Understanding Iowa's Economic Situation

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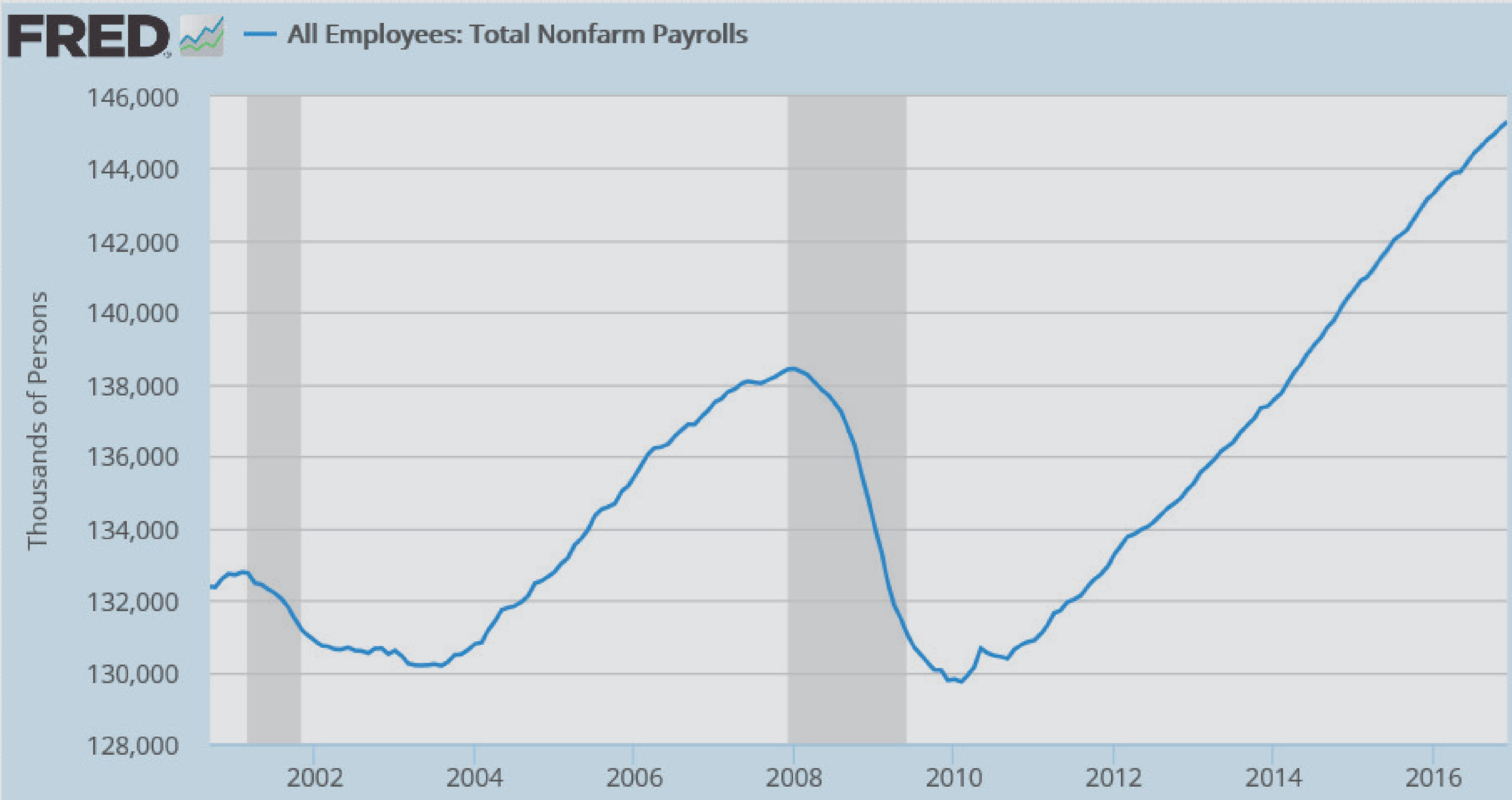
Overview

- Begin with the national picture – Iowa needs the nation and the rest of the world to be healthy for it to be healthy – they buy our stuff!
- A look at Iowa's recent economic performance – we have many plusses but there are worrisome trends, issues, and situations
- Our demographics
- Our January surprise!
- A look at state and local economic development policy, consequences, and conundrums associated with TIF

