-paid teachers cost money. They also provide a good quality of life and that is the trade-off to cutting taxes. If the state of Iowa eliminated its personal and corporate income taxes, there is no question that many businesses would locate here, he said, but over time the state’s quality of life would begin to erode because there would not be sufficient revenues to maintain it. There has to be a happy medium, he opined.

Co-chairperson Hoffman complimented the Sioux City City Council, the city's economic development department, and the city's chamber of commerce for displaying "unusual leadership" during a time of economic distress in the city. Co-chairperson Hoffman stated that he is supportive of the withholding tax credit legislation. However, he would like to see more information on what the benefits will be for the Sioux City area and for the entire state if the legislation is at some point expanded to apply to the rest of the state. His hunch is that the proposal will easily pay for itself over time, he said. In terms of changes to the Grow Iowa Values Fund law, Co-chairperson Hoffman noted that there are currently 460 applicants for fund moneys, and if the 130 percent of average county wage requirement was lowered, there would be even more applicants. He did state, though, that the employee benefits requirements in the Grow Iowa Values Fund law need to be reevaluated.

Senator Zieman stated that he was pleased with the testimony that indicated that the pilot project in the proposed legislation would have no negative fiscal impact to the state. Any time the state can bring new business and job opportunities to the state or prevent existing businesses from leaving with no cash outlay from the state is good, he said. Representative Soderberg stated that the proposed legislation could jump-start economic revitalization in the Sioux City area, and it could serve as a good model for the rest of the state. Representative Wendt agreed, stating that Sioux City has done its level best to bring economic activity to the city and it needs the extra economic development tool featured in the proposed legislation.

XII. Recommendation.

Representative Wendt moved that the Committee recommend that the proposed legislation be considered by the General Assembly with the understanding that changes will be made as it passes through the standing committees. Senator Zieman seconded the motion. The motion was adopted by unanimous vote of the Committee.

XIII. Materials Filed With the Legislative Services Agency.

The materials distributed in connection with the meeting are on file with the Legislative Services Agency and may be accessed on the Internet at:

http://www.legis.state.ia.us/aspx/Committees/Committee.aspx?id=78.

The following list of materials and handouts was made available to the members of the Committee.

1. LSB 3488XC 81 — "An Act providing for a targeted jobs withholding tax credit to be used for funding improvements in certain urban renewal areas."
2. Handout from Mr. John Meyers, Finance Director, City of Sioux City.
3. Handout from Mr. Kenneth Beekley, Executive Vice President, Siouxland Economic Development Corporation.
4. Handout from Dr. Julie Stoik, Executive Director of Institutional Advancement and Governmental Relations, Western Iowa Tech Community College.
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Election of Co-chairpersons. Representative Soderberg nominated Temporary Co-chairpersons Courtney, Wieck, and Hoffman as permanent Co-chairpersons. The motion was seconded by Representative Wendt and adopted by voice vote.

Adoption of Rules. Co-chairperson Hoffman moved adoption of the proposed rules previously distributed to the Committee members. The motion was seconded by Representative Soderberg and the proposed rules were adopted by voice vote.

Introduction of Members and Certain Audience Members. After the Committee members were introduced, Co-chairperson Wieck recognized Mayor Karen Van de Steeg who thanked the Committee members for holding the meeting in Sioux City and also thanked the General Assembly for establishing the Committee.

Adjournment. The Committee adjourned at 11:10 a.m. on Wednesday, October 26, 2005.

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Co-chairperson Wieck recognized Mr. Michael Goedert, Senior Legal Counsel with the Legal Services Division of the Legislative Services Agency, to provide a brief overview of the proposed legislation, "An Act for a targeted jobs withholding tax credit to be used for funding improvements in certain urban renewal areas" (LSB 3488XC 81).

Mr. Goedert explained that the bill allows two pilot project cities to enter into withholding agreements with certain businesses located in an urban renewal area in order to assist in funding projects in their urban renewal areas by means of a targeted jobs tax credit from withholding. The tax credit from withholding would be available for new jobs of an existing business in the urban renewal area or of a business newly locating to the urban renewal area. A business already located in the area or elsewhere in the state is required to either create 10 new jobs or make at least $500,000 in capital investment within the area. The bill defines pilot project city as the largest city in a county with a population of 95,000 to 110,000 and the largest city located in a county with a population of 81,000 to 88,500. This refers to Sioux City and Council Bluffs.

