

**Iowa Rural Development Tax Credit Program**  
**HSB 681 | SF 2204**

**Sec. 15.281. Short Title**

This part is known as the "Iowa Rural Development Tax Credit Program".

**15.282 Definitions**

1. Affiliate: defined for purposes of an entity or its affiliate owning a rural business growth fund (RBGF); simply stated, an affiliate is an entity that is under common control with another entity.
2. Authority: The Iowa Economic Development Authority (IEDA)
3. Closing date: the date the RBGF is created and collects all of the private capital authorized to collect
4. Credit-eligible capital contribution: the private capital - debt or equity - invested by Iowa taxpayers into RBGFs in exchange for tax credits.
5. Eligible investment authority: the total amount of private capital authorized by the IEDA for each RBGF to raise and invest; 60% is raised from credit-eligible capital contributions that earn tax credits
6. Employee: a person working 35 hours a week in Iowa (or another period of time that is customary for that job).
7. Equity holder: someone who makes an equity (cash) investment in a RBGF.
8. Growth investment: equity or debt investments by RBGFs into qualified businesses in the State; the investment must be at least one year in duration in any one business.
9. Jobs created: calculated annually based on a 12-month average compared to the number of jobs before the initial investment.
10. Jobs retained: calculated annually based on a 12-month average only if the head of the business certifies that jobs would have been lost if not for the investment.
11. Located in: the location where 60% of the operations and employees are found or where employees who get 60% of the payroll are based.
12. Program: this program
13. Qualified business: any business meeting the "located in" definition that has fewer than 250 employees (including subcontractors).

14. Revenue: total state and local revenue coming from RBGF qualified business investments.
15. Rural business growth fund: a fund certified by IEDA under this program.
16. Within this state: in Iowa or, in the case of an out-of-state business, a business that moves to Iowa within 180 days of investment.

**Sec. 15.283. Application and agreement.**

1. IEDA will accept applications beginning 1/4/21. Same-day applications are considered simultaneous.
2. Applications for approval as a RBGF must include:
  - a. Total eligible investment authority (i.e., private capital) sought to be raised;
  - b. A copy of the applicant's or its affiliate's license as an SBIC or RBIC (certifications from U.S. Small Business Administration or U.S. Office of Agriculture, respectively);
  - c. Proof that at least one principal of the applicant has been at the firm for at least 4 years;
  - d. A third-party revenue impact analysis that analyzes the investment strategy of the RBGF and demonstrates that the investments will create revenue that exceeds the cost of the tax credits over 10 years;
  - e. The number of jobs created and retained as determined by the third-party analysis;
  - f. A signed affidavit from each investor stating the amount of credit-eligible capital contributions each investor commits to the RBGF; and
  - g. An application fee of \$5000 to aid in the cost of administering the program.
3. The IEDA will review, approve or deny applicants within a time frame to be set by rule.
4. The IEDA will approve applications to limit the maximum dollar amount of tax credit-eligible contributions to \$60 million over the 7-year life of the program. Applications received on the same day that collectively exceed the credit limit will be reduced on a pro-rata basis.
5. The IEDA is authorized to deny an application for the following reasons:

- a. Application is incomplete;
  - b. The credit cap has been reached.
- 6.
- a. If denied, IEDA will provide notice and a reason for denial.
  - b. The applicant can provide additional information within 15 days in response to any reasons for a denial of application. A corrected application is considered submitted on its original submission date;
  - c. Failure to submit additional information within 15 days to cure a denial results in a denied application and the applicant must reapply with a new submission date;
- 7.
- a. Upon approval, the IEDA will provide written notice of:
    - (1) Approval as a RBGF
    - (2) The total amount of eligible investment authority (private capital to raise) and the amount of capital that will be credit-eligible;
    - (3) The number of jobs created or retained as committed by the application (and pro-rated if necessary).
  - b. Within 45 days of approval as a RBGF, a RBGF must:
    - (1) Collect the credit-eligible capital from the investors who submitted an affidavit (pro-rated if necessary);
    - (2) Collect 10% of the RBGF's total eligible investment authority (capital) in cash from the RBGF affiliate's employees, officers and directors;
    - (3) Collect the remaining cash from other investors so that total capital meets the RBGF's investment authority.
  - c. Within 65 days, the RBGF must:
    - (1) Provide proof that all capital has been collected;
    - (2) Submit documents to identify the credit-eligible investors.
8. If a RBGF does not provide sufficient proof that the capital has been fully collected within 65 days, the IEDA can claw-back the tax credits and reallocate the credits to other RBGF applicants (first) or new applicants (second).
9. After successfully completing the application process, the RBGF will enter into an agreement with the IEDA that specifies the requirements for successful completion, including at a minimum the following information:

- a. Name of the RBGF;
- b. Closing date;
- c. Eligible investment authority;
- d. Credit-eligible maximum;
- e. Minimum number of jobs to be created and/or retained to avoid penalties;
- f. The way credits can be revoked and recaptured;
- g. Other items needed to ensure compliance with this program.

