

Midwest and Great Lakes Economic Development Summit  
**IOWA STATE REPORT**

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## **Economic Development Strategy**

Iowa's current policy and strategy for economic development has a focus on three industry sectors: biosciences, information technology, and advanced manufacturing. Iowa currently recruits companies from out-of-state from each of these three industries and provides state and local subsidies, including tax credits and abatements, cash grants and loans tied to job creation. The normal requirement is that the incoming organization must meet 130% of county of location's median wage. The organization must also provide new-worker training.

Iowa's important and recent new initiatives in the manufacturing sector include:

- Targeting sub-clusters within these industries to identify those with the greatest potential to increase the median income of Iowa's workers.
- Providing higher risk capital for the commercialization efforts of small companies and entrepreneurs without tying it to job creation.
- Developing the supply-chain and workforce necessary for growth and stability of the incoming industry.
- Making career awareness the responsibility of business associations.
- Supporting training for existing workers.
- Increasing collaborations between business and educators to provide hands-on opportunities for students.

The Department of Economic Development (IDED) Board of Directors and department's Technology Commercialization Committee and Due Diligence Committee review and/or approve all projects. The new Innovation and Commercialization Division within IDED was created with seven FTE's to oversee the new initiatives. IDED's Business Development Division has twenty staff that work to recruit companies. The IDED Business Finance Division has ten staff to assist companies with financial awards. There is a yearly appropriation of approximately \$35MM.

Metrics that are tracked for performance measures include:

- ROI, which is reported for each financial award;
- Increase in employment is measured; and
- Increase in median wage is calculated.

The Advanced manufacturing sector, including the wind industry, is growing. Iowa's unemployment rate is the second lowest in nation and the median income is increasing. Iowa finds itself with a lack of:

- management talent, especially marketing talent, to assist new companies;
- Math and science teachers;
- Skilled labor; and
- Engineers.

To date, the major problems have risen from the floods and tornadoes that have struck Iowa this Spring and have caused unprecedented destruction that will consume untold dollars and effort in clean-up, business and job loss, and site rehabilitation. The IDED Annual Report can be viewed at the following web site:

[http://www.iowalifechanging.com/compliance/docs/2007\\_vf\\_report013108.pdf](http://www.iowalifechanging.com/compliance/docs/2007_vf_report013108.pdf)

## **Manufacturing**

Iowa has a range of activities directed to retention and upgrading vs. attraction. All current economic development funding sources for job-specific activities treat retention the same as attraction of new companies or expansion of existing companies. The primary target for recruitment is out-of-state companies, with a special emphasis placed on foreign direct investment. Assistance is provided in the form of:

- Financial;
- tax credits;
- tax abatement;
- training for new workers,

There is little coordination or involvement with the state's MEP center(s). The types of manufacturing firms targeted for state assistance are advanced manufacturing as described by specific NAICS codes. The only organizations that are denied assistance are those with wage rates lower than 130% of county median.

## **Workforce**

Since Governor Culver began his term in January of 2007 Workforce issues have been a top priority. It has been estimated that by 2012 Iowa will be short 150,000 workers. In December of 2007 Governor Culver hosted a Workforce Summit and over 400 Iowans came together to discuss our skilled workforce shortage.

During the last legislative session funding for Iowa Workforce Development was shored up and several key new programs were funded:

- Statewide Skills Assessments – funding was provided to pilot the Career Readiness Certification marketed through ACT. We are piloting this program in several of our Workforce Regions and have started doing WorkKeys testing.
- Offender Re Entry Program – IWD received funding to place staff inside 3 of Iowa's prisons to assist with job placements before they leave prison.

During the last few weeks Iowans have faced a huge natural disaster with enormous implications for our workforce. We have been busy assisting Iowans with employment needs and are putting Iowans to work helping with clean up and restorations in 83 of our 99 counties. Many Iowa businesses have sustained major damages to their facilities and restoration will be a long process.

The following link accesses the Iowa Workforce Development home page where a variety of workforce information and data can be accessed: <http://www.iowaworkforce.org/>

## Transportation & Logistics

Iowa's Department of Transportation Commission outlines goals for the Department every three to four years. The Commission reviews the goals and measures progress annually. In December 2007, the Commission conducted an internal assessment and outlined plans for the next four years. The plan includes four goals, strategies to achieve those goals, and methods of measurement.

First, improve the safety of Iowa's transportation systems by implementing a comprehensive highway safety plan and prioritizing and addressing actionable issues and locations in the federal "5%" report. Methods of measurement include highway fatality and major injury rates, and grade crossing fatalities and injuries.

Second, improve the quality of Iowa's transportation systems by securing sufficient funding, developing a passenger rail program, maximizing processes for efficiency and prudent decision making, and developing a transportation system and services performance management program. Improvements are measured by using a sufficiency rating and a Pavement Condition Index value for various classes; considering functionally obsolete and structurally deficient bridges; and taking into account centerline miles of 'key corridors' programmed, miles of highway at established service levels, percent of projects supporting wages that meet or exceed 120% of the average county wage rate, and total business capital investment associated with those projects.

Third, improve internal and external customer service through improving communication with customers, maximizing process efficiency and effectiveness, developing a performance-based customer service program, and developing a survey for grant recipients to assess effectiveness in managing grant programs. Progress is measured by taking into account the average number of days to issue access and utility permits, the average time to near normal for A and B roads, the time from application deadline to Commission approval, and from Commission approval to project construction/completion.

Fourth, improve the effectiveness of the workplace by developing a comprehensive employee safety program, gathering and sharing organizational information, and developing a workforce management plan. This is measured by the proportion of protected classes in DOT workforce, number of workers' comp injuries, number of vehicle accidents, number of hours lost, employee rating of workplace satisfaction, and employee rating of openness and trust.

In addition to these goals, the Department has been working with other governmental and outside entities. Most notably, Iowa Governor Culver recently signed legislation commonly referred to as "TIME-21," Transportation Moves the Economy into the 21<sup>st</sup> Century. Through TIME-21, \$160 million will be allocated to the Department by 2013. Primary roads will receive 60% of these funds, secondary roads 20%, and city governments will use the remaining 20% to fund local road projects. TIME-21 does not include a "fix-it-first" policy.

## **Clean Tech & Energy Efficiency**

Iowa's strategy for promoting "green" industry is evolving. We have a renewable portfolio standard of approximately four percent. This RPS was established as one of the earliest such standards in 1990.

In 2006, a renewable fuel standard law was approved which requires retailers to sell a certain percentage of their total gasoline sales as renewable fuels. Starting in 2009, 10% of such sales must be a combination of ethanol and bio-diesel. This moves up at a rate of one to two percent per year until it reaches 25% in 2019. To assist retailers in this scheduled increase, beginning in 2009, a 4.5 cent tax credit for every gallon of ethanol sold is awarded to dealers within two percent of the fuel standards schedule. For those within four percent of the schedule, a 2.5 cent per gallon tax credit is awarded. A 25 cent/gallon tax credit was given to retailers for 85% ethanol ("E85") in 2006 through 2008. This drops to 20 cents/gallon in 2009 and 2010. Beginning in calendar year 2011, this tax credit drops to 10 cents/gallon and drops a cent per year through 2020. Diesel retailers who sell at least 50% bio-diesel are eligible for a three cents/gallon tax credit. As part of this program, assistance is also given for infrastructure, including E85 equipment and bio-diesel blenders.

This year, state legislation was approved which puts a definition of "sustainable design" into the Iowa Code, which sets the state energy conservation standards as overseen by the state building code commissioner as applying to all new single family or two family residential construction built after July 1, 2008 and that these standards will supersede all locally adopted standards. The legislation also gives the building code commissioner new powers to promulgate rules on sustainable design and construction standards. Other approved 2008 legislation provides that non-rate regulated utilities (municipal utilities and rural electric co-ops) establish energy efficiency goals and make these goals known to the Iowa Utilities Board by July 1, 2009.

Governor Culver's Executive Order Six, issued in February, 2008, began a process of evaluation of energy efficiency efforts by state agencies, including day-to-day operations, procurement, and fuels and transportation.

The designated alternative energy "czar" is Roya Stanley, director of the new Office of Energy Independence, created in 2007. Additional information about the agency can be found at the web site: [http://www.energy.iowa.gov/green\\_govt/index.html](http://www.energy.iowa.gov/green_govt/index.html)

## **Technology Commercialization and More General Use of Universities**

Iowa has three Regent Universities: Iowa State University, University of Iowa, and University of Northern Iowa. The state's current policy and strategy with regard to technology commercialization identifies \$5M to be delivered yearly to three regent institutions to fund economic development activities. Each of the Universities provide small grants to researchers working with business partners. The staff of the Iowa Department of Economic Development (IDED) connects companies to university economic development staff and business outreach staff. IDED distributes Industry Specific Brochures showcasing university assets. The following link

will provide additional information:

[http://www.iowalifechanging.com/business/publications\\_directories.html](http://www.iowalifechanging.com/business/publications_directories.html)

Important recent new initiatives include:

- Creation of an Office of Energy Independence (OEI). Funding has been established at \$25M/yr. for four years to fund research and development, commercialization of technologies, and public education projects. University and corporate research on bio-fuels and other energy related technologies at top of funding list
- IDEED has created a new division, Innovation and Commercialization, to move aggressively in the areas of deal flow and workforce in three targeted industries, biosciences, advanced manufacturing, information solutions. This Division is working on asset mapping and cluster-focused economic development strategy. The VC community is being aggressively invited to become aware of investment opportunities in the state. This Division is also funding the American Food Venture Forum.
- The Battelle research and action plan focuses on three industries, research capacities in the regent institutions, and provides direction on utilization of universities in ED efforts. IDEED created Targeted Industry Groups based on research. These groups include multiple university representatives. Business leadership of three groups creates policy initiatives for IDEED consideration.

IDEED has assigned seven FTE's to staff and direct these efforts. The Iowa Legislator created a Technology Commercialization Committee (TCC) made up of the business leaders of the three industry groups and four members of the IDEED Board of Directors (BoD) to provide leadership to the Division. Final funding decisions for division's \$6.9M budget are made by the by the BoD with TCC recommendations. See the attached report for metrics on performance and results to date.

There have been a few problems with initiating these efforts. The Universities' have a resistance to economic development partnerships. There is a difference in the University vs. state definition of economic success. There are also IP issues when working with a university.

## **Productive Metros**

No Report.

## **Revenues and Subsidies**

Over the past two years, Governor Culver's recommendations for the General Fund budget have included proposals to more effectively align revenues and expenditures. This effort has included moving numerous operating expenditures from the state's infrastructure fund to the General Fund. Additionally, The Governor recommended and the Legislature approved this past session securitizing the state's remaining tobacco receipts under the master settlement agreement for a major rebuilding program for the State's prison and community-based corrections system, which will generate jobs.

As an example of a major subsidy, Governor Culver has successfully recommended the creation of the Iowa Power Fund. In response, the Legislature last year appropriated a total of \$100 million over a 4-year period for the Power Fund. This program will provide financial

assistance to entities conducting business, research, or programs in Iowa to accelerate research and development, knowledge transfer, technology innovation, and improve economic competitiveness and to increase the demand for and educate the public about technologies and approaches.

The Iowa Department of Revenue is completing a multi-year analysis of state subsidies in the form of tax credits to businesses. Having begun in FY 2006, this analysis is helping Iowa develop procedures for tracking the use of these tax credits. Ultimately, this information will allow the state determine when these tax credits are being claimed, how the tax credits are affecting the state budget, which sectors are receiving such subsidies, and how effective these credits have been in generating economic development and energy independence as well as meeting other objectives for which they were created. Iowa has 34 tax credit programs. Each type of credit may be claimed against one or more of seven state and two local taxes. Thirteen of the credits may be characterized as automatic, which means they may be claimed by any taxpayer that meets the eligibility requirements for the program. The remaining 21 credits are awarded by different departments of state government. During FY 2007, tax credit awards totaled \$516.2 million. This compares to \$208.5 million in tax credit awards during FY 2006. Most tax credits are claimed against individual income tax and corporate income tax.

Finally, while Iowa has undertaken several studies of its property tax structure to determine how to address certain inequities, it has been several years since the Legislature made major changes to the property tax structure. On a related issue, this past session the Legislature made Local Option Sales Tax statewide.

## **Other**

Cluster Project: Faced with many economic challenges, Iowa's success at attracting and retaining companies and a skilled workforce are vital to a prosperous future. To meet these challenges, it became imperative to participants in the academy to find new and creative ways to grow the state's economy. The state took important steps toward addressing these challenges during the 2007 legislative session. Iowa's economy grew because of and increased focus on its strengths in education, agriculture, manufacturing, information solutions, and the biosciences.

It became evident that for the sustainability of a cluster-based economic development strategy, coordination between state departments was imperative for success. The intent of the NGA Policy Academy was to bring departments together to work on the goal and to then define subsequent steps towards developing a statewide cluster based strategy for economic development.

The existing efforts of participating entities, built a strong foundation for the NGA Cluster Team to map out future goals for the NGA Policy Academy. Though coordination between entities became the critical strategy to achieve greater prosperity in the state, the end goal was to enhance Iowa's economic development strategy to guarantee long term prosperity critical to the state's success. Throughout the Cluster Academy, the team refined its goal and visions for the state, while identifying the benefits of the academy and the challenges to address.

GOAL: To enhance cross- department economic development strategy, building on the state's competitive advantages within targeted clusters.

VISION: A clear vision for Iowa is the embracing of innovative economic development policies and programs by multiple state agencies for the purpose of supporting cluster-based economic development.

BENEFITS: The team also identified the benefits of not only participating in the cluster academy, but also in the need to have a long-term economic development cluster approach for the state.

The development of activities through the cluster academy allowed the entities imperative to the success of a long-term economic strategy to work together and collaborate. While this short-term goal has been accomplished, there remain several long-term outcomes that the group would like to accomplish.

Long-term desired outcomes include:

1. A long-term culture within state government of networking and collaboration within, between and among departments and agencies.
2. Shared vision within the state - from the smallest rural community to the state capitol - of an innovation-driven economy.
3. Tools in place to assist in the development of certain clusters chosen through quantitative and qualitative methods.
4. Define a new concept for "clusters" that are easy to market and explain coordination throughout state and local government – INNOVATION ZONES.