Mr. Goedert explained that the credit is equal to 3 percent of the amount of gross wages paid to employees by the business of each targeted job of the business in the area. A targeted job is one whose wage is at least equal to 100 percent of the countywide average wage of the county where the pilot city is located. The amount of the credit is paid to the pilot city to be used to pay obligations incurred in assisting the business in the urban renewal area. The bill provides that a withholding agreement shall not be entered into after June 30, 2010, unless it is an extension of an existing agreement. Such an extension is limited to 10 years in duration or until urban renewal debt obligations are satisfied, whichever is earlier.

III. Fiscal Overview of Tax Consequences as a Border Community.

Testimony. Co-chairperson Wieck recognized Mr. John Meyers, Finance Director, City of Sioux City. Mr. Meyers stated that although Sioux City effectively utilizes statutory economic development programs, the city needs additional flexibility to strengthen its economy and more successfully compete with Nebraska and South Dakota. He noted that the city is experiencing economic distress which is evidenced by its property tax situation. In terms of property taxation, he said, Sioux City has the lowest taxable valuation per capita in the state for a city its size. Furthermore, in terms of local funding of elementary and secondary schools, Sioux City has the lowest taxable valuation per student in the state for a school district its size. He stated that the proposed legislation would assist Sioux City in attracting larger industrial projects and professional arts projects.

Discussion. In response to a question from Co-chairperson Courtney, Mr. Meyers said that people moving from Iowa to South Dakota are saving anywhere from 5 percent to 8 percent in personal income tax liability. Mr. Meyers stated that eliminating the state income tax was considered, but it would require a large increase in the sales tax rate so the proposal was dropped. The property taxes collected are roughly similar between the two states, he said. South Dakota has a higher sales tax rate and much broader sales tax base than does Iowa, he stated.

Mr. Meyers agreed with Co-chairperson Hoffman that retail business is a bright spot in Sioux City's economy, and he cautioned against Iowa increasing its sales tax rate or broadening its base because Sioux City wants to continue to attract retail shoppers from the Siouxland region. What the General Assembly can do, he averred, is to give Sioux City a development tool that would entice business to locate there and that would at least negate some of the advantages that South Dakota has.

In response to a question from Representative Soderberg, Mr. Meyers stated that the permissible uses of the amount of the withholding credit created in the proposed legislation are the same as the uses of incremental property taxes under the urban renewal chapter. Co-chairperson Wieck stated that the intent is to give broad authority to the city as it pertains to expenditure of the withholding credit moneys in order to address the many issues that Sioux City faces in trying to attract new businesses and retain existing businesses.

IV. Competitiveness in the Siouxland Region.

Testimony. Co-chairperson Wieck recognized Mr. Steve Corrie, Chairperson of the Siouxland Chamber of Commerce Government Relations Committee. Mr. Corrie informed the Committee that in 1988 the chamber representatives of Sioux City, Iowa; South Sioux City, Nebraska; and North Sioux City, South Dakota formed the Siouxland Initiative, a regional private/public partnership, to bring capital investment and jobs with good wages into the area. Mr. Corrie stated that the cooperative economic development approach has made the entire tri-state area more viable economically. Mr. Corrie briefly described the primary economic development tools provided by statute in the three states. He stated that the wage requirements of the Grow Iowa Values Fund are problematic. First, 130 percent of the average county wage unfairly eliminates some industries and does not take into account whether the county is more rural or more urban, he said. To highlight this point, Mr. Corrie and Representative Soderberg recounted the case of Masaba Mining Equipment Company. The company is a third-generation family business in Iowa. It recently relocated from Akron, Iowa, to Vermillion, South Dakota, expanded from 35 employees to 45, and has further plans to expand to 50 employees. Akron could not apply for Grow Iowa Values Fund money as part of a package to retain the company because, although the wages paid by the company were the highest paid in Akron, they were not 130 percent of the average county wage. Second, Mr. Corrie expressed concerns that awards from the Grow Iowa Values Fund would be directed more to $30 per hour jobs rather than $12 per hour jobs, even though the $12 per hour jobs meet the wage requirement for the particular applicant county.

Discussion. In response to a question from Co-chairperson Hoffman, Mr. Corrie noted that the Initiative has taken advantage of other Iowa economic development programs such as Endow Iowa and the Fund of Funds. However, the existence of these programs and others needs to be better marketed, he said.

Senator Zieman stated that Sioux City has made a lot of progress since he last visited four or five years ago. He asked what economic development tools, besides tax incentives, the General Assembly could provide to help create an even better business climate in Sioux City and around the rest of the state. Mr. Corrie stated that Iowa is in a positive competitive position when it comes to quality of life and a well-educated, reliable workforce. However, he said, economic development tends to be driven by tax policy, which is one reason the proposed legislation relating to targeted jobs withholding tax credits is so attractive.