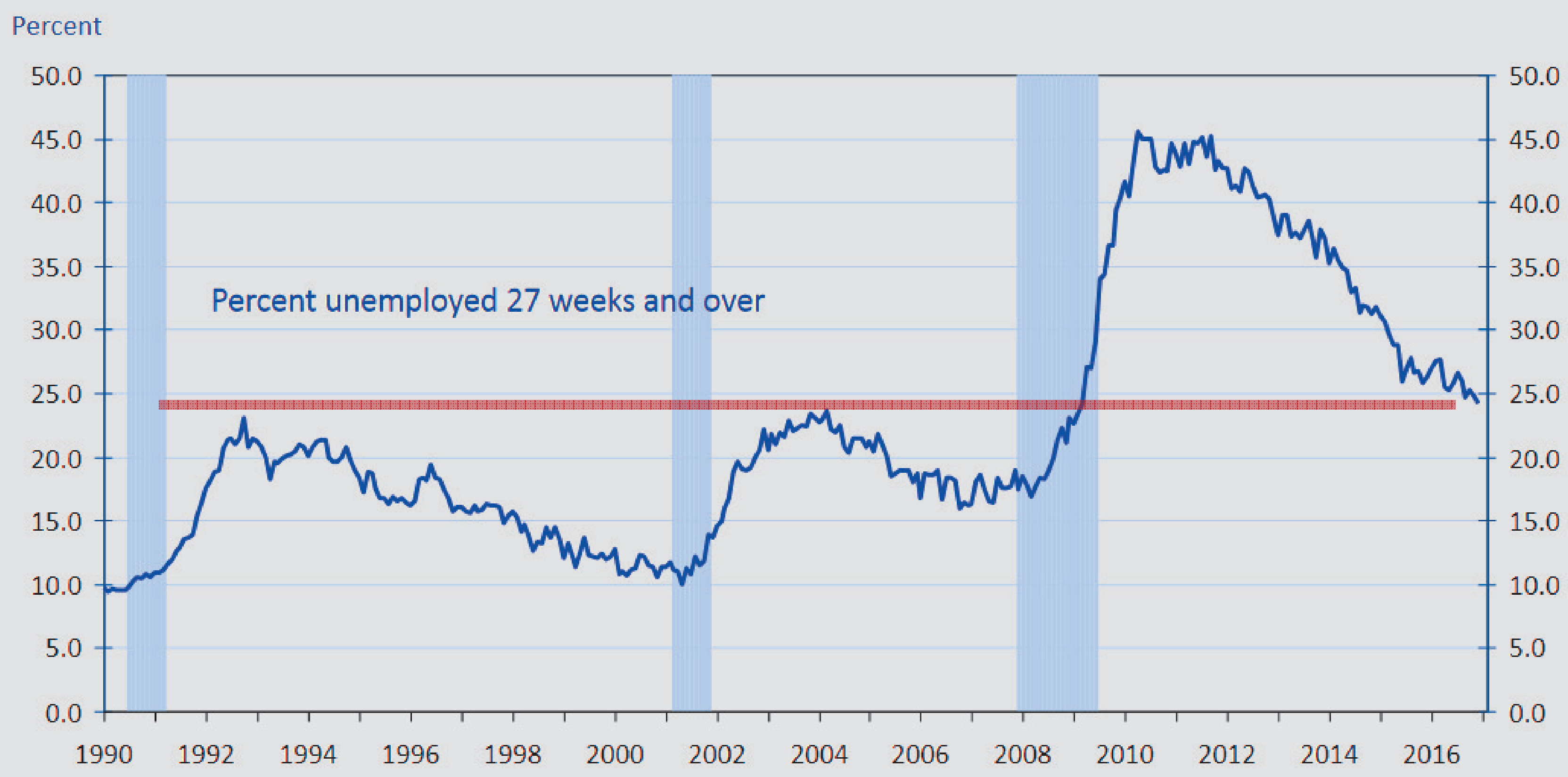
NATIONAL PICTURE

U.S. nonfarm jobs continue to rise

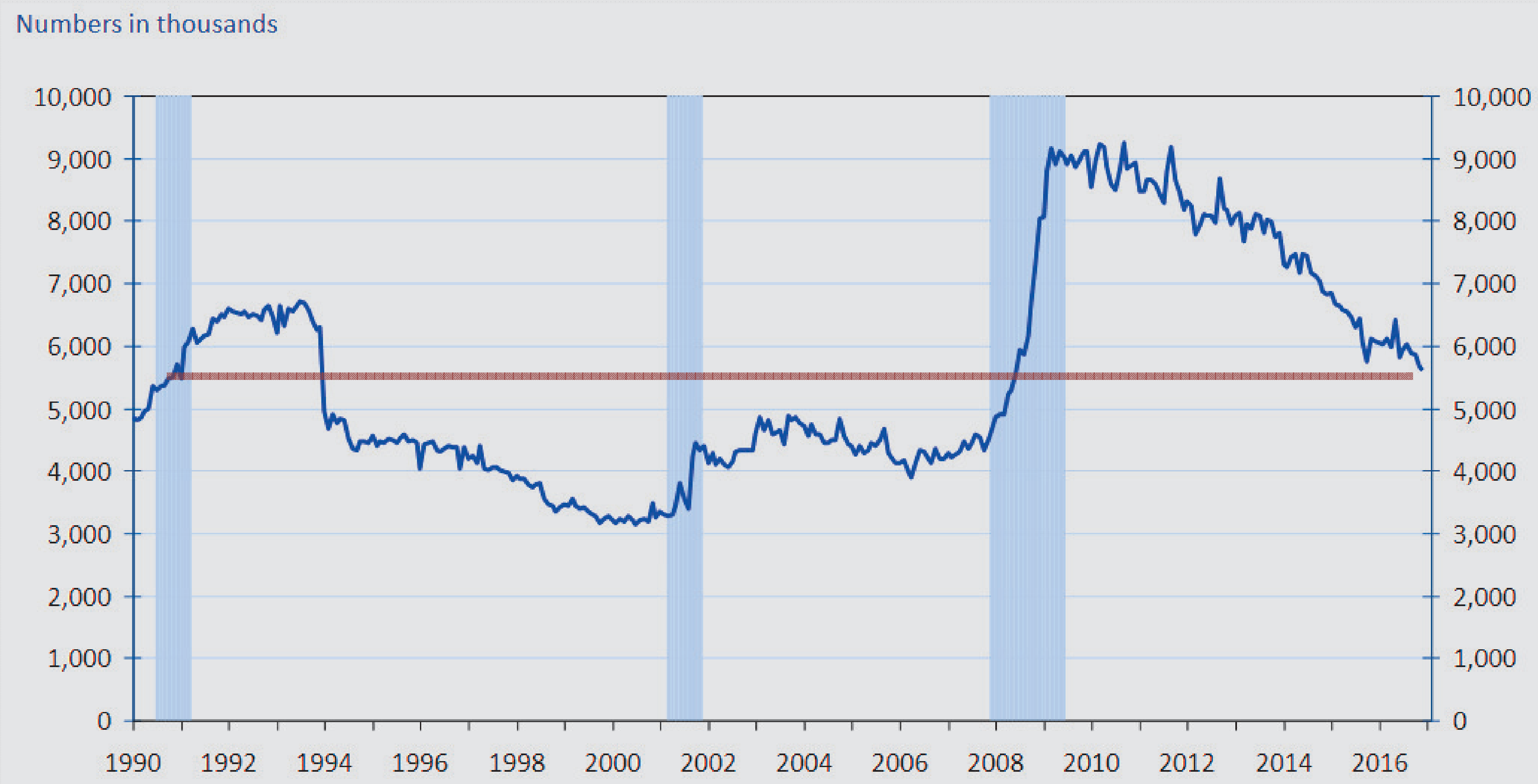


But, long term unemployment is still too high

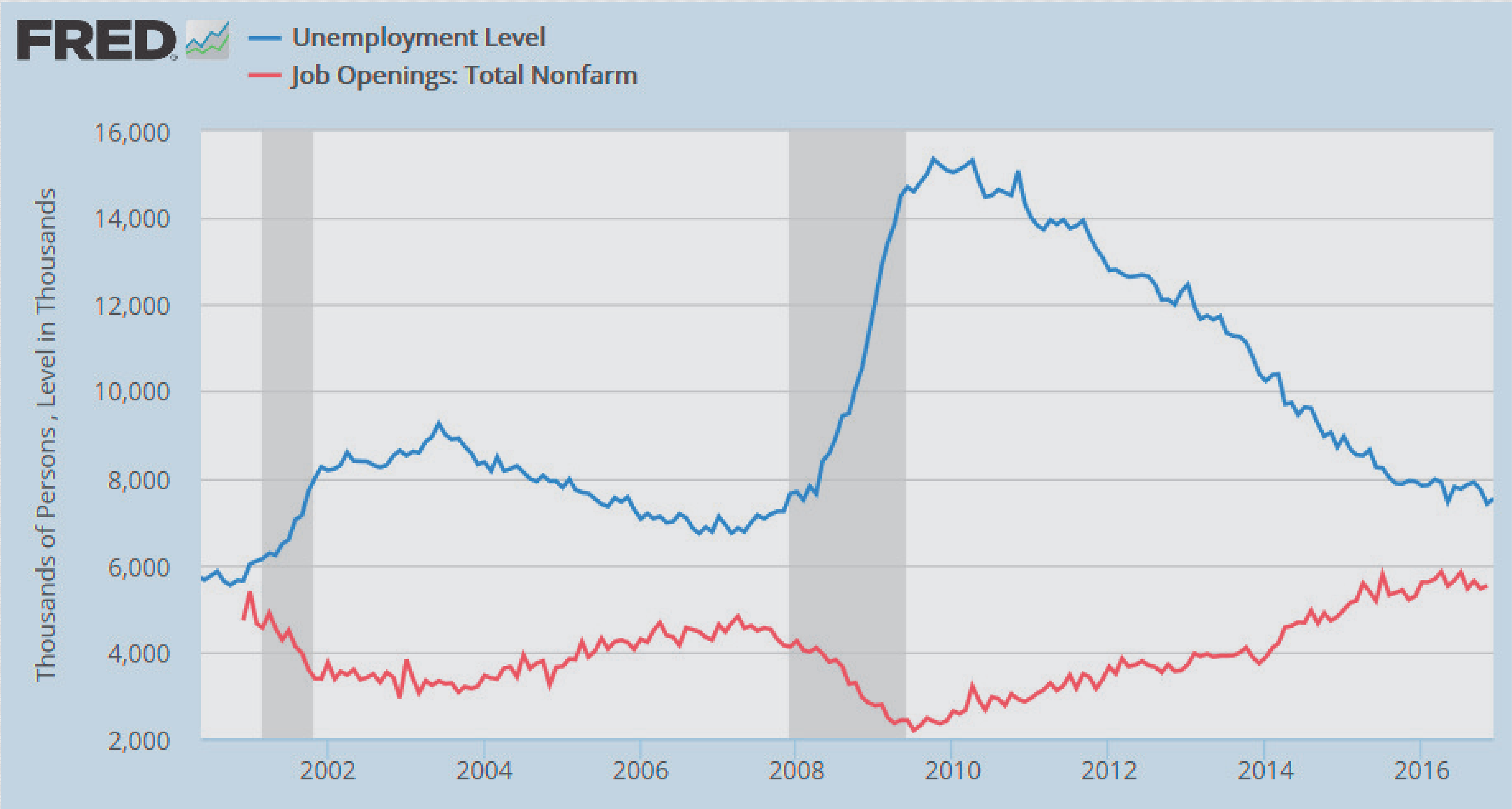
Seasonally adjusted, 1990–2016

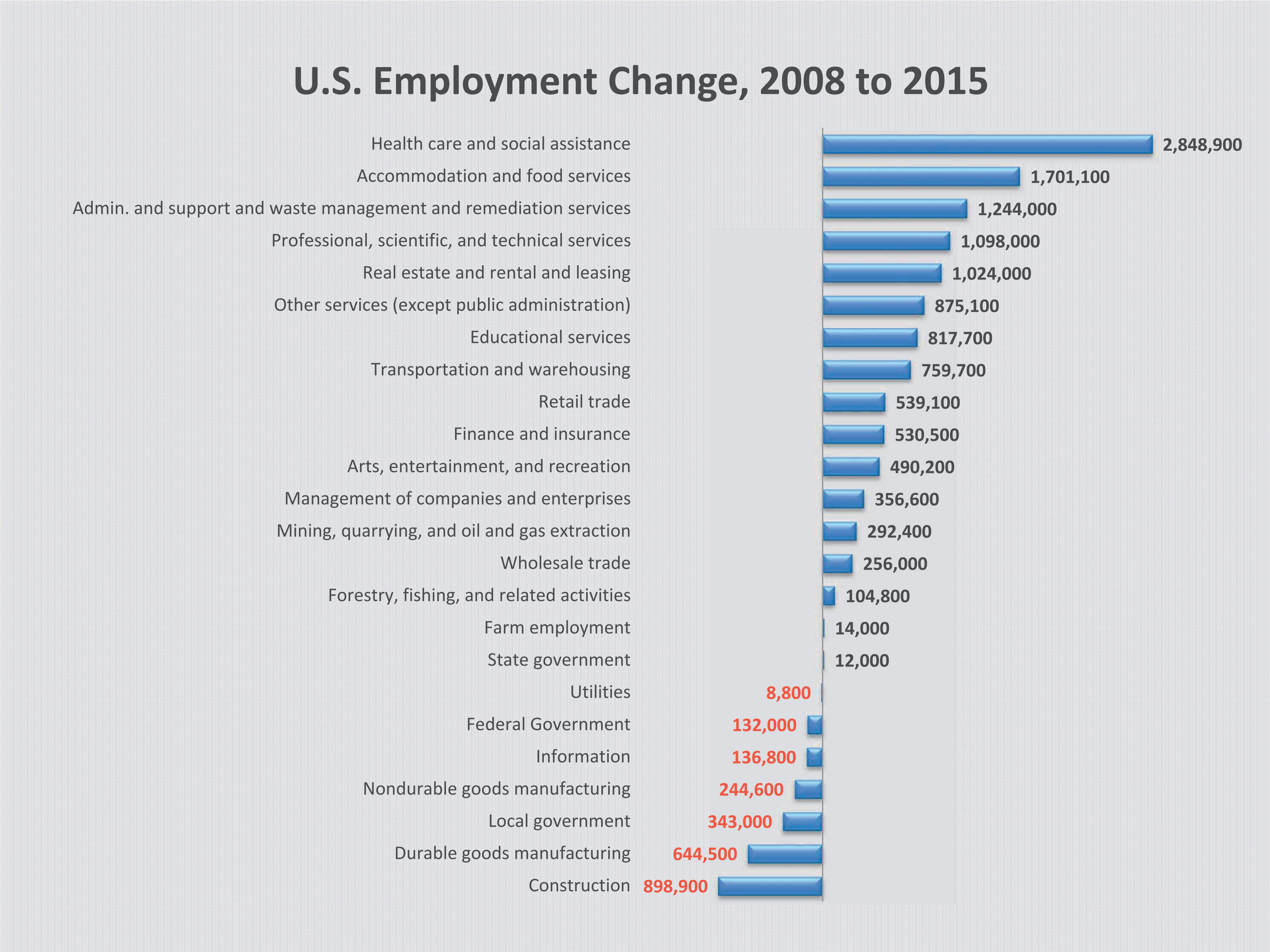


Number working part-time but desiring full-time work is getting better

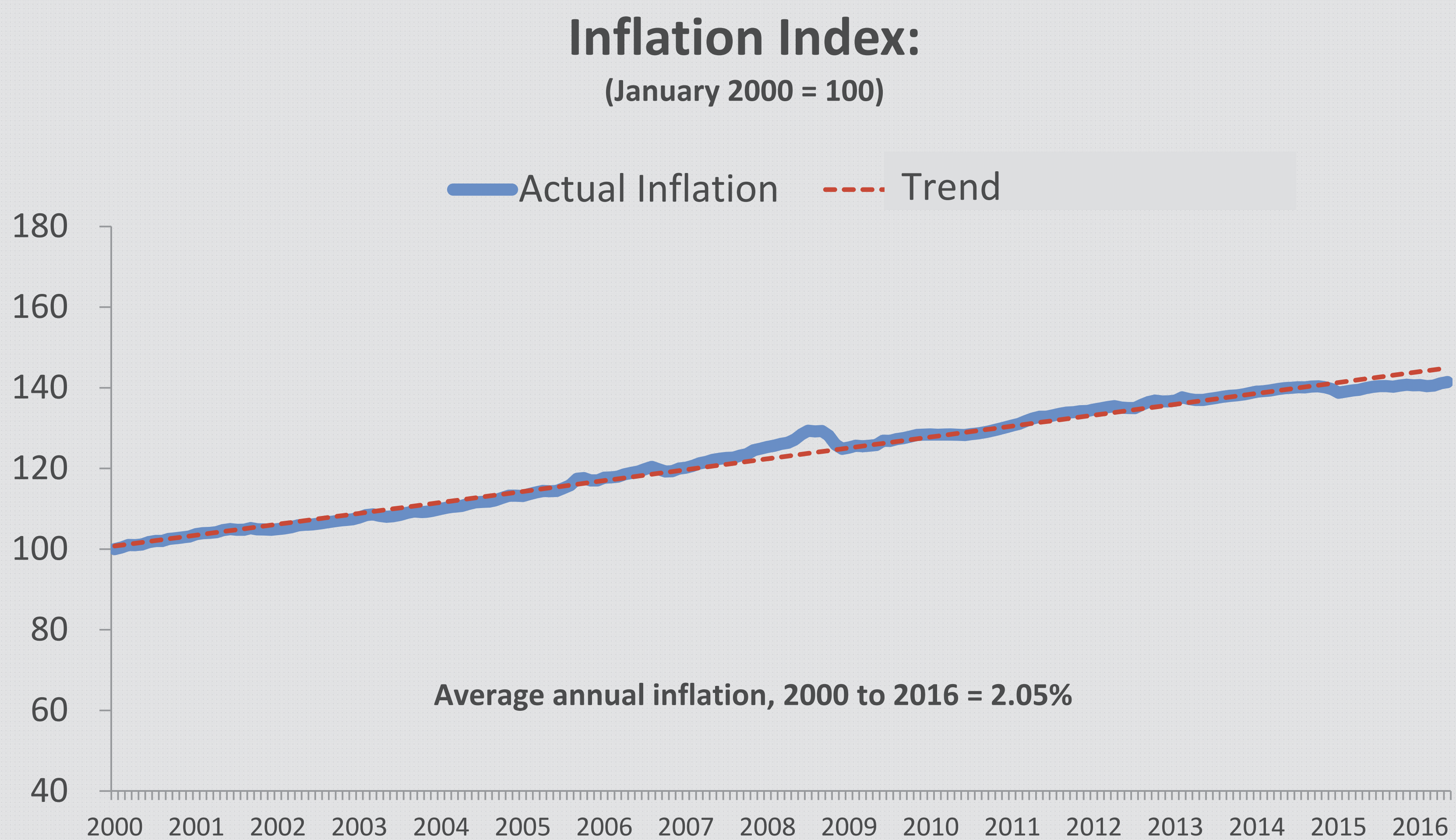


Gap between unemployed and job openings continues to improve



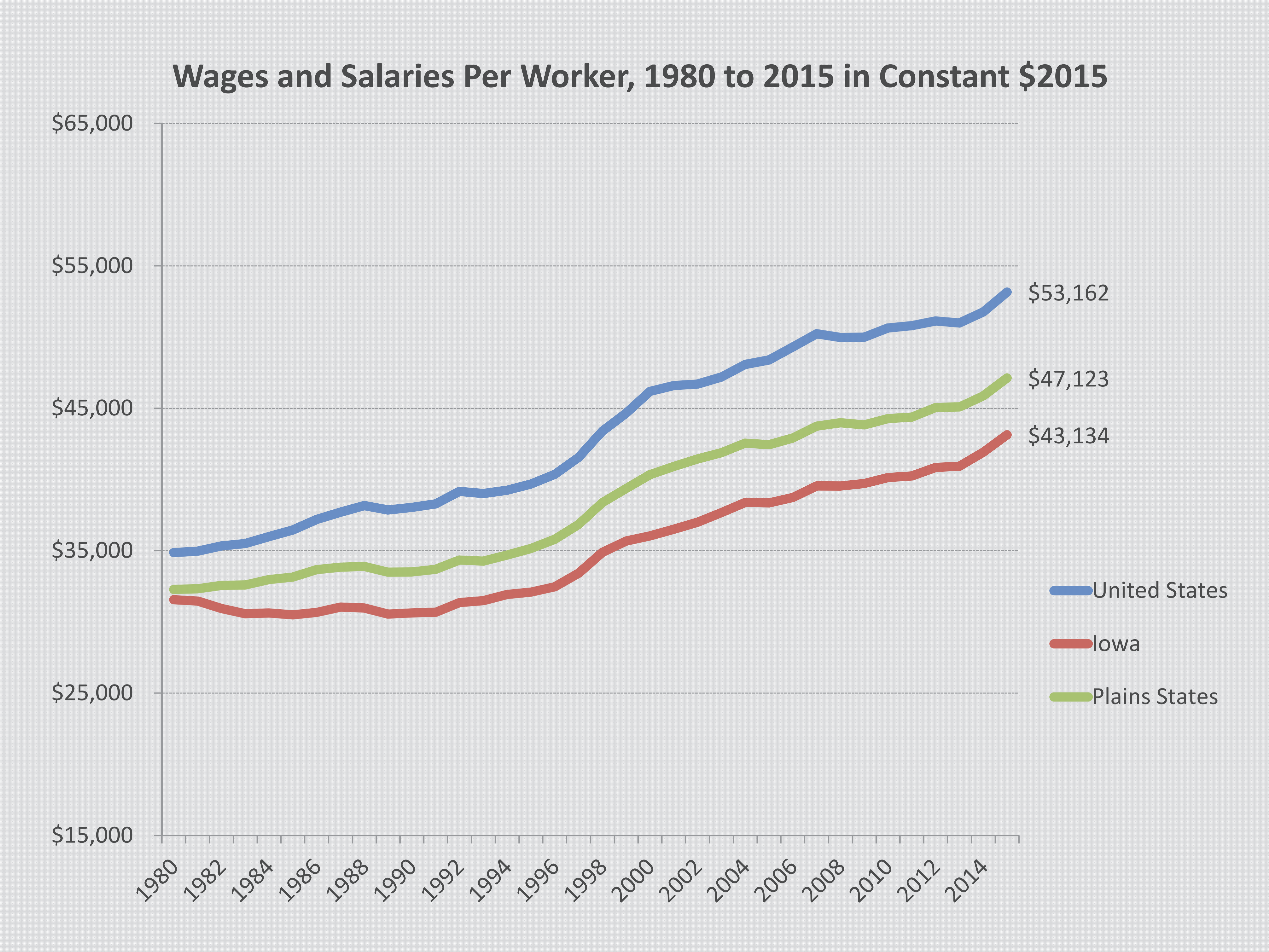

U.S. Employment Change, 2008 to 2015
Health care and social assistance 2,848,900
Accommodation and food services 1,701,100
Admin. and support and waste management and remediation services 1,244,000
Professional, scientific, and technical services 1,098,000
Real estate and rental and leasing 1,024,000
Other services (except public administration) 875,100
Educational services 817,700
Transportation and warehousing 759,700
Retail trade 539,100
Finance and insurance 530,500
Arts, entertainment, and recreation 490,200
Management of companies and enterprises 356,600
Mining, quarrying, and oil and gas extraction 292,400
Wholesale trade 256,000
Forestry, fishing, and related activities 104,800
Farm employment 14,000
State government 12,000
Utilities 8,800
Federal Government 132,000
Information 136,800
Nondurable goods manufacturing 244,600
Local government 343,000
Durable goods manufacturing 644,500
Construction 898,900