**Sec. 15.284. Tax Credits**

- 1. After the agreement is complete, the IEDA will issue credit certificates to credit-eligible investors equal to their credit-eligible contribution. The certificate will include all necessary information to identify the taxpayer to the department of revenue.
- 2. 25% of a credit may be claimed in years 4-7 (based on the date of the funds being raised). Note: this is worded as being claimed in each taxable year that begins in the year following the second anniversary of the fundraising.
- 3.
  - a. A tax credit may not be refunded, sold, or allocated to any other person other than an affiliate of the Iowa taxpayer that was an affiliate at the time of application;
  - b. An affiliate has 90 days to notify the department of revenue of any transfer;
  - c. The department of revenue will issue a new certificate within 30 days.
- 4. The credit to be claimed will be submitted on the taxpayers return. Any credit in excess of they taxpayer's tax liability can be carried forward.

**Sec. 15.285 Revocation and recapture of tax credits.**

- 1. The IEDA will revoke a tax credit for the following reasons before a RBGF exits the program:
  - a. The RBGF cannot provide documentation that:
    - (1) The RBGF has invested 2/3 of its eligible investment authority (total capital for investment) in two years
    - (2) The RBGF has invested 100% of its eligible investment authority within three years of the closing date and has maintained that 100% investment through year 6; provided that the

any investment returned to RBGF is reinvested within 12 months of being returned.

b. The RBGF is prohibited from investing in a qualified business that is affiliated with the fund or investor in the fund.

c. The RBGF makes a distribution that results in less than 100% of the eligible investment authority being invested before exiting the program.

2. The fund will not be able to attribute more than \$5 million invested in any single qualified business or more than 20% of the fund's eligible investment authority toward this 100% investment requirement.
3. The IEDA must notify a RBGF the reasons for a pending revocation of tax credits. The RBGF is provided 90 days to cure the violation in order to avoid recapture.
4. The IEDA does not have the authority to revoke a tax credit after a RBGF exits the program.

#### **Sec. 15.286 Annual report**

By March 31 of each year a RBGF will submit an annual report, until it has exited the program. The reports must include:

1. Bank statement evidencing each investment;
2. Evidence of compliance to avoid claw-back of credits;
3. Name, location and industry of each business receiving an investment, including evidence that the business qualifies as a qualified business;
4. Number of employees at each qualified business on the date of the RBGF's initial investment;
5. The number of jobs created and average annual salary of the jobs;
6. The number of jobs retained and average annual salary of the jobs;
7. Any other information required by the IEDA.

#### **Sec. 15.287 Exiting the program.**

1. A RBGF may apply to exit the program after the sixth anniversary of the closing date. The application to exit must include the RBGF's reimbursement calculation.
2. A RBGF is eligible to exit if no tax credit certificates have been revoked.
3. The IEDA will make a determination on the application. IEDA will provide notice of approval or reasons for denial. If the RBGF owes the state reimbursement amount it will be prohibited from

making any distributions to investors until it pays the reimbursement amount.

**Sec. 15.288 State reimbursement calculation**

1. The state reimbursement is calculated when a RBGF applies to exit or makes a distribution to investors. The reimbursement is on a sliding scale that matches the percentage of shortfall in the actual job creation and retention compared to the job retention and creation projection submitted when applying. Penalties collected by the IEDA shall be deposited into the general revenue fund.
  - a. The jobs calculations will be modified based on location:
    - (1) jobs in rural areas = 1
    - (2) jobs in counties under 30,000 = 1.5
    - (3) jobs in non-rural areas = 0.5
2. If the RBGF exceeded its job creation and retention goals, it will not owe a reimbursement.
3. The IEDA may adopt rules that allow for job creation and retention equivalents that measure economic impact.
4. "Rural area" means the areas deemed rural by the USDA under their Business and Investment programs.

**Sec. 15.289 Remedies**

The remedies for any breach of this program is revocation or recapture of the tax credits and the state reimbursement payment.