In response to a question by Representative Wendt, Mr. Corrie said that the wage level requirement in the proposed legislation, 100 percent of the county average wage, is appropriate.

V. Economic Impact of Tri-State Competitiveness and Tax Structures.

Testimony. Co-chairperson Wieck recognized Mr. Ken Beekley, Executive Vice President of the Siouxland Economic Development Corporation. Mr. Beekley stated that each state is constantly competing with neighboring states and there is no better example of this than the Siouxland region where three states converge within a single contiguous urban area. A significant factor in the competition among states or communities is the business tax climate, i.e., the tax burden and the structure and complexity of the tax system. State legislators need to be vigilant in ensuring the competitiveness of their respective business tax climates and make changes that will improve their position for the long term, he averred. Two truths are important for legislators to keep in mind. First, taxes matter to business, and competition — both domestic and foreign — forces businesses to constantly search for more tax-friendly environments. Second, states do not legislate tax changes in a vacuum; changes to tax law change the competitive position of a state relative to other jurisdictions.

Mr. Beekley discussed two research studies on comparative business tax climates that rank Iowa and the states bordering Iowa. The first study, the "State Business Tax Climate Index," was published by the Tax Foundation in October 2004. It ranked the states based on the burden of each state's corporate and individual income tax, sales and gross receipts tax, unemployment insurance tax, and each state's fiscal balance. The fiscal balance ranking indicates a state's degree of statutory restraint regarding taxing and spending, he explained. Mr. Beekley stated that it appears from this study that Iowa's business tax climate is the least competitive with those in South Dakota and Missouri, more or less comparable with Illinois, somewhat favorable compared to Nebraska, and very competitive relative to Minnesota and Wisconsin. The second study discussed by Mr. Beekley was the "Small Business Survival Index 2005: Ranking the Policy Environment for Entrepreneurship Across the Nation" published in October 2005 by the Small Business & Entrepreneurship Council. This study included a broader range of factors than the first study. Based on these studies, Mr. Beekley was able to arrive at several significant findings concerning all of the states' business tax climate rankings. These findings include: 1) all four states without a corporate income tax are among the top 10 favorable business tax climates and among the top 10 that have a corporate income tax, three have just one bracket and one a moderate rate; 2) all of the seven states without an individual income tax rank in the top 10; and 3) seven of the states with the best business tax climates also scored in the top 10 on fiscal balance. He also found that, generally, states in the overall top 10 in terms of business tax climate raise sufficient tax revenue without imposing at least one of the three major taxes — corporate income, personal income, or sales. He concluded by stating that, assuming Iowa continues to impose all three of the major taxes, it might prove beneficial to consider the impact of tax simplification in terms of reducing the number of tax brackets and lowering the applicable rates. This, he stated, would improve its ranking for both corporate and personal income tax, as well as its "fiscal balance" ranking.

Discussion. In response to questions from Committee members, Mr. Beekley stated that, in the absence of restructuring the entire tax system, tax incentives such as the targeted jobs withholding tax credit for businesses in an urban renewal area are a good thing for the state to consider enacting because they induce development or expansion and this, in turn, helps to level the playing field between Sioux City and its bordering communities in Nebraska and South Dakota. In the long term, however, Iowa's tax system in general needs to be changed to make the state more competitive in terms of business climate, he said. He also stated that a greater degree of analysis in all border communities in Iowa would be helpful to see if what is occurring in the Siouxland area is peculiar to South Dakota and Sioux City. He noted that there has also been business relocation from Nebraska to South Dakota because of South Dakota's more favorable business climate.

VI. Testimony From Area Businesses — Palmer Candy Company and State Steel Supply.

Testimony — Palmer Candy. Co-chairperson Wieck recognized Mr. Marty Palmer, President of Palmer Candy Company. Mr. Palmer stated that his company is the kind of business the state should be seeking out — it makes payroll, pays taxes, and has never experienced a layoff. Although he is very loyal to Iowa, Mr. Palmer noted that Nebraska and South Dakota offer economic development programs that are a serious inducement to locating business there. No income taxes in South Dakota also serves as an inducement to locating business there, he said. Mr. Palmer spoke in favor of the proposed legislation providing a withholding tax credit to certain businesses in an urban renewal area. The 100 percent of county wage requirement in the bill makes good sense, he said, but the $500,000 level of asset commitment required in the bill is probably a little low. He stated that in order to reduce economic vulnerability, the emphasis of the proposed legislation, and of economic development in general, should be on attracting many companies with a labor force of 150 to 250 employees, rather than a couple of companies with over 1,000 employees.