Inflation is very tame

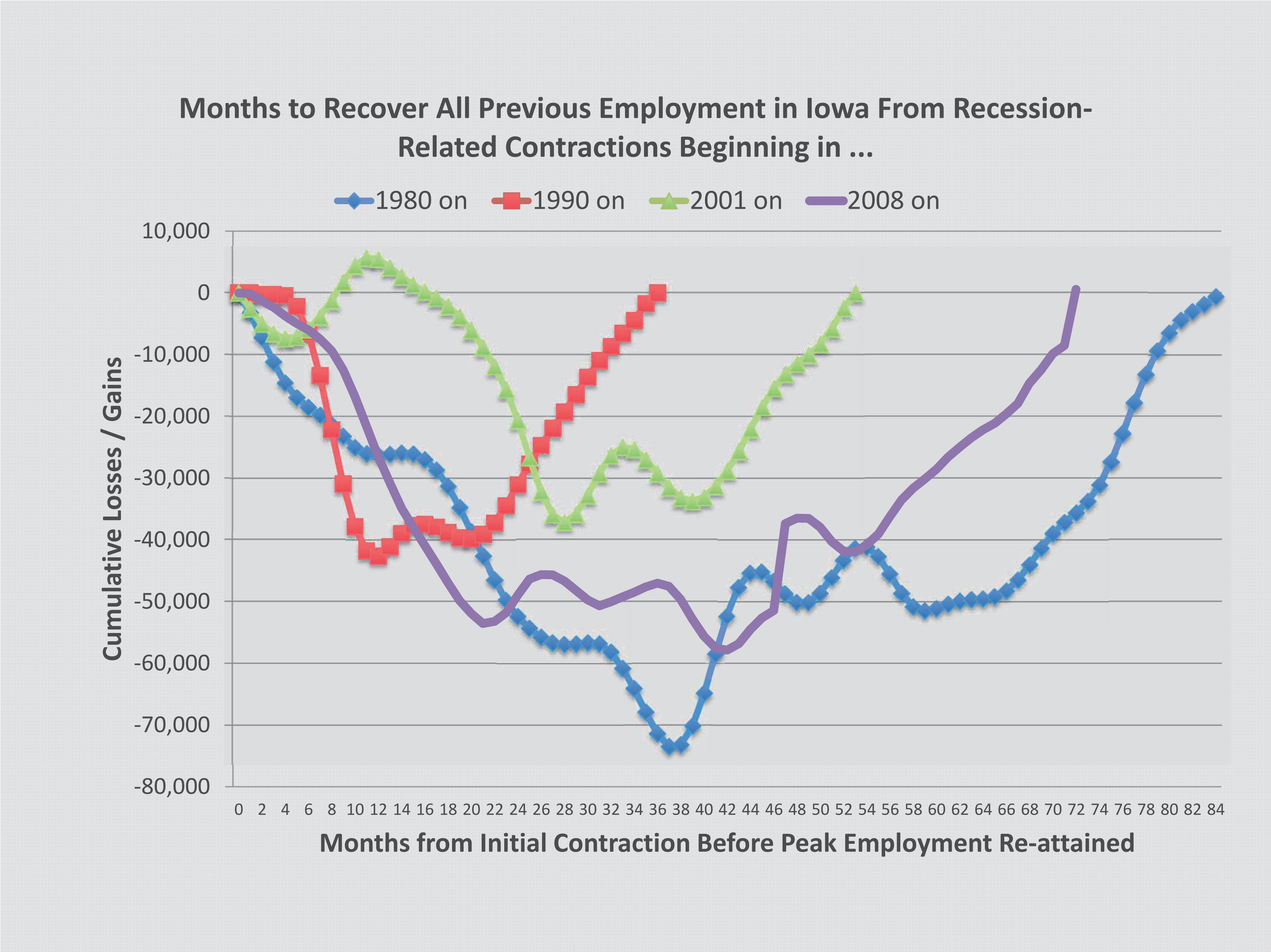


But, and this is important, real wages have not grown until recently

- Nationally, annual payrolls grew an average of **1.15 %** in excess of inflation between 2001 and 2007.
- From 2007 through 2015, national payrolls have realized inflation-adjusted growth **0.68%** annually.
- And it is payroll that drives consumption, and it is consumption that drives 2/3rd of our economy

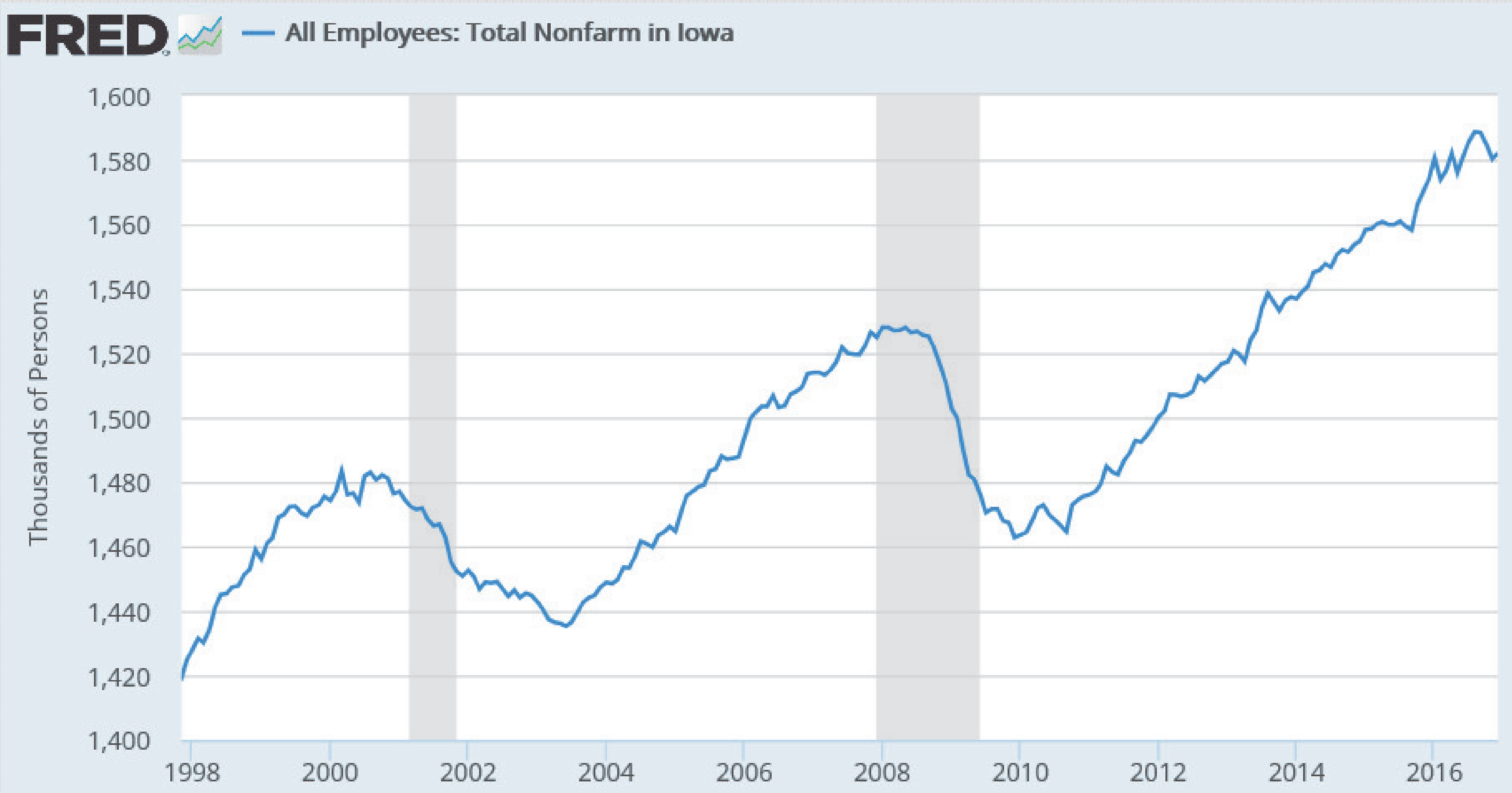

Wages and Salaries Per Worker, 1980 to 2015 in Constant $2015
$65,000
$55,000
$45,000
$35,000
$25,000
$15,000
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
2014
$53,162
$47,123
$43,134
United States
Iowa
Plains States

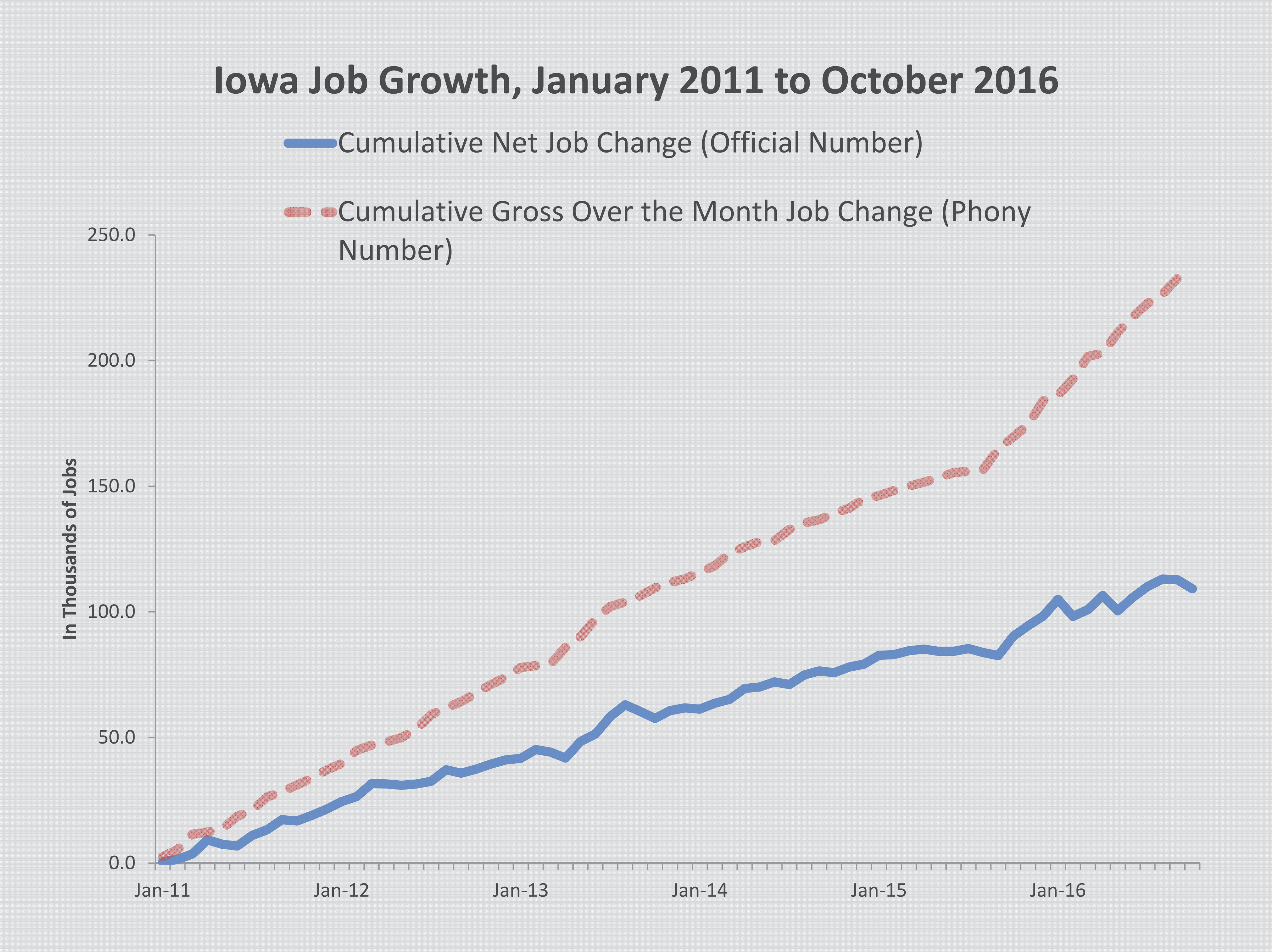
IOWA'S RECOVERY HAS BEEN UNEVEN!