**Sec. 15.290 Rules**

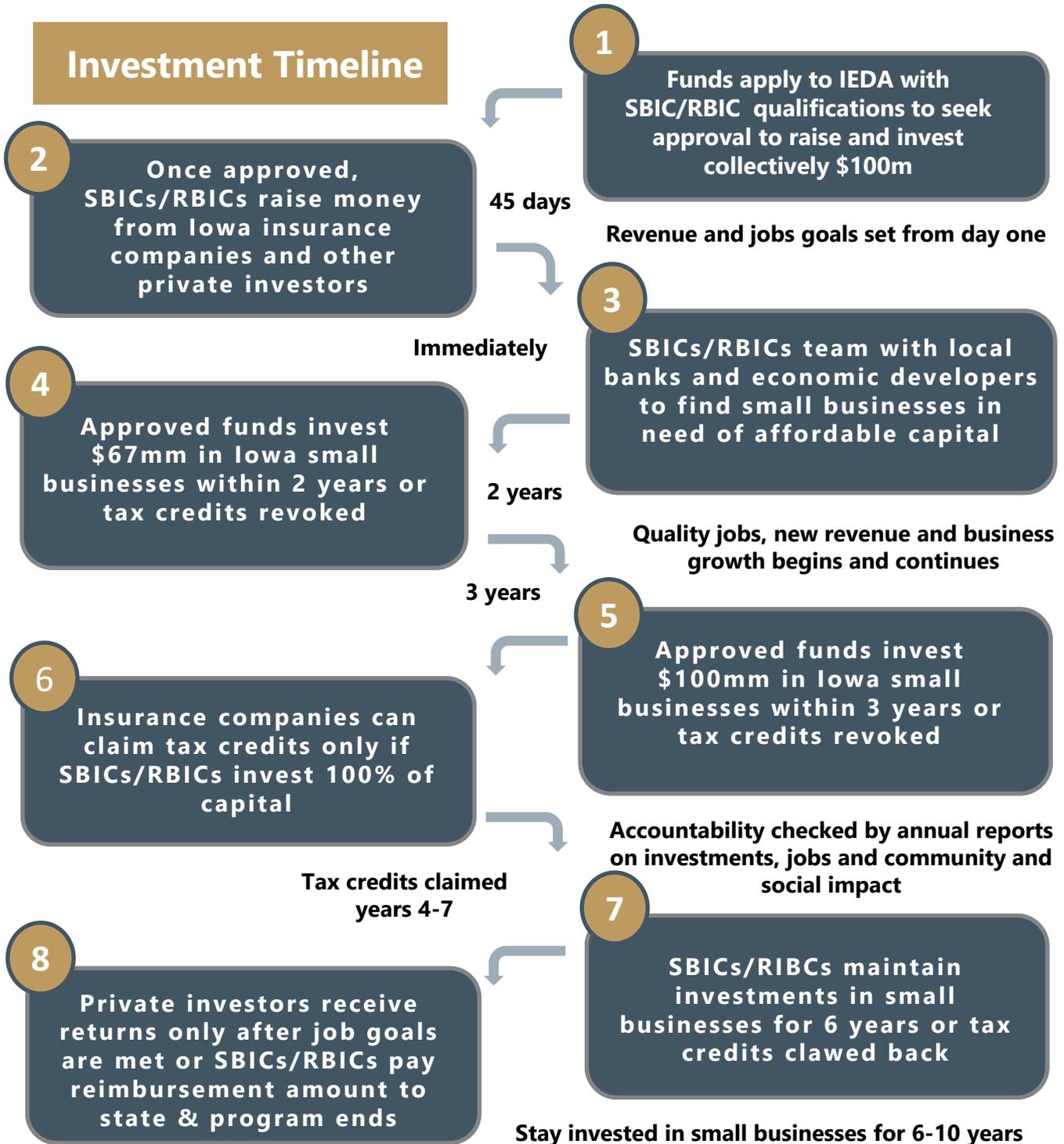
The IEDA is authorized to adopt rules for implementation.

**Sec. 432.12N Rural development tax credits**

Makes the credit apply to the taxes on insurance companies.

# Iowa Rural Development Tax Credit

The Rural Development Tax Credit provides growth capital through the private sector to small businesses in rural Iowa, allowing our state's small businesses to buy equipment, increase inventory, upgrade facilities, train workers and create jobs in rural communities.



# Iowa RDTC Revenue Generated for the State v. Investment Timeline

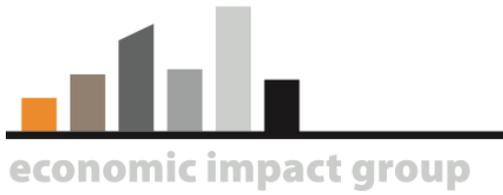
Year	Tax Revenue Generated	Investment Timeline
1	\$0	\$33.3MM invested
2	\$2.52	\$67MM invested
3	\$7.57	\$100MM invested or credits revoked
4	\$15.14	\$100MM maintained or credits recaptured
5	\$23.66	\$100MM maintained or credits recaptured
6	\$33.12	\$100MM maintained or credits recaptured
7	\$42.58	Funds Apply to Exit IF Revenue Exceeds Credits
8	\$52.04	Funds Apply to Exit IF Revenue Exceeds Credits
9	\$61.50	Funds Apply to Exit IF Revenue Exceeds Credits
10	\$70.98	Funds Apply to Exit IF Revenue Exceeds Credits

\*Based on fiscal impact analysis assuming 75% rural investing. Full report by the Economic Impact Group, LLC available on request.