Testimony — State Steel Supply. Co-chairperson Wieck next recognized Mr. Dave Bernstein of State Steel Supply. Mr. Bernstein stated that the company has several scrap yards and steel product manufacturing plants in Minnesota, Nebraska, South Dakota, and Iowa, and the company has been expanding every couple of years for the past 15 years. Two of the expansion projects located in Iowa involved the Enterprise Zones Program and it worked really well for the company, he said. However, because the company's expansion has been capital intensive and has not added a lot of jobs, many of the state economic development assistance programs have not proved to be beneficial to the company. He stated that although the company pays decent wages and provides good benefits, it probably would not have projects that meet the 130 percent of average county wage requirements contained in the Grow Iowa Values Fund law. Mr. Bernstein spoke favorably of the proposed legislation allowing a withholding tax credit for certain businesses in urban renewal areas, stating that the local flexibility provided by the legislation and the 100 percent of average county wage requirement were key to the future success of the legislation.

Discussion. In response to a question from Senator Zieman, Mr. Bernstein stated that if an employee health benefits requirement was added to the proposed legislation, it should be a fairly conservative requirement. He noted that his company's health care plan pays 60 percent of costs for families and singles. This is a lot more expensive than paying 80 percent for singles and not providing family coverage at all, he said.

VII. Western Iowa Tech Community College.

Testimony. Co-chairperson Wieck recognized Dr. Julie Stoik, Executive Director of Institutional Advancement and Governmental Relations at Western Iowa Tech Community College (WITCC). Dr. Stoik informed the Committee that WITCC serves six counties — Woodbury, Plymouth, Cherokee, Ida, Monona, and Crawford. Dr. Stoik described the New Jobs Training Program available under Code chapter 260E. This program allows the community colleges to train new employees of businesses by utilizing a withholding tax credit funding mechanism similar to that in the proposed legislation. The New Jobs Training Program provides flexible funding to meet a variety of training and employee development needs from highly specialized educational programs to basic skill training for new positions. She stated that WITCC views the proposed targeted jobs withholding tax credit legislation as complementary to the New Jobs Training Program and these two tax credits together would be an effective tool for attracting businesses to newly locate in Iowa or to provide incentives for current Iowa businesses to expand operations in Iowa. She noted that WITCC considers it essential that the proposed legislation protect the current funding mechanism available to the New Jobs Training Program so that they work together as parallel funding streams.

Discussion. Co-chairperson Hoffman asked how community colleges in Iowa are competing with Nebraska and South Dakota community colleges. Dr. Stoik stated that Northeast Community College in Nebraska is building a new campus. She said that 40 percent of the operating costs of community colleges in Nebraska is funded by local property tax. This is a much higher local level of support than in Iowa. WITCC charges $108 per credit hour for in-state students, while Nebraska's Northeast Community College charges $75 per credit hour for out-of-state students. She added that the University of South Dakota in Vermillion is considering eliminating out-of-state tuition for Iowa students. In response to a question from Representative Soderberg, Dr. Stoik stated that many of the current New Jobs Training Program contracts involve businesses in Woodbury County. Co-chairperson Wieck stated that utilization of the community colleges' New Jobs Training Programs is an important element of Iowa's economic development strategy.

VIII. Job Loss and Competitive Disadvantages as a Border Community.

Testimony. Co-chairperson Courtney recognized Ms. Patty Heagel, Economic Development Director for the City of Sioux City. Ms. Heagel stated that the Siouxland region is a unique tri-state region that can generate opportunities through collaboration. However, where the growth and activity occurs makes a difference if it continually increases the imbalance of economic health among the tri-state communities. Sioux City houses the majority of the area's workforce with over 60 percent of Sioux City's tax base classified as residential property. It is imperative that Sioux City create a broader, sustained commercial and industrial base, she said. Instead, what is happening in Sioux City is an alarming trend of loss of manufacturing jobs, high-tech jobs, value-added agriculture jobs, and medical jobs. Many companies that were located in Sioux City and needed to update or expand elected to move to South Dakota and/or Nebraska, she said.