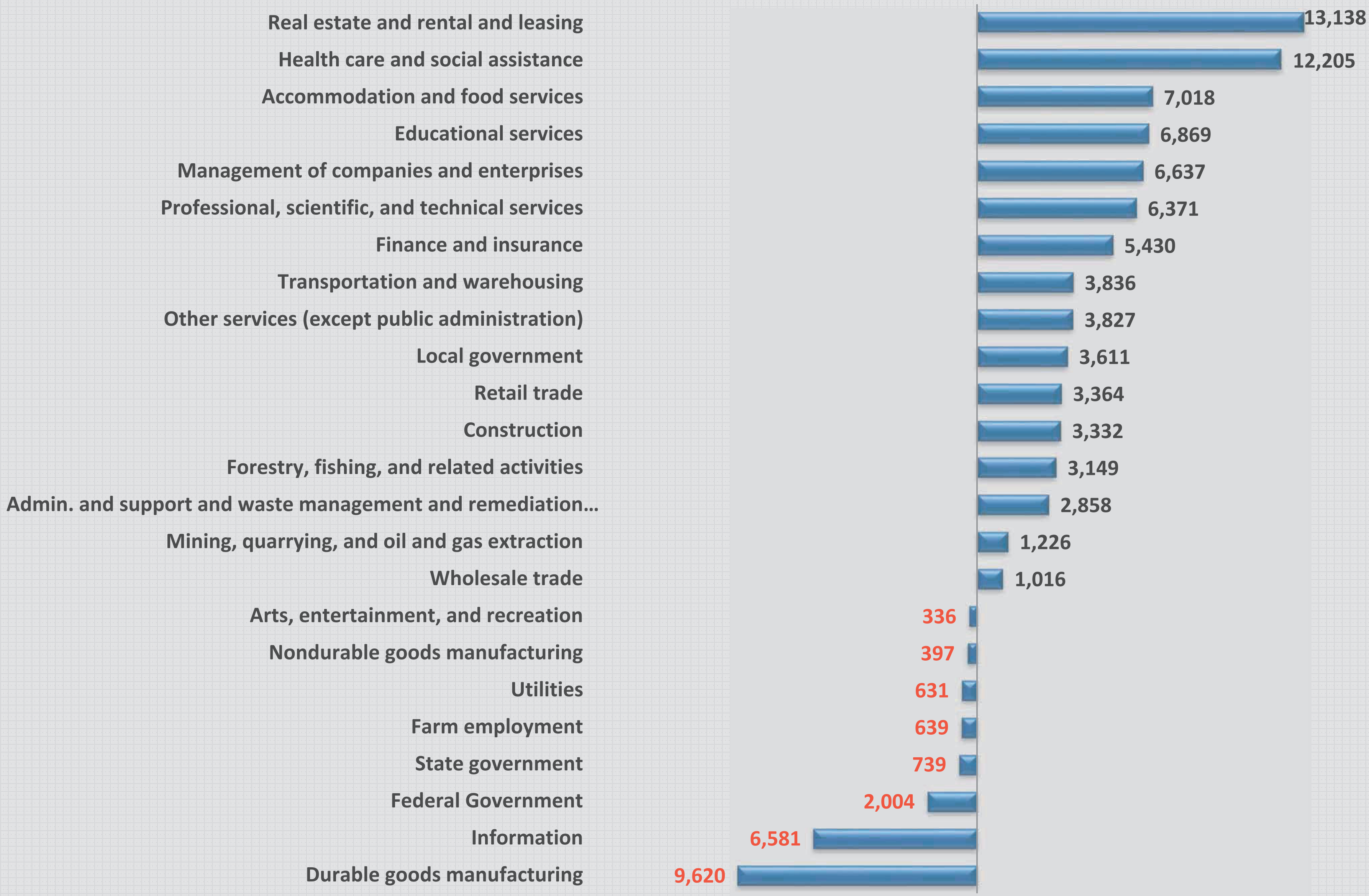
Months to Recover All Previous Employment in Iowa From Recession-Related Contractions Beginning in ...
1980 on
1990 on
2001 on
2008 on
10,000
0
-10,000
-20,000
-30,000
-40,000
-50,000
-60,000
-70,000
-80,000
Cumulative Losses / Gains
0 2 4 6 8 10 12 14 16 18 20 22 24 26 28 30 32 34 36 38 40 42 44 46 48 50 52 54 56 58 60 62 64 66 68 70 72 74 76 78 80 82 84
Months from Initial Contraction Before Peak Employment Re-attained

How does Iowa look? Payroll jobs

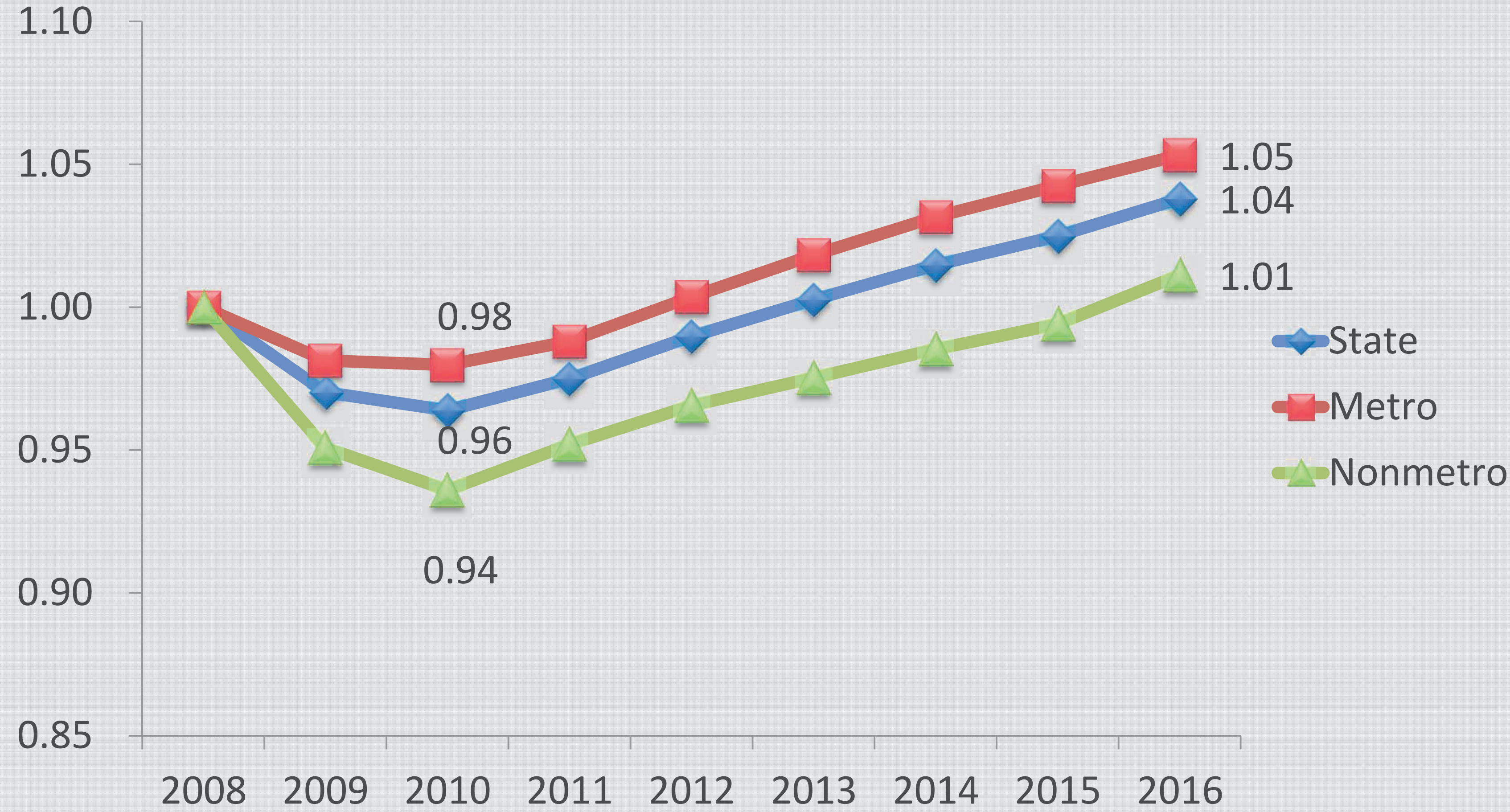


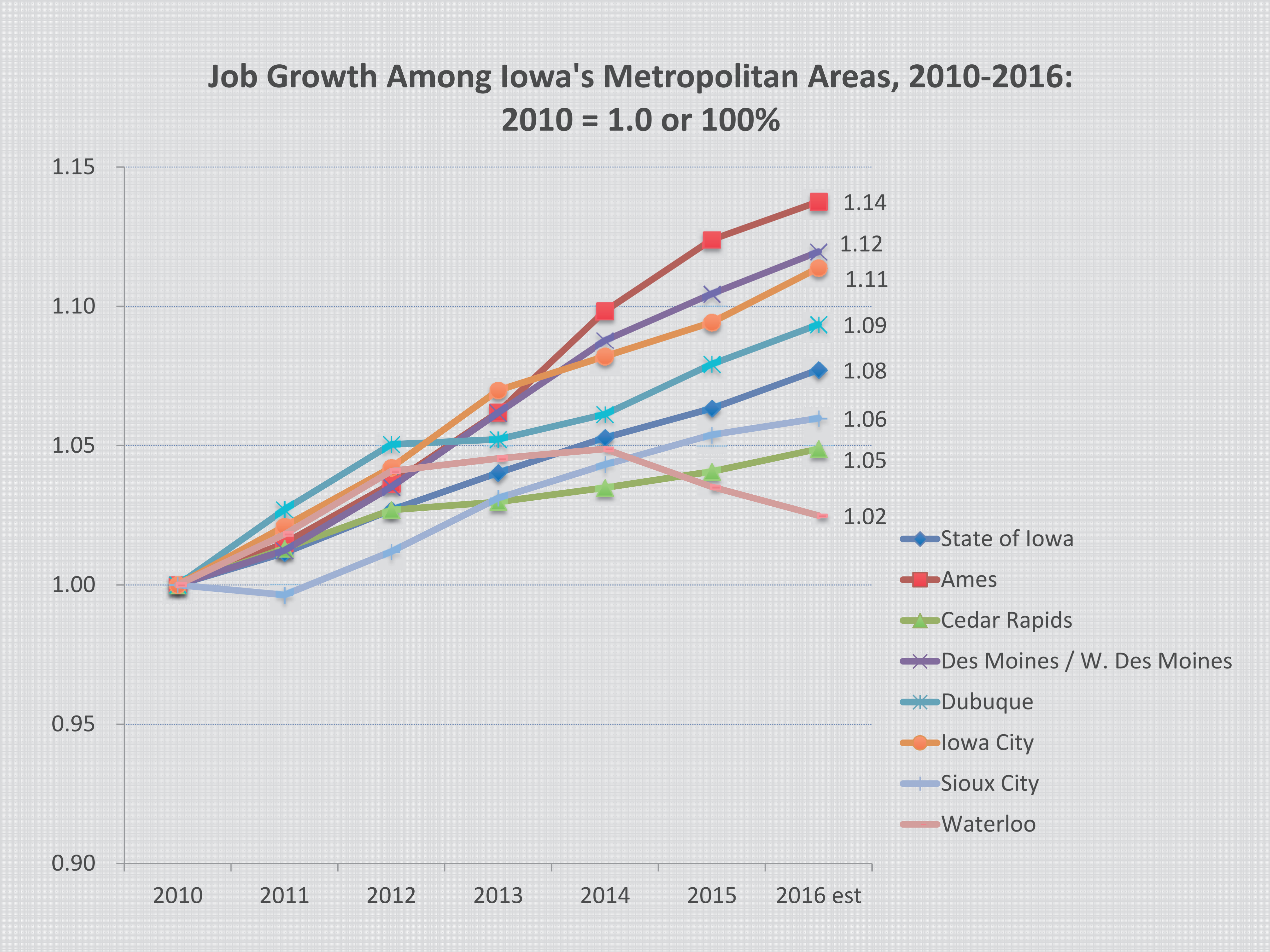

Iowa Job Growth, January 2011 to October 2016
Cumulative Net Job Change (Official Number)
Cumulative Gross Over the Month Job Change (Phony Number)
In Thousands of Jobs
250.0
200.0
150.0
100.0
50.0
0.0
Jan-11
Jan-12
Jan-13
Jan-14
Jan-15
Jan-16