# Iowa RDTC Revenue Generated for the State v. Investment Timeline

Year	Tax Revenue Generated	Investment Timeline
1	\$0	\$33.3MM invested
2	\$2.38	\$67MM invested
3	\$7.14	\$100MM invested or credits revoked
4	\$14.28	\$100MM maintained or credits recaptured
5	\$22.32	\$100MM maintained or credits recaptured
6	\$31.25	\$100MM maintained or credits recaptured
7	\$40.18	Funds Apply to Exit IF Revenue Exceeds Credits
8	\$49.11	Funds Apply to Exit IF Revenue Exceeds Credits
9	\$58.04	Funds Apply to Exit IF Revenue Exceeds Credits
10	\$66.97	Funds Apply to Exit IF Revenue Exceeds Credits

\*Based on fiscal impact analysis assuming 100% rural investing. Full report by the Economic Impact Group, LLC available on request.



# Fiscal Impact Analysis of a Proposed Iowa Jobs Tax Credit



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January 2020

## Executive Summary

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The Iowa Jobs Tax Credit (IJTC) is designed to attract capital investment to small businesses located in Iowa for the purpose of both creating and retaining jobs. The bill targets businesses with fewer than 250 employees whose principal business operations are in the State of Iowa. The bill also requires an economic and revenue impact assessment to estimate new economic activity and tax revenue generated by participating firms' fund strategies and investments.

The analysis presented here attempts to estimate the fiscal impact of the entire program, not of any firm's fund strategy. The purpose is to see if the program can be expected to meet the fiscal requirements of the IJTC. To do so, this study uses two IMPLAN models — one built to include only rural Iowa and one built for the remaining non-rural areas — using the latest data on industry interactions within the state, as well as commuting patterns and other demographic information.

Since there is no way to know in exactly which industries the investments will be made by participating firms, this study uses a sample of investments made in other states, in companies that participated in similar tax credit programs. The final dataset included 314 companies located across the country that combined received more than \$1.2 billion in qualifying investments. The financial and employment information on these companies was provided by three investment firms that have participated in similar tax credit programs in other states. These are actual businesses (in other states), that meet the requirements of the IJTC, and have received investments under similar programs.

The investments in these companies were scaled down to \$125 million. At that level, the investments in these companies (when made exclusively in rural Iowa) resulted in the creation or retention of nearly 1,200 jobs. These jobs were put into the IMPLAN model which showed that for every new job created or retained in these industries, another job is supported in other sectors of the state's economy. Combined, these jobs would generate \$235 million in gross state product in Iowa and \$550 million in economic output. The model further estimates that the economic activity resulting from these investments would generate nearly \$14.0 million in state and local tax revenue annually.

In addition, an analysis was run where 75 percent of the \$125 million was invested in rural Iowa, and the remaining 25 percent was invested in the urban areas. Under this scenario, 1,165 jobs were created or retained, and the economic activity resulting from these investments would generate \$16 million in state and local tax revenue.

Finally, using national survey data of the companies in the portfolio, it is estimated 28 percent of new employees will replace Medicaid assistance with private health

insurance. Under these scenarios, that means that 180 households would come off Medicaid for an annual cost savings to Iowa of \$1.1 million. Using the same survey data, these jobs would also result in 62 households coming off state unemployment insurance and 83 households coming off supplemental nutrition assistance.

Given the structure of the credit and the timing of these investments, if the investments are made solely in rural areas, the expected new revenues would generate a return ratio to the state of 1.12 after 10 years. In other words, the new state revenues are estimated to be 12 percent more than the state will give up in credits. The ratio climbs to 1.74 if local tax revenues are also included. Under the scenario where 75 percent of the investments are made in the rural areas, the state ratio is 1.18 and climbs to 2.00 if local tax revenues are also included.

## Introduction

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The purpose of the Iowa Jobs Tax Credit (IJTC) is to attract capital investment to small businesses located in Iowa to both retain existing jobs and create new jobs within these businesses. The bill targets Iowa businesses by requiring that investments be made in companies that have their principal place of business<sup>1</sup> in Iowa. In addition, at the time of the initial investment, the businesses must have fewer than 250 employees.

The bill also requires both economic and revenue impact assessments at the time the program is administered, which shall be conducted by a third-party, independent economic forecasting firm using an econometric modeling method.

This report lays out a methodology for conducting these assessments and uses that same methodology to estimate the potential impact of the *entire program*. This methodology has been used in several other states for similar programs and is widely accepted to conduct an ex ante analysis of the estimated revenue impacts from tax credits such as those proposed under the IJTC.

## Methodology

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### Economic Base Theory

The foundation of this analysis is economic base theory which states that economic growth occurs when there is an increase in the flow of money into an area through the export of goods and/or services. This “direct” impact is commonly measured in terms of the number of jobs and/or amount of income the activity represents and can also be measured in terms of contribution to GDP (“value added”) or total output<sup>2</sup>. However, the “direct” activity is just the beginning. The money that flows into the region is used by companies to purchase goods and services, and to the extent that those goods and services are purchased locally, they represent an increase in local employment and income, and therefore, have additional economic impact. Finally, the extent to which employees spend their income locally also generates an additional increase in local employment and income. The sum of these three represents the “total” economic impact of the economic activity under review.

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<sup>1</sup> “Principal business operations” means the location where at least sixty percent of a business's employees work or where employees who are paid at least sixty percent of the business's payroll work.

<sup>2</sup> See Appendix A for the definitions of terms.

When looking at economic impact, it is important to note that only *new* economic activity should be considered. For example, an existing company with 10 employees that can add 5 more employees and double sales as a result of an investment already had some economic impact in the state. For purposes of estimating the economic impact of the investment, only the 5 additional jobs, and the additional sales should be considered. An exception to this would be if the company was at risk of going out of business without the investment. In that case, it is legitimate to include retained jobs and the new employees, as well as all the sales and wages. The IJTC defines retained jobs as any job that would have been lost but for the investment.

## IMPLAN Model

The process described above is simulated using an input-output model of the economy under consideration, which in this case, is the State of Iowa. Specifically, the economic impact analysis was conducted using the nationally recognized model, IMPLAN, developed by the Minnesota IMPLAN Group. IMPLAN is an input-output model configurable for any state, multi-county region, or even a single county. The model was built using 2017 data<sup>3</sup> on industry interactions within the state, as well as commuting patterns and other demographic information.

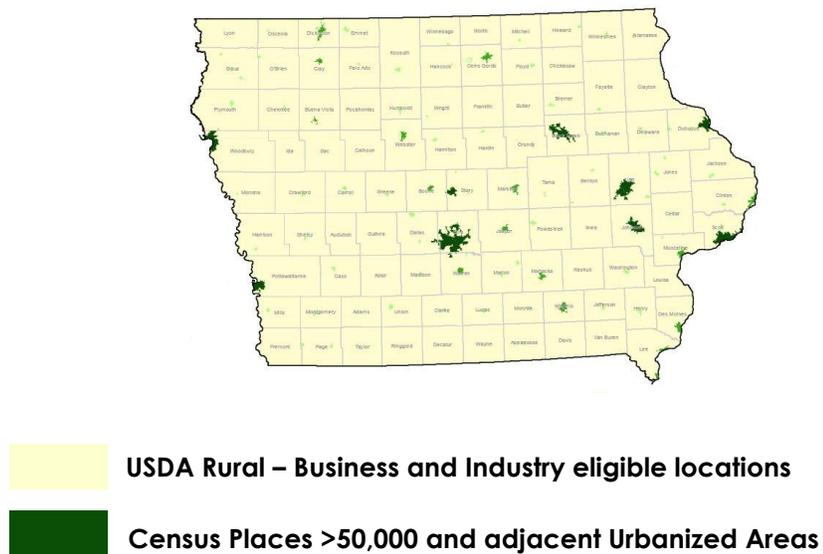
For estimating the impact of the IJTC, two scenarios were considered – 1) investments are all made in rural areas, and 2) 75 percent of the investments are made in rural areas and the remaining 25 percent are made in urban areas.

While IMPLAN models can be built at the zip code level, the trade flows between industries is best estimated at the county level. However, the definition of “rural” in the IJTC contains counties that have both rural and non-rural characteristics (Figure 1). Therefore, the research team developed an IMPLAN model that included only those 89 counties that were either completely or predominately rural. The green shaded counties in Figure 2 below are those that were included in this rural Iowa model. These counties contain 88.3 percent of the land area in the state, but only 49.2 percent of the population and 45.7 percent of the jobs.

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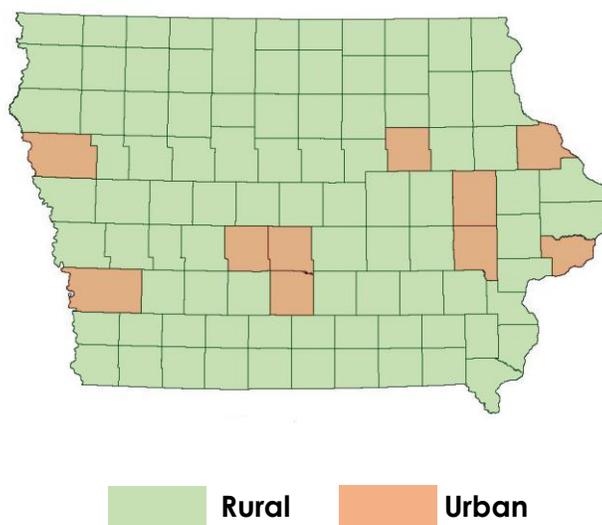
<sup>3</sup> 2017 is the latest data available for the IMPLAN Pro model.

**Figure 1: Iowa USDA Rural & Non-Rural Areas**



While the direct activity may occur in one area, indirect and induced economic activity could occur anywhere in the state. Therefore, a second IMPLAN model was developed that included the remaining 10 “urban” counties (the orange counties in Figure 2). These two models were linked so that any indirect and induced economic activity that might occur in the one area as a result of direct activity in the other area would be captured.

**Figure 2: Iowa Counties – Rural vs. Non-Rural**



## Dataset

Unfortunately, there is no way to know in exactly which industries these investments will be made. Therefore, the next best sample would be that of investments made in other states in qualifying companies that participated in similar programs. Actual investment and company data were provided by three investment firms that have participated in similar job tax credit programs in other states. To be clear, these are actual businesses (in other states) that have received investments. The dataset included the name of the company, the industry, the initial level of employment, the number of jobs created due to the investment, the amount of the investment, and the most recent number of jobs. However, to simulate the fiscal impact of the IJTC, researchers needed to limit the sample to businesses that had fewer than 250 employees and were in industry sectors that currently exist in Iowa.

The final dataset included 314 business that received \$1.2 billion in investments. Again, these are actual businesses (in other states), that meet the requirements of the IJTC, and that have received investments under similar job tax credit programs.

Because the IJTC does not yet anticipate a level of investment, for this analysis, the dataset was scaled down proportionally to levels that would equate to \$125 million of investment — \$100 million initial investment in years 1 through 3, and \$25 million in recycled investment in years 4 and 5. For example, the analysis of the dataset showed that the \$1.2 billion of investment led to the creation or retention of just over 11,400 jobs across 90 different industries. However, scaling that investment down to \$125 million results in nearly 1,200 jobs created or retained in these industries (depending on the split between rural and urban areas).

According to both economic base theory, as well as the IJTC, it is appropriate to include both new *and retained* jobs in the analysis. The data provided by the investment companies identified the number of jobs at investment as well as the number of jobs the company is currently reporting. If employment had grown since the investment, the difference was new jobs resulting from the investment. For example, if a company employed 42 people before the investment, and 58 after, the 16 new jobs were considered a direct result of the investment. In addition, when companies added jobs, some of the initial jobs were still reported as having been retained. On average, about half of the existing jobs from companies that showed job growth were considered to have been retained.

However, for some companies, the number of jobs declined after the investment. In these cases, the jobs that remain were considered to have been retained as a result of the investment. In a few cases, the company went out of business after the investment. Even so, these investments were also included in the analysis dataset. Obviously, it would

be inappropriate to cherry pick only those investments that were successful in creating a lot of jobs.

In total, about 57 percent of the jobs are new while the remaining 43 percent were considered retained. These jobs were modeled using the previously mentioned IMPLAN models built for Iowa. In the first scenario, the investments were all made in rural areas using the rural portfolios provided by the three investment companies. In the second scenario, 75 percent of the investment was made in rural Iowa while the remaining 25 percent was made in urban Iowa counties using both the rural and urban portfolios provided by the three investment companies. Without specific investment targets, using these two scenarios, and a sample portfolio of actual investments in other states, is the best way to estimate what the economic and fiscal impact of the IJTC will be on the state's economy.

## Analysis Results

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The Iowa IMPLAN models estimate that for every direct job created or retained in these industries, an additional job is supported in other sectors of the Iowa economy. Further, the direct, indirect, and induced economic activity resulting from these investments would generate between \$14 to \$16 million in state and local tax revenue annually (depending on the investment scenario). Unfortunately, the IMPLAN model mentioned above estimates state and local tax revenue combined. However, using data from the U.S. Census Bureau's *Annual Survey of State and Local Finances*, researchers estimate that 55.5 percent of the total revenue impact accrues to the state, primarily in the form of income and sales taxes. Property taxes are the primary source of local tax revenues.

Under the IJTC, there is a three-year delay before the 60 percent credit can be taken for four consecutive years, and two-thirds of the investments must be made within the first two years, and by year 3, all the money must be invested. Further, the IJTC requires a recycling of 25 percent of the original investment amount – although the credit is only against the initial investment. For this analysis, it was assumed that the initial investment allocation is \$100 million, with an additional \$25 million in recycled investments. Since there is no way to know how quickly those investments will be made, this analysis assumes that one-third of the initial allocation will be invested in each of the first three years. Next, this analysis assumes that half of the recycled investment will occur in year 4 and the remaining in year 5. The analysis also assumes that most of the expected new job creation will occur within 12 months of the investment. Finally, this analysis assumes that there will be no new tax revenues or cost savings from these investments until the year *AFTER* they are made. This is because investments can be made either early or late in the year. Delaying any tax benefits or savings until the following year introduces a conservative bias to the analysis. Under all these assumptions, the return ratio to the State of Iowa for the first scenario (rural only) would be 1.12 after 10 years. In other words, over a 10-year period, the state could expect to get back 12 percent more in revenue than it gave in credits. If both state and local revenues are considered, the ratio climbs to 1.74 (Table 1). For the second scenario, the same ratios are 1.18 and 2.00 respectively (Table 2).