Ms. Heagel stated that economic development obstacles faced by Sioux City include no income taxes imposed in South Dakota and Nebraska's economic development tax incentive programs. Ms. Heagel provided the Committee with a description of several of these Nebraska programs. She noted that job creation wage levels in these programs range from 60 percent of the state average to 125 percent of the state average. One program simply states a wage requirement threshold of $8.57 per hour. She said this is one reason why the wage requirement in the proposed legislation should not exceed its current 100 percent of the average county wage. She informed the Committee that Woodbury County's median hourly wage is $13.92 per hour. She is not suggesting that Iowa favor such low wage rates, she said, but Iowa's legislators should consider industry standards, labor shed studies, and reasonable expectations when setting wage requirements for economic development programs. Passage of the proposed legislation is critical to providing border communities the opportunity to compete and to experience economic growth.

Discussion. In response to questions from Co-chairperson Hoffman and Representative Wendt, Ms. Heagel stated that Sioux City has made extensive use of the additional penny sales tax, the urban renewal (tax increment financing) program, the Community Economic Betterment (CEBA) Program, the Value-Added Agricultural Products and Processes Financial Assistance Program, and the Enterprise Zones Program. However, she said, the ability to tap into the state's economic development programs is becoming narrower because, in the state's attempt to streamline the application process, all of the programs have come under the Grow Iowa Values Fund criteria which includes a high percentage of the countywide average wage. She noted that the Enterprise Zones Program, which has been extremely beneficial to the Sioux City area, is set to expire in 2008. If the program is continued, the criteria, particularly the residence requirements, need to be reexamined, she asserted. Some of the most distressed areas in Sioux City are those where no one lives, she said. She added that if the proposed legislation would become law, the tax credits would be used for capital investment.

IX. Tax Considerations for Companies in the Tri-State Area.

Testimony. Co-chairperson Courtney recognized Mr. John Williams, certified public accountant and shareholder, with the firm of Henjes, Conner & Williams located in Sioux City.

Mr. Williams stated that when a business reviews the costs associated with locating in a particular state, the corporate income tax is obviously a factor. However, because of the corporate income tax structure in Iowa, Nebraska, and South Dakota, it is not a major factor. Both Iowa and Nebraska use the single factor of sales, without a throwback provision, to determine the proportion of a business's net income subject to tax in those states, while South Dakota has no corporate income tax. Mr. Williams explained that a throwback provision is a requirement that a company include in its sales in its state of domicile those sales made in another state that either were insignificant enough to not require filing a return in that state or those sales made in a state that did not impose an income tax on business income. Mr. Williams gave the Committee examples of the apportionment of taxable income to various states based upon locality of company, the number of factors used in apportioning, a throwback provision, and a state with no income tax. He also did a comparison based upon the current law in Iowa, Nebraska, South Dakota, and Minnesota. In addition, he provided comparisons of individual income tax liability for businesses and employees if domiciled in Iowa, Nebraska, or South Dakota. He stated that South Dakota's lack of a personal income tax is a large hurdle to overcome, particularly when it comes to highly paid management personnel or business owners with substantial income from interest and dividends. In addition, from the business owner's perspective, moving the business to South Dakota is equivalent to giving each of its employees who lives and works in South Dakota a raise at no cost to the business. Mr. Williams stated that the proposed targeted jobs withholding tax credit legislation is a step toward leveling the playing field with South Dakota and Nebraska.

X. History of Targeted Jobs Withholding Tax Credit Proposal.

Testimony. Co-chairperson Courtney recognized Mr. Marty Dougherty, city council member, City of Sioux City, who provided the Committee with a history of the development of the proposed legislation providing a withholding tax credit for businesses creating targeted jobs in certain urban renewal areas. He stated that Sioux City has been successful in the retail business arena and in attracting the value-added agriculture industry. For a city its size, Sioux City has made significant investments in its infrastructure and in its own department of economic development which has worked successfully with both the state Department of Economic Development and the Siouxland Initiative, he said. But, despite all of these local efforts, Sioux City has lost business, he said. The city council decided that Sioux City needed a new and different kind of economic development tool to more successfully compete with South Dakota and Nebraska. The city council consulted with the local department of economic development, the area community college, and business people in the community and developed the proposed legislation. Mr. Dougherty stated that the city council decided to propose pilot project legislation because the council was mindful of the difficulties of the legislative process and because the issue of economic development incentives is a complex one.