Iowa Employment Change, 2008 to 2015

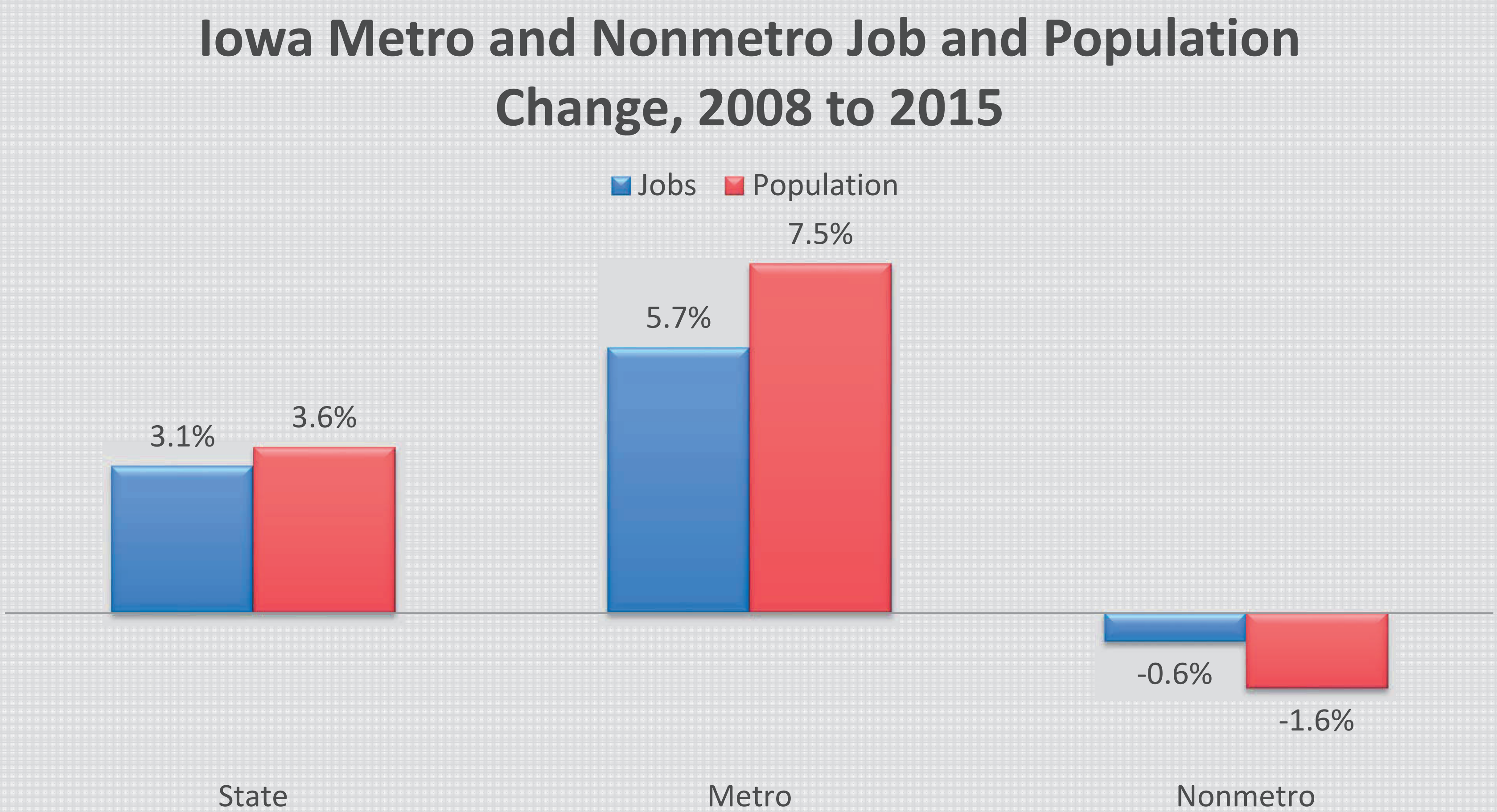


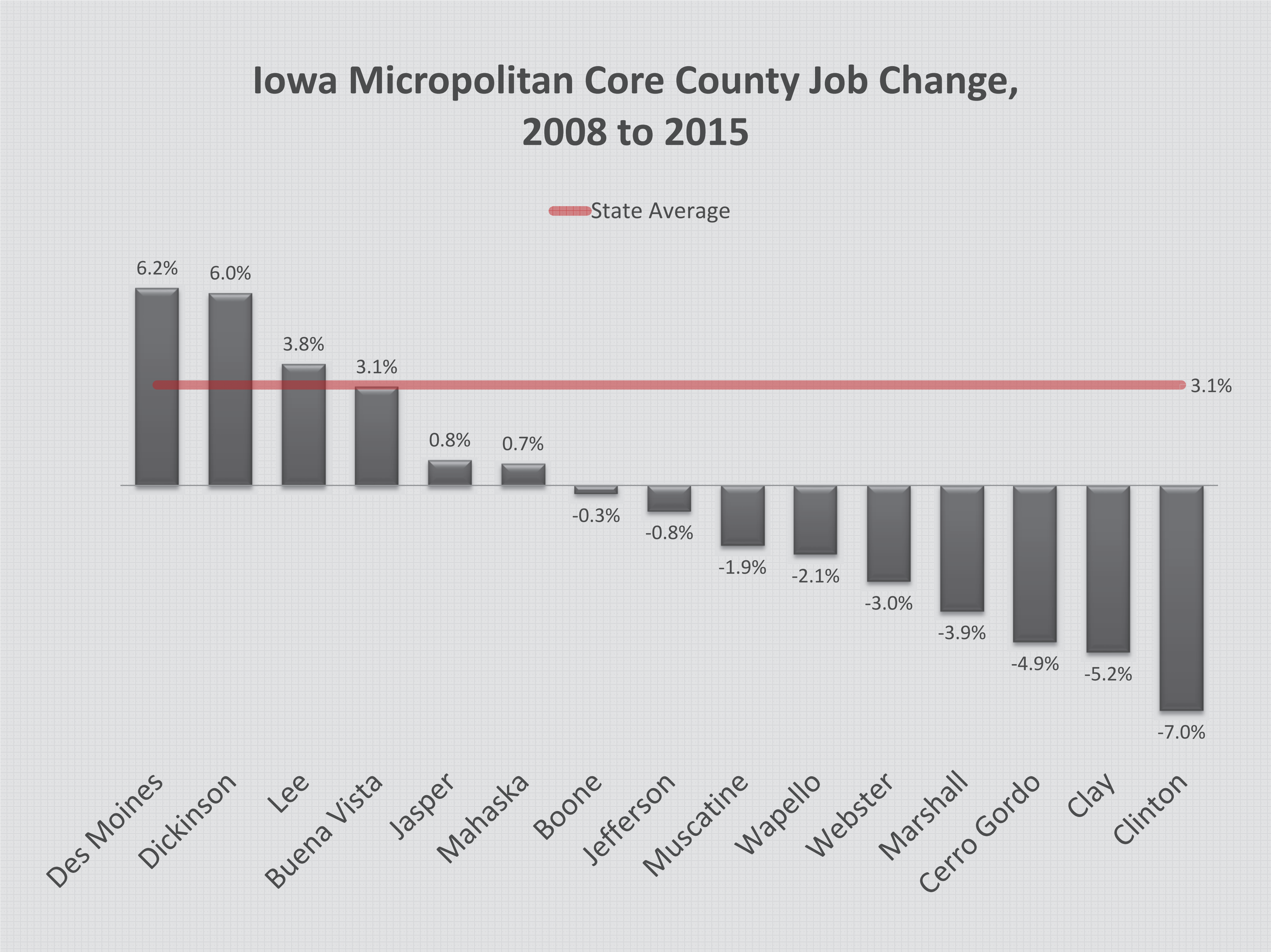
Total Employment Change by Metro / Non-Metro (2008 = 1.0 or 100%)

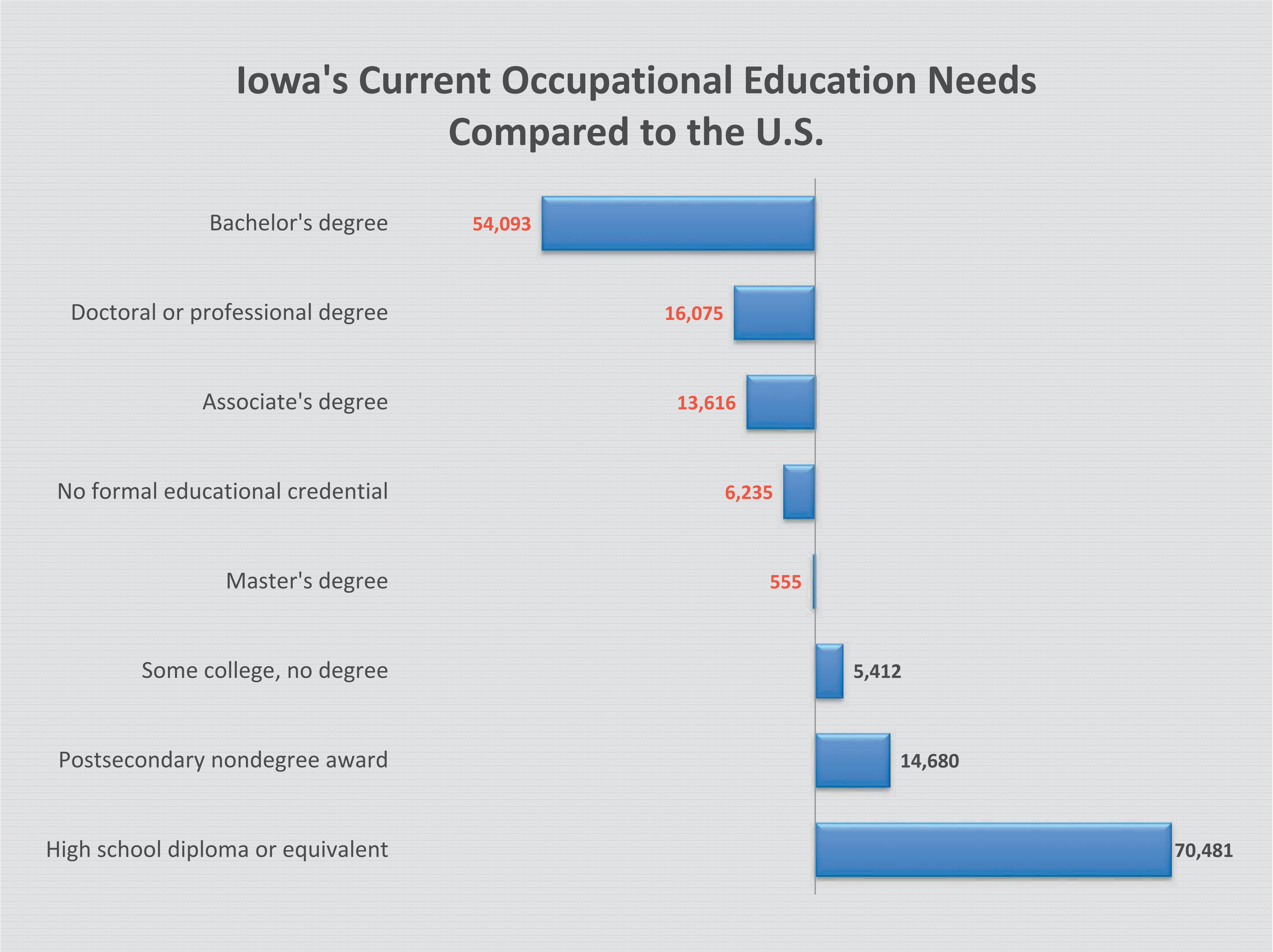



Job Growth Among Iowa's Metropolitan Areas, 2010-2016:
2010 = 1.0 or 100%
1.15
1.10
1.05
1.00
0.95
0.90
2010
2011
2012
2013
2014
2015
2016 est
1.14
1.12
1.11
1.09
1.08
1.06
1.05
1.02
State of Iowa
Ames
Cedar Rapids
Des Moines / W. Des Moines
Dubuque
Iowa City
Sioux City
Waterloo

Metro / Nonmetro Performance Differences are Stark




Iowa Micropolitan Core County Job Change, 2008 to 2015
State Average
6.2%
6.0%
3.8%
3.1%
0.8%
0.7%
-0.3%
-0.8%
-1.9%
-2.1%
-3.0%
-3.9%
-4.9%
-5.2%
-7.0%
3.1%
Des Moines
Dickinson
Lee
Buena Vista
Jasper
Mahaska
Boone
Jefferson
Muscatine
Wapello
Webster
Marshall
Cerro Gordo
Clay
Clinton


Iowa's Current Occupational Education Needs
Compared to the U.S.
Bachelor's degree
54,093
Doctoral or professional degree
16,075
Associate's degree
13,616
No formal educational credential
6,235
Master's degree
555
Some college, no degree
5,412
Postsecondary nondegree award
14,680
High school diploma or equivalent
70,481

OUR KEY DEMOGRAPHICS

Pop Quiz: Guess Iowa's Rankings

___6th___ oldest by percentage over age 65

___18th___ oldest by median age of the population

___30th___ fastest growing this decade

___50th___ fastest growing last century

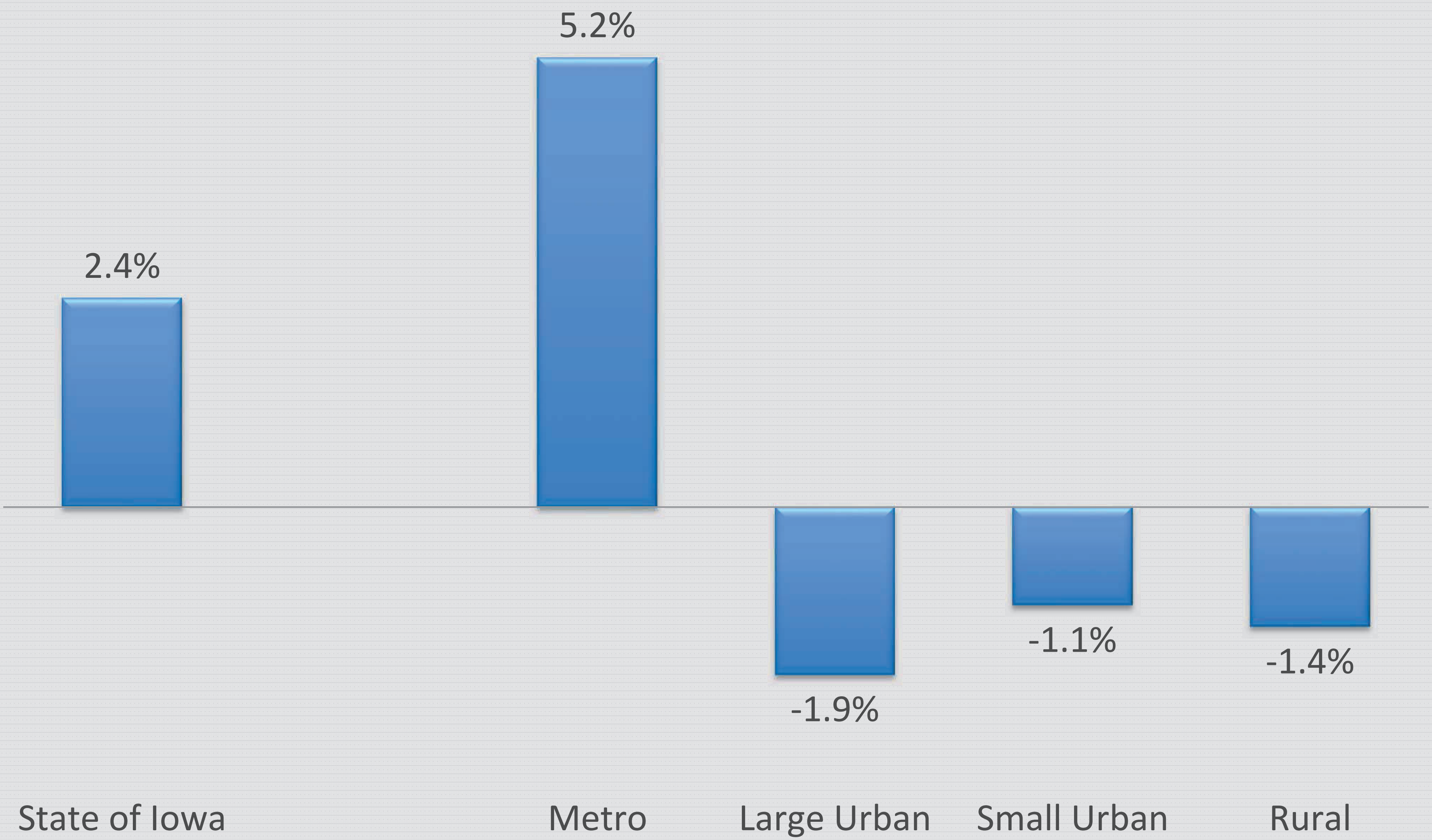
___8th___ most educated by percentage with at least a H.S. diploma

___36th___ most educated by percentage with a bachelors degree or higher

What are the major demographic dynamics in Iowa?

- An aging population
- Young adult outmigration
- Rural depopulation / urbanization
- Broad socio-economic well-being of Iowans
- Diversity

Population Change in Iowa and Iowa Counties by Level of Urbanization, 2010 to 2015



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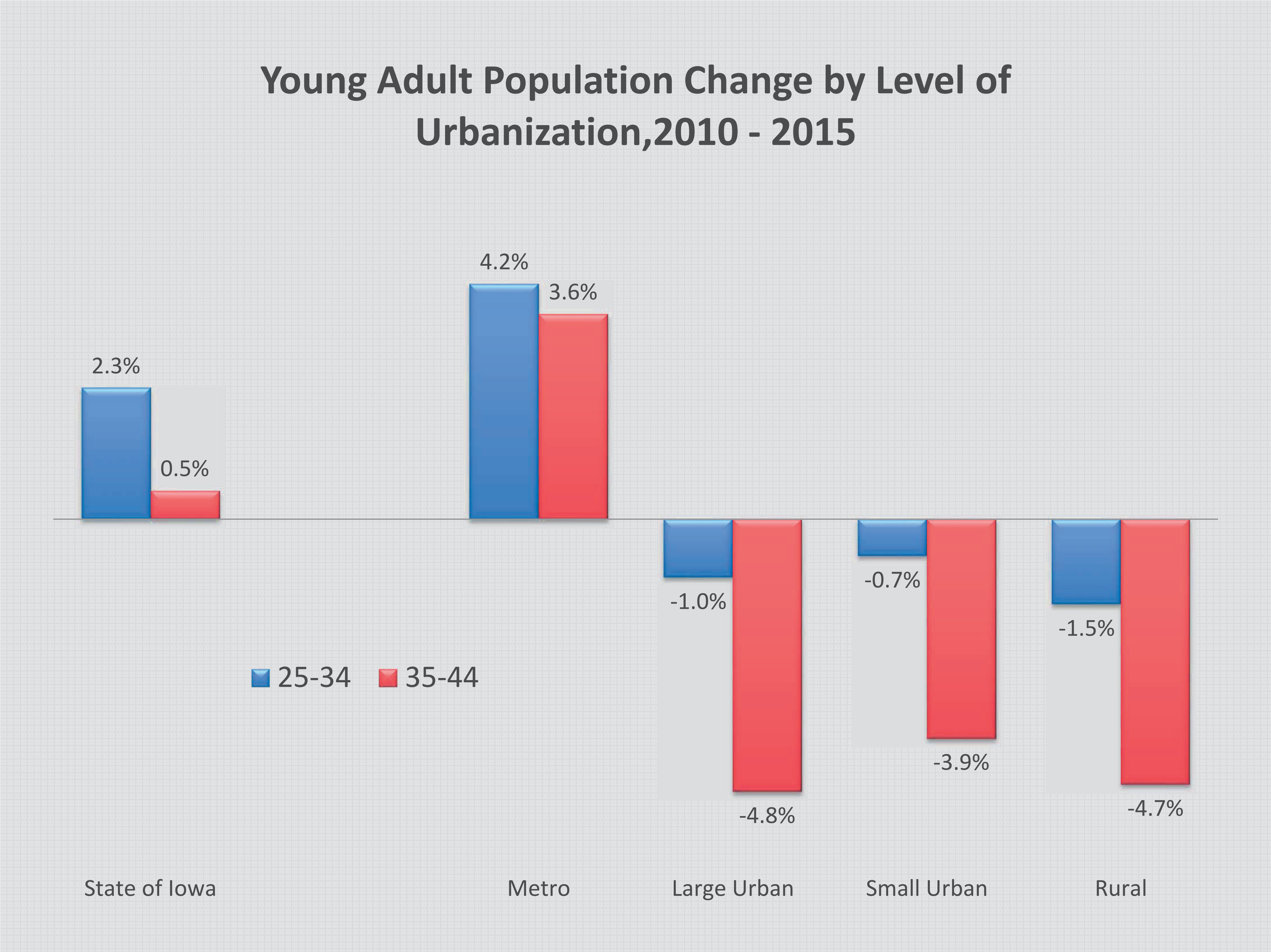
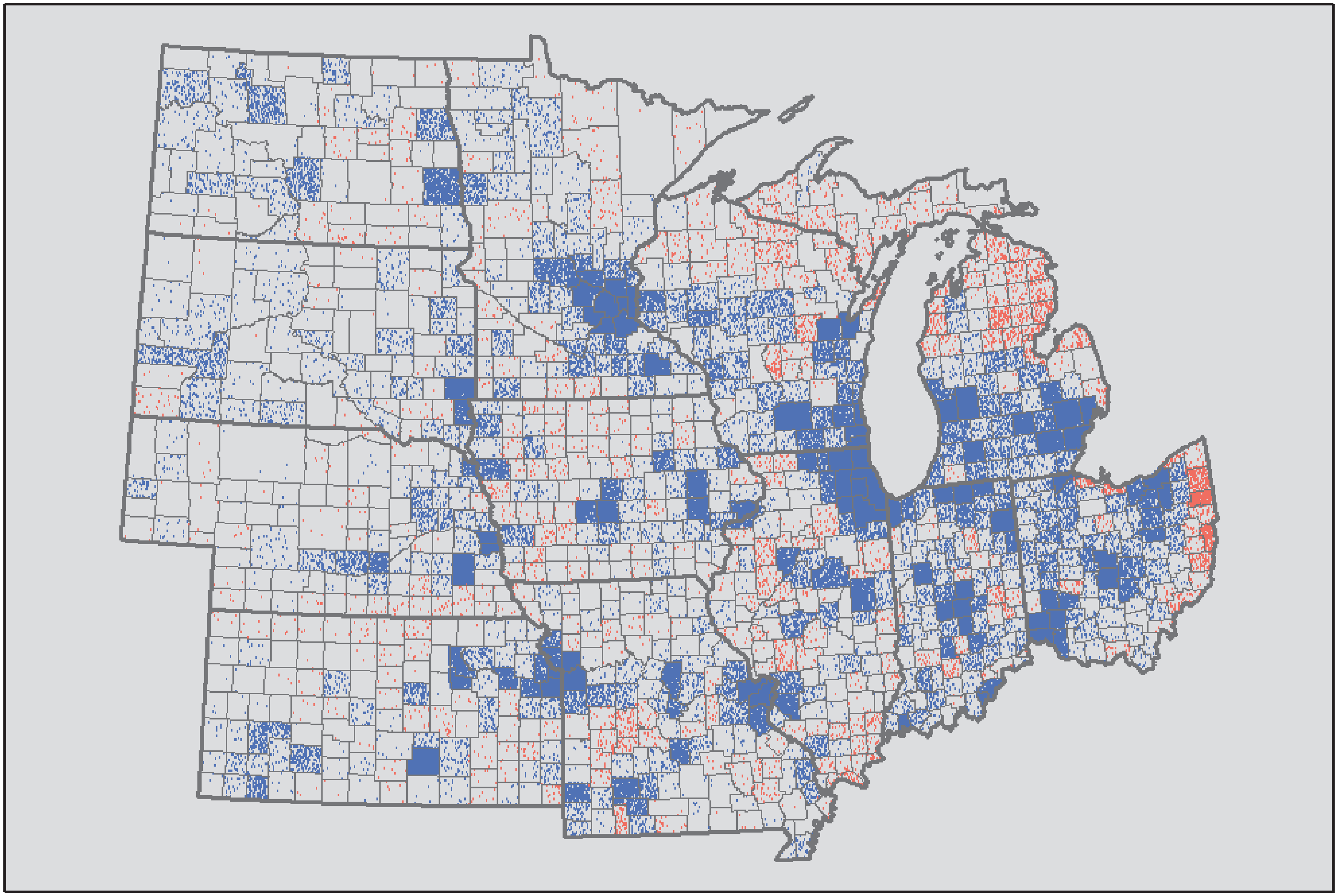
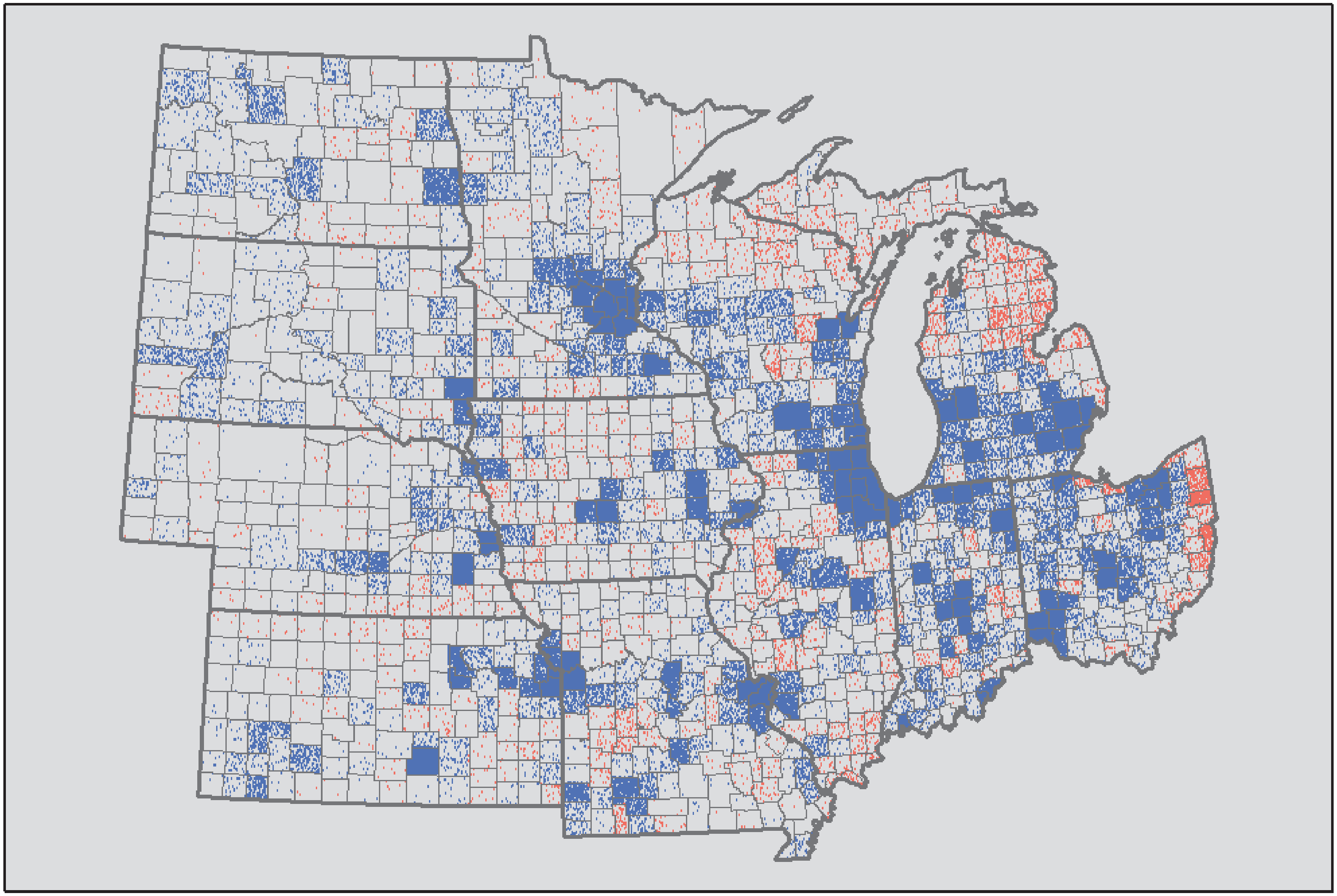

Young Adult Population Change by Level of Urbanization,2010 - 2015
2.3%
0.5%
4.2%
3.6%
-1.0%
-4.8%
-0.7%
-3.9%
-1.5%
-4.7%
25-34
35-44
State of Iowa
Metro
Large Urban
Small Urban
Rural



Natural Population Change, 2010-15

Prepared by Liesl Eathington, Department of Economics, Iowa State University
Source data: U.S. Census Bureau (March 2016)

1 Red Dot = Loss of 10
1 Blue Dot = Gain of 10



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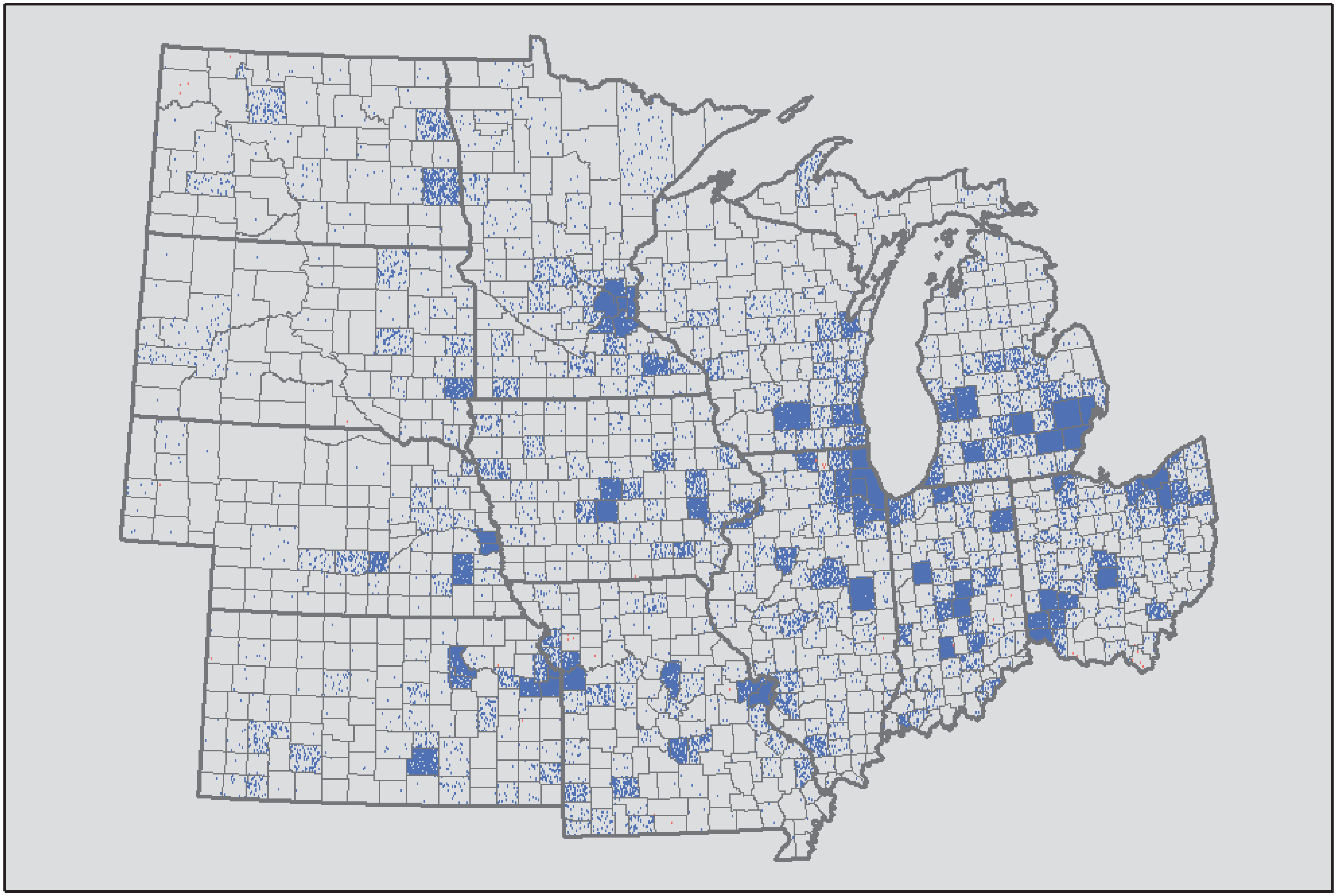
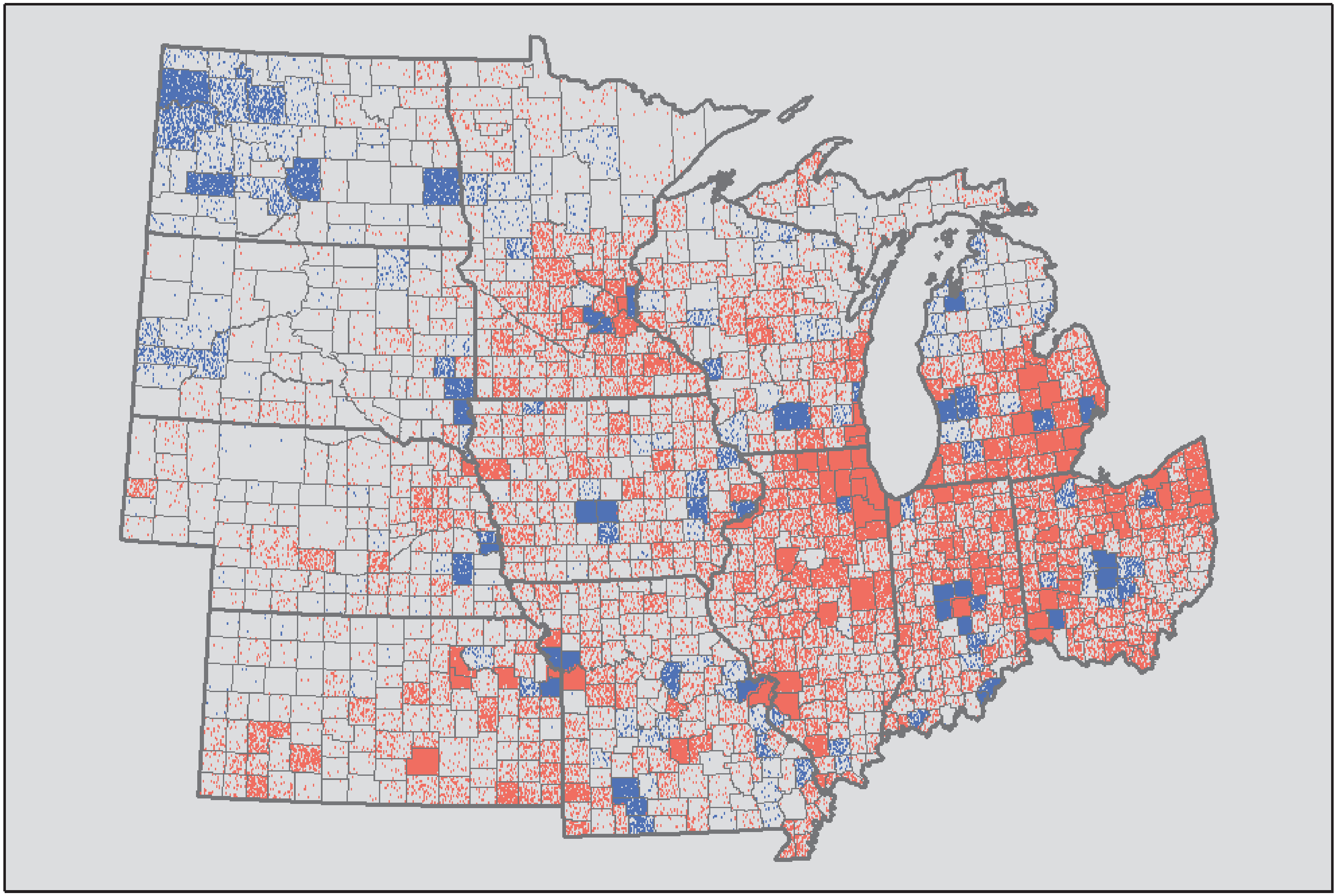


Net International Migration, 2010-15

1 Red Dot = Loss of 10

1 Blue Dot = Gain of 10

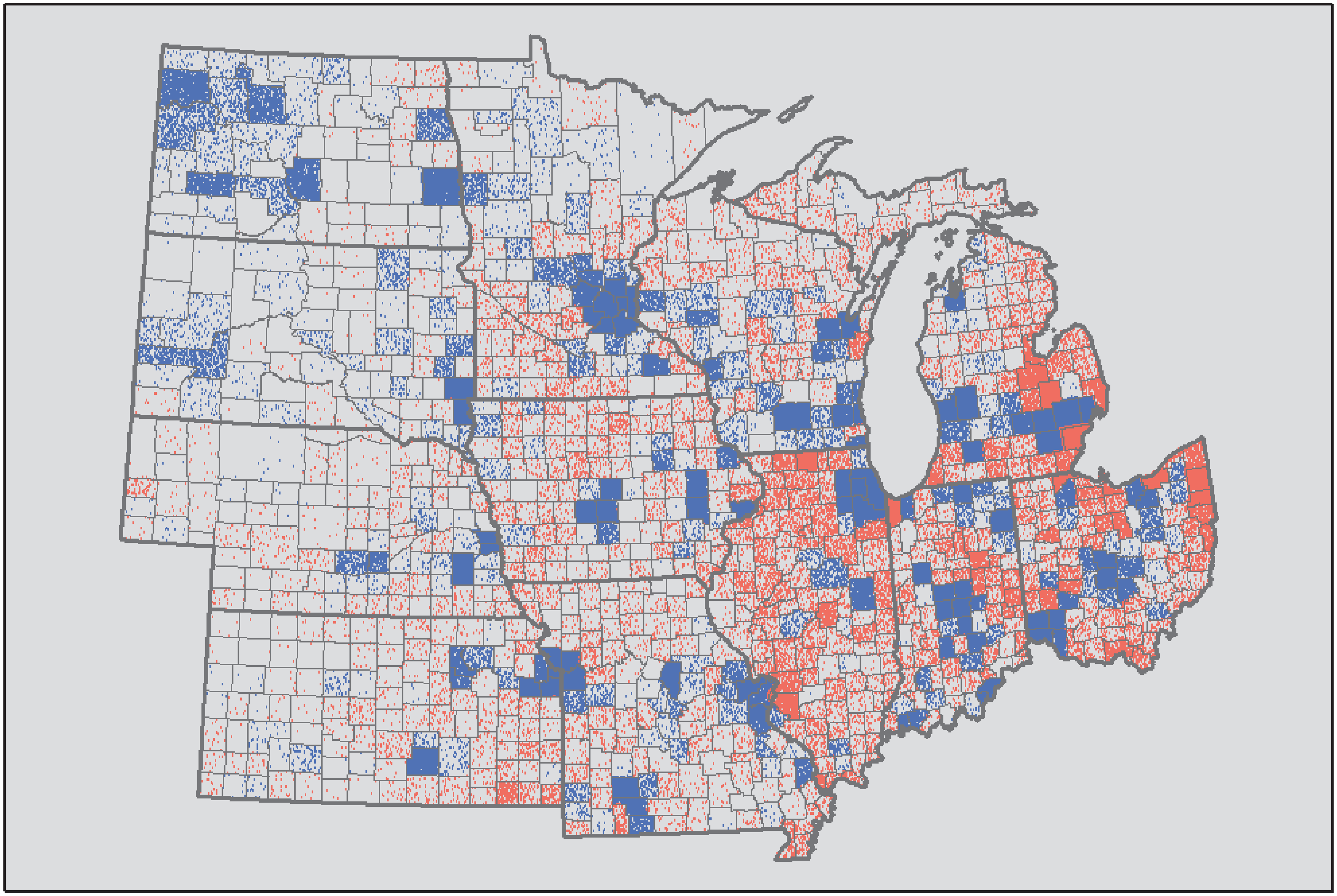
Prepared by Liesl Eathington, Department of Economics, Iowa State University
Source data: U.S. Census Bureau (March 2016)



Net Domestic Migration, 2010-15

1 Red Dot = Loss of 10
1 Blue Dot = Gain of 10

Prepared by Liesl Eathington, Department of Economics, Iowa State University
Source data: U.S. Census Bureau (March 2016)



Total Population Change, 2010-15

Prepared by Liesl Eathington, Department of Economics, Iowa State University
Source data: U.S. Census Bureau (March 2016)

1 Red Dot = Loss of 10
1 Blue Dot = Gain of 10

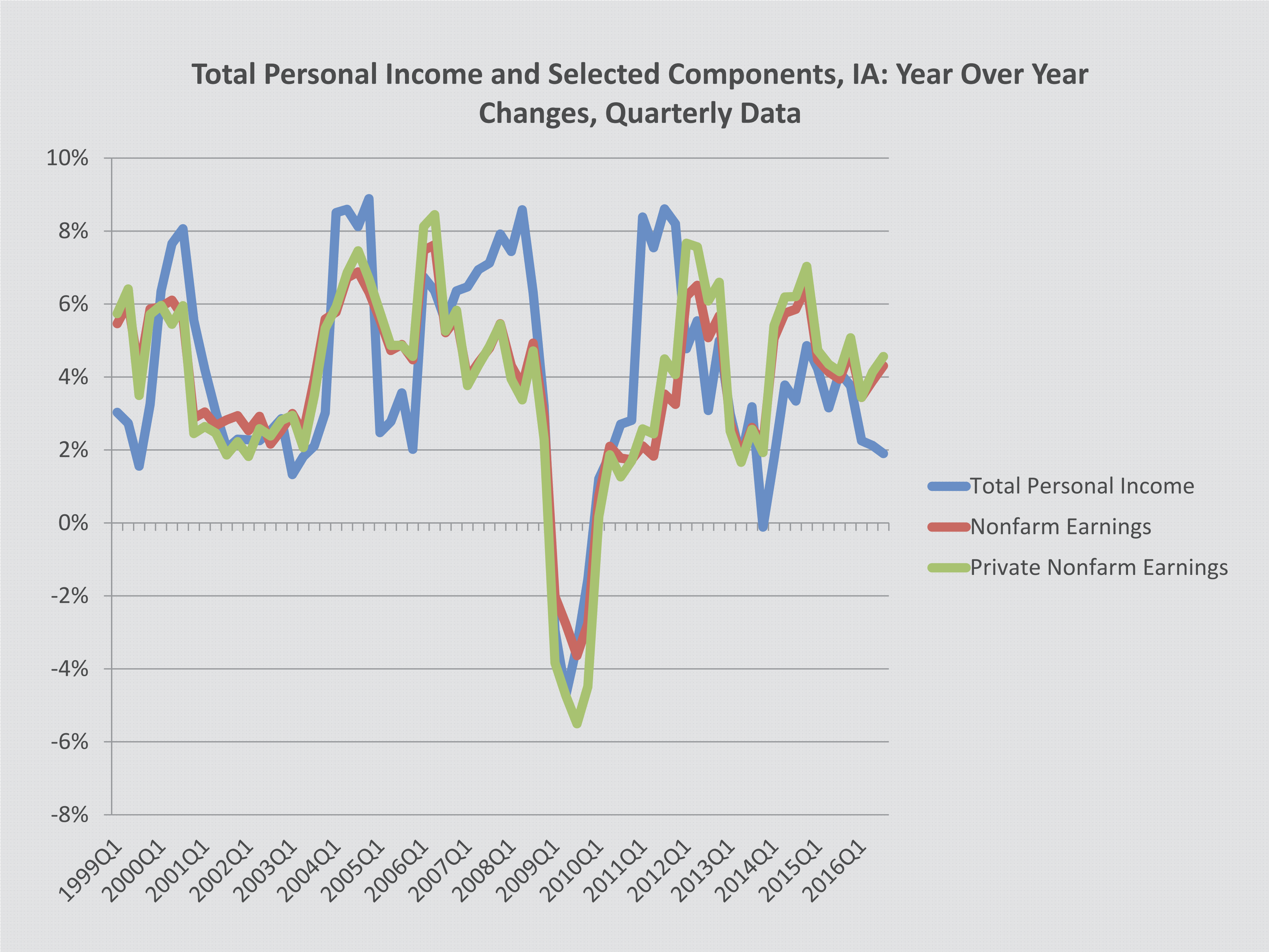
OUR JANUARY SURPRISE

What’s Wrong?

- Apparently functioning economy with headwinds in the farm sector
- Yet, maybe a $110 million plus shortfall
- Commercial and industrial property tax cuts plus a range of other tax offsets are >$430 million
- But we all knew that when the budget was put together last year, so blaming what we knew we were going to spend can’t be what’s wrong

My contention that the current state fiscal crisis is an administrative / political error

- Using BEA data that would have been available at the beginning of the 2016 legislative session, and considering the previous 8 quarters of data, …
  - Average year over year total personal income growth was **3.1%**
  - Average year over year nonfarm earnings growth was **4.7%**
  - Average private nonfarm earnings growth was **5.0%**
- Yet the state of Iowa assumed rates of income tax collections (**7.2%**) significantly in excess of that


Total Personal Income and Selected Components, IA: Year Over Year Changes, Quarterly Data
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
1999Q1
2000Q1
2001Q1
2002Q1
2003Q1
2004Q1
2005Q1
2006Q1
2007Q1
2008Q1
2009Q1
2010Q1
2011Q1
2012Q1
2013Q1
2014Q1
2015Q1
2016Q1
Total Personal Income
Nonfarm Earnings
Private Nonfarm Earnings

Iowa's Revenue Forecast Last Year Was VERY Optimistic (as might be the re-estimate)

REVENUE ESTIMATING CONFERENCE
ESTIMATE OF GENERAL FUND RECEIPTS
December 12, 2016
($ in millions)

TAX RECEIPTS	FY15 ACTUAL	FY16 ACTUAL	% Change FY 16 Act vs. FY 15 Act	10/16 REC FY17 ESTIMATE	% Change FY 17 Est vs. FY 16 Act	12/16 REC FY17 ESTIMATE	% Change FY 17 Est vs. FY 16 Act
Personal Inc. Tax	4,207.3	4,355.5	3.5%	4,667.5	7.2%	4,608.1	5.8%
Sales/Use Tax	2,753.0	2,810.5	2.1%	2,902.2	3.3%	2,864.7	1.9%
Corporate Income Tax	576.3	520.5	-9.7%	530.8	2.0%	531.4	2.1%
Inheritance Tax	87.0	91.8	5.5%	97.7	6.4%	82.1	-10.6%
Insurance Premium Tax	109.6	119.7	9.2%	115.4	-3.6%	118.7	-0.8%
Cigarette Tax	0.0	0.0	0.0%	0.0	0.0%	0.0	0.0%
Tobacco Tax	0.0	0.0	0.0%	0.0	0.0%	0.0	0.0%
Beer Tax	14.5	14.1	-2.8%	14.1	0.0%	14.1	0.0%
Franchise Tax	46.9	52.1	11.1%	52.3	0.4%	48.9	-6.1%
Miscellaneous Tax	1.4	1.5	7.1%	1.5	0.0%	1.5	0.0%
Total Tax Receipts	7,796.0	7,965.7	2.2%	8,381.5	5.2%	8,269.5	3.8%

TAX INCREMENT FINANCING – WHERE TO START?

What is Government's Conventional Role in Economic Development?

Ours is a market society, and we broadly agree that market processes results in the efficient allocation of goods and services across most categories.

Markets do fail, however. They do not provide an optimal amount of public goods, which necessitates the layers of governments that serve us to provide:

- Public education
- Protection and court services
- Critical infrastructure
- Environmental and health regulation
- In short, activities that promote the health, safety, and welfare of the population

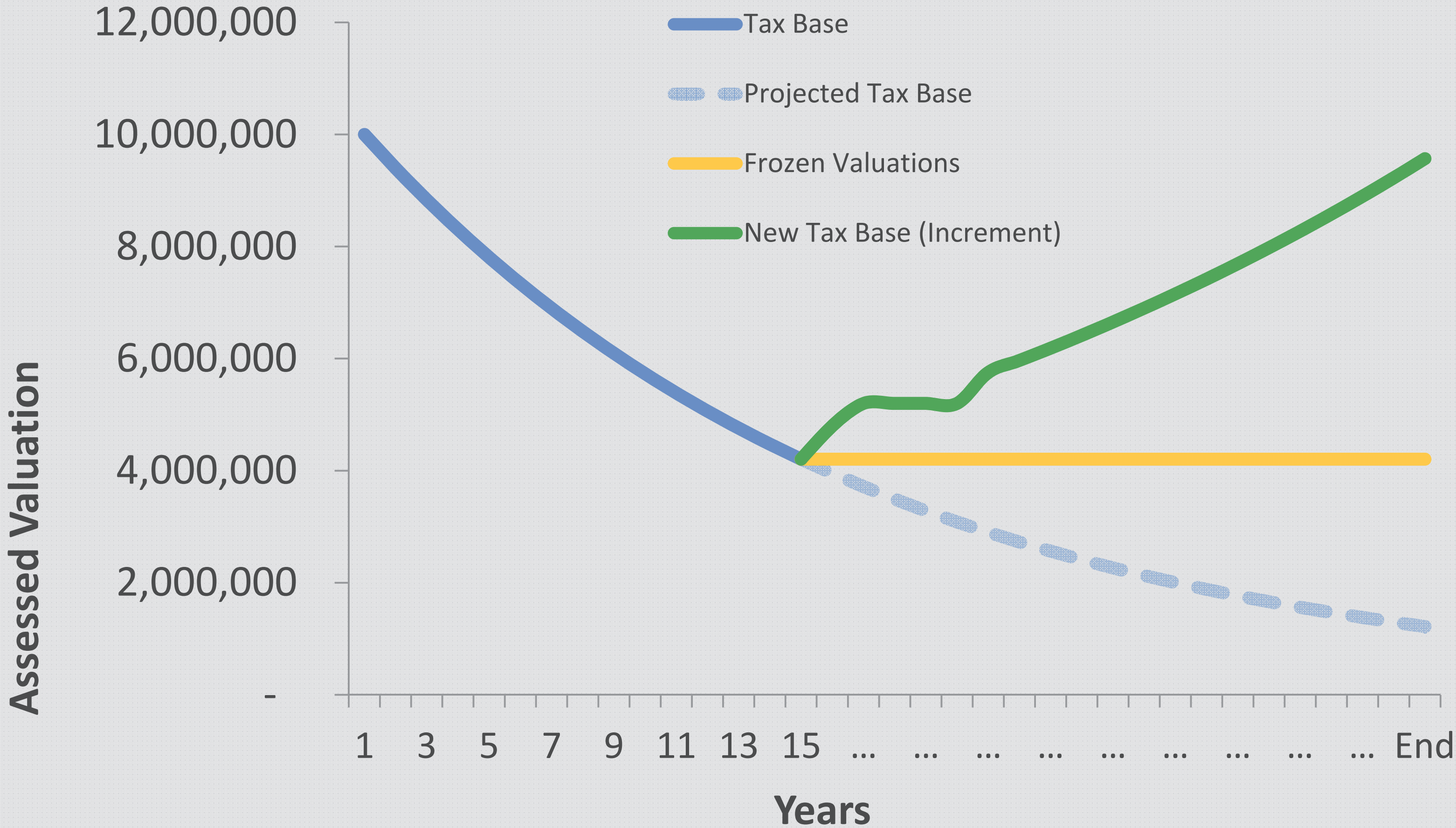
Generally Speaking, State & Local Governments

- Governments provided common infrastructure that supports commercial and residential activity and settlement
- Use land use powers to spatially allocate commercial activity
- Governments develop human capital through their educational institutions
- Governments enact rules and regulations that determine acceptable regional activities
- Governments address clear market failures like slum and blight to safeguard both economic and social conditions in an area

Brief History

- TIF originally an urban renewal (slum and blight eradication) tool – required urban renewal plan and a public deliberation and approval process
- Revised in 1985 to allow mere “economic development” to be a foundation for TIF authority – Economic development was classified as an “essential” corporate purpose.
- Started small, but soon gained in popularity
- Over time, we have seem examples of exemplary, responsible use as well as egregious and irresponsible use
- Bottom line: IA has very liberal TIF process allowances with a minimum of local accountability built in
- Because they are easy to use, they tend to be over-used.

Illustration of a Traditional Urban Renewal TIF Situation



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Current TIF Statistics

- 340 Iowa cities currently have TIF valuations from which taxes are collected.
- Iowa had $100.55 billion in taxable valuation in its municipalities in 2015. $9.42 billion (9.4%) was sequestered in TIF districts and unavailable for local government general fund uses.
- Cities with TIF authority account for 93% of municipal valuations
- 2/3rd of city TIF valuations are contained in just 30 cities (averaging $208.5 million per city)
- All remaining 310 cities with TIF valuation averages $10.23 million per city.

TIF Dependence Sorted Highest to Lowest as a Percentage of All Taxable Valuation, Fiscal ‘17

McCallsburg	68.3%	Alton	37.6%
Scarville	67.2%	Sheldon	37.6%
Marquette	62.1%	Stacyville	37.1%
Panama	61.9%	Corwith	36.2%
McIntire	61.7%	Lone Tree	35.8%
Le Claire	58.5%	Spirit Lake	35.7%
Stuart	56.6%	Altoona	35.6%
Avoca	54.4%	Colo	35.4%
Marble Rock	53.3%	Lake Mills	35.1%
Huxley	50.7%	Hartley	33.5%
Hull	49.7%	Saint Ansgar	33.3%
Coralville	42.3%	Brooklyn	32.9%
Shueyville	40.3%	Nevada	32.2%
Sanborn	39.5%	Fairfax	31.8%
Rock Valley	38.3%	Asbury	31.6%
Cambridge	38.2%	Le Mars	31.1%
		Minden	30.1%

Tax Increment Financing Sorted by Valuation, Fiscal 2017

City	TIF Valuation $	TIF as