Because the stream of new revenues extends slightly longer than the tax credits, it is appropriate to consider the present value of both the stream of tax credits and the stream of new state tax revenues/cost savings. Using a discount rate of 3 percent<sup>4</sup>, the

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<sup>4</sup> The discount rate represents the opportunity cost of capital, that is, it is the interest lost by receiving funds in the future rather than in the present. A true opportunity cost of capital for a government would be bracketed by the interest that must be paid on current debt and the interest that could be earned in the appropriate investment funds market. Because

net present value (NPV) of the return ratio using only state revenue is still 1.08 under the first scenario, and it rises to 1.68 if both state and local revenues are included. The NPV of the return ratio under the second scenario are 1.15 and 1.94 respectively. The NPV of the ratios change very little since the credits are extended over a long period and are not front loaded.

**Table 1: IJTC Return Ratio: 100 Percent Rural Investments**  
(Millions of Dollars)

	State & Local - Revenue			State Revenue Only		
	Credit	Revenue*	Return Ratio	Credit	Revenue*	Return Ratio
Year 1	\$0.00	\$0.00	~~	\$0.00	\$0.00	~~
Year 2	\$0.00	\$3.71	~~	\$0.00	\$2.38	~~
Year 3	\$0.00	\$7.41	~~	\$0.00	\$4.76	~~
Year 4	\$15.00	\$11.12	1.48	\$15.00	\$7.14	0.95
Year 5	\$15.00	\$12.51	1.16	\$15.00	\$8.04	0.74
Year 6	\$15.00	\$13.90	1.08	\$15.00	\$8.93	0.69
Year 7	\$15.00	\$13.90	1.04	\$15.00	\$8.93	0.67
Year 8	\$0.00	\$13.90	1.27	\$0.00	\$8.93	0.82
Year 9	\$0.00	\$13.90	1.51	\$0.00	\$8.93	0.97
Year 10	\$0.00	\$13.90	1.74	\$0.00	\$8.93	1.12
<b>Total</b>	<b>\$60.00</b>	<b>\$104.23</b>	<b>1.74</b>	<b>\$60.00</b>	<b>\$66.96</b>	<b>1.12</b>
<b>PV @ 3%</b>	<b>\$51.03</b>	<b>\$85.85</b>	<b>1.68</b>	<b>\$51.03</b>	<b>\$55.15</b>	<b>1.08</b>

\* The analysis is done real dollars and as such, the effect of inflation is ignored.

inflation is not included in the analysis, we should subtract the inflation rate from the discount rate calculated as described above. Given the current interest rate environment, however, that would result in a discount rate of nearly zero. In order to be conservative in the analysis, a discount rate slightly higher than the inflation rate was chosen.

**Table 2: IJTC Return Ratio: 75 Percent Rural Investments**  
(Millions of Dollars)

	State & Local - Revenue			State Revenue Only		
	Credit	Revenue*	Return Ratio	Credit	Revenue*	Return Ratio
Year 1	\$0.00	\$0.00	~~	\$0.00	\$0.00	~~
Year 2	\$0.00	\$4.28	~~	\$0.00	\$2.52	~~
Year 3	\$0.00	\$8.55	~~	\$0.00	\$5.05	~~
Year 4	\$15.00	\$12.83	1.71	\$15.00	\$7.57	1.01
Year 5	\$15.00	\$14.43	1.34	\$15.00	\$8.52	0.79
Year 6	\$15.00	\$16.04	1.25	\$15.00	\$9.46	0.74
Year 7	\$15.00	\$16.04	1.20	\$15.00	\$9.46	0.71
Year 8	\$0.00	\$16.04	1.47	\$0.00	\$9.46	0.87
Year 9	\$0.00	\$16.04	1.74	\$0.00	\$9.46	1.03
Year 10	\$0.00	\$16.04	2.00	\$0.00	\$9.46	1.18
<b>Total</b>	<b>\$60.00</b>	<b>\$120.29</b>	<b>2.00</b>	<b>\$60.00</b>	<b>\$70.98</b>	<b>1.18</b>
<b>PV @ 3%</b>	<b>\$51.03</b>	<b>\$99.07</b>	<b>1.94</b>	<b>\$51.03</b>	<b>\$58.46</b>	<b>1.15</b>

\* The analysis is done real dollars and as such, the effect of inflation is ignored.

## Social Impacts

From the state's perspective, new revenue from new job creation is only part of the fiscal impact. To the extent that a new employee can come off one or more state-funded social programs there is additional savings to the state. The largest of these programs is Medicaid. It is estimated that for every person that can come off Medicaid as a result of a new job, the State of Iowa saves just over \$5,900 in program costs (see Appendix B for the details surrounding this estimate.) A recent survey of the companies in this portfolio revealed that 28 percent of new employees will replace Medicaid assistance with private health insurance. Given the number of new jobs created under these scenarios, that means that roughly 180 households would come off Medicaid for an annual cost savings to Iowa of just under \$1.1 million.

Using the same survey data, these new jobs would also result in 62 households coming off state unemployment insurance and 83 households coming off supplemental nutrition assistance. While these programs don't have the same fiscal significance to the State of Iowa, these number still represent a significant social impact of the IJTC.

## Appendix A

### Definitions

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**Direct Impacts.** The initial economic activity that results from changes in production or expenditures by producers and/or consumers.

**Indirect Impacts.** The economic activity that results from local industries buying goods and services from other local industries. This cycle of spending continues until all the money leaks out from the regional economy.

**Induced Impacts.** The economic activity that results from the spending of employees' labor income. This cycle of household spending continues until all the money leaks out from the regional economy.

**Economic Output.** Final value of industry production. For manufacturing companies, output is sales plus/minus changes in inventory. For service sectors, output is equal to sales. For retail and wholesale trade companies, output equals gross margin, NOT gross sales.

**Value Added.** The difference between an industry's output and the cost of its intermediate inputs. This includes employee compensation, taxes on production, and gross operating surplus. This is the measure of the contribution to GDP made by the industry.

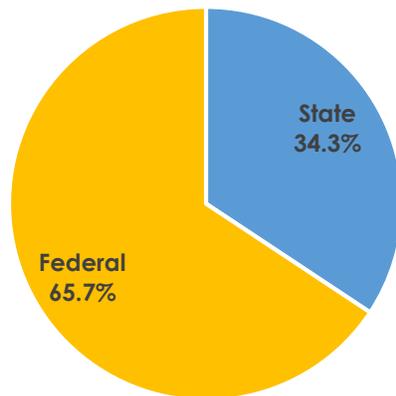
**Wages/Income.** All forms of employment income, including employee compensation and proprietor income. Employee compensation is the total payroll cost of the employee paid by the employer including wages and salary, all benefits (health, retirement, etc) and employer-paid payroll taxes (social security, unemployment, etc). Proprietor income consists of payments received by self-employed individuals and unincorporated business owners, and includes the capital consumption allowance.

## Appendix B

### IJTC Medicaid Cost Savings

In FY 2018, Iowa Medicaid spending was \$4.9 billion, 34.3 percent of which was paid for by the state, with the balance paid for by the federal government<sup>5</sup> (Figure B-1.) That

**Figure B-1**  
**Iowa Medicaid Spending FY18: \$4.9B**



year, 21.8 percent of the Iowa population was enrolled in Medicaid and/or the Children's Health Insurance Program (CHIP). With total enrollment of 688 thousand, the cost per person to the state (excluding federal funds) was \$2,450.<sup>6</sup> According to the U.S. Census Bureau, Iowa had 2.41 persons per

household in 2018. Therefore, on average, a family on Medicaid cost the State of Iowa \$5,903.

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<sup>5</sup> Urban Institute estimates based on data from CMS (Form 64), as of August 2018.

<sup>6</sup> CMS, Medicaid & CHIP Monthly Applications, Eligibility Determinations, and Enrollment Reports: January 2014 - March 2019 (preliminary), as of June 3, 2019. Monthly CMS Medicaid & CHIP Enrollment Reports for all periods are available from CMS (<http://www.medicaid.gov/medicaid-chip-program-information/program-information/medicaid-and-chip-enrollment-data/medicaid-and-chip-application-eligibility-determination-and-enrollment-data.html>).

## Economic Impact Group, LLC.

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The Economic Impact Group, LLC. (EIG) specializes in economic and fiscal analysis supporting local economic development. Founded in 2002 by two Georgia Tech economists, the company helps clients in both the public and private sectors understand how development and incentives impact the local economy and the fiscal situation of state and local governments.

Dr. Alfie Meek is the President and Principal Economist at EIG, and is also the Director of the Center for Economic Development Research, a research unit within the Enterprise Innovation Institute at the Georgia Institute of Technology ([cedr.gatech.edu](http://cedr.gatech.edu)). Dr. Meek has more than 25 years of experience in economic/fiscal analysis and community-based research, nearly half of which have been with Georgia Tech. He has also served as the Chief Economist and Director of Economic Development for the Gwinnett County Board of Commissioners, as well as the Director of Research for the Small Business Development Center at the University of Georgia.

EIG is also the owner and licensor of the LOCI™ fiscal model, the nationally recognized gold standard in fiscal impact analysis software. Licensed by dozens of communities across the country, LOCI™ helps communities understand the full cost to local governments of development and development incentives. LOCI™ uses information specific to a community, including commuting patterns, service delivery, tax digest, cost structure, and depreciation schedules, to estimate the change in revenues and expenditures due to expansion in households that accompany economic development growth. Current LOCI™ users include cities ranging from Los Angeles, California to Austin, Iowa to South Bend, Indiana. And not only cities, but local economic development authorities from InvestAtlanta in Georgia to the Sioux Falls Development Authority in South Dakota utilize the LOCI™ model to give them a strategic advantage when negotiating with economic development prospects.

For more information about EIG visit [www.economicimpact.com](http://www.economicimpact.com).

For more information about the LOCI™ fiscal model visit [www.lociapp.com](http://www.lociapp.com).

***Fiscal Impact Analysis of a Proposed Iowa Jobs Tax Credit***