Mr. Dougherty stated that one great aspect of the proposal is that when a business increases payroll by creation of jobs, the businesses will have more money at their disposal for "bricks and mortar" investment. Another attractive aspect is that it amends a current economic development statute already available to local governments, i.e., the urban renewal chapter. The proposed legislation will be available to manufacturing businesses and to retail, service, and professional businesses, he said. This will help Sioux City in its efforts to keep the city's economy diverse. Also, the fiscal impact on state and local government revenues is minimal, he said, because new jobs are being created, and those jobs that would have been lost to relocation are retained in Sioux City. Enactment of the proposed legislation is of the highest priority for Sioux City, Mr. Dougherty declared, because it will assist in leveling the playing field in the tri-state area, and it will encourage increased economic activity in Sioux City.

XI. Committee Discussion.

The Committee ended the two-day meeting by discussing the presentations and the proposed withholding tax credit. Co-chairperson Wieck stated that inducing business to newly locate in Iowa or to stay in Iowa is a complicated task because the necessary inducements change from company to company. There is not any one or two things the state can do to balance the scale between Iowa and competing states. He said that it impressed him that Sioux City got wholeheartedly involved in improving its economic situation, instead of waiting for a handout from the state. This fact made it easy for him to support the proposed legislation, he said. The General Assembly needs to encourage Sioux City to continue in its economic development efforts, he said, and he is willing to work with the city as it continues to take innovative approaches to becoming more competitive in the Siouxland region. Furthermore, he believes that if a proposal such as this proves good for northwest Iowa, it will be good for the entire state. In conclusion, Co-chairperson Wieck thanked the members of the Committee for being willing to hold this two-day meeting in Sioux City.

Co-chairperson Courtney stated that he recognizes the need for the state to provide economic development tools to local governments. Perhaps the General Assembly should consider making the proposed pilot legislation applicable to all border areas in western Iowa, he said. He reminded the Committee that solid infrastructure, good schools, and well-paid teachers cost money. They also provide a good quality of life and that is the trade-off to cutting taxes. If the state of Iowa eliminated its personal and corporate income taxes, there is no question that many businesses would locate here, he said, but over time the state's quality of life would begin to erode because there would not be sufficient revenues to maintain it. There has to be a happy medium, he opined.

Co-chairperson Hoffman complimented the Sioux City City Council, the city's economic development department, and the city's chamber of commerce for displaying "unusual leadership" during a time of economic distress in the city. Co-chairperson Hoffman stated that he is supportive of the withholding tax credit legislation. However, he would like to see more information on what the benefits will be for the Sioux City area and for the entire state if the legislation is at some point expanded to apply to the rest of the state. His hunch is that the proposal will easily pay for itself over time, he said. In terms of changes to the Grow

Iowa Values Fund law, Co-chairperson Hoffman noted that there are currently 460 applicants for fund moneys, and if the 130 percent of average county wage requirement was lowered, there would be even more applicants. He did state, though, that the employee benefits requirements in the Grow Iowa Values Fund law need to be reevaluated.

Senator Zieman stated that he was pleased with the testimony that indicated that the pilot project in the proposed legislation would have no negative fiscal impact to the state. Any time the state can bring new business and job opportunities to the state or prevent existing businesses from leaving with no cash outlay from the state is good, he said. Representative Soderberg stated that the proposed legislation could jump-start economic revitalization in the Sioux City area, and it could serve as a good model for the rest of the state. Representative Wendt agreed, stating that Sioux City has done its level best to bring economic activity to the city and it needs the extra economic development tool featured in the proposed legislation.

XII. Recommendation.

Representative Wendt moved that the Committee recommend that the proposed legislation be considered by the General Assembly with the understanding that changes will be made as it passes through the standing committees. Senator Zieman seconded the motion. The motion was adopted by unanimous vote of the Committee.

XIII. Materials Filed With the Legislative Services Agency.

The materials distributed in connection with the meeting are on file with the Legislative Services Agency and may be accessed on the Internet at:

http://www.legis.state.ia.us/aspx/Committees/Committee.aspx?id=78.

The following list of materials and handouts was made available to the members of the Committee.

1. LSB 3488XC 81 — "An Act providing for a targeted jobs withholding tax credit to be used for funding improvements in certain urban renewal areas."
2. Handout from Mr. John Meyers, Finance Director, City of Sioux City.
3. Handout from Mr. Kenneth Beekley, Executive Vice President, Siouxland Economic Development Corporation.
4. Handout from Dr. Julie Stoik, Executive Director of Institutional Advancement and Governmental Relations, Western Iowa Tech Community College.
5. Handout from Ms. Patty Heagel, Economic Development Director, City of Sioux City.
6. Handout from Mr. John Williams, certified public accountant and shareholder, Henjes, Conner & Williams, P.C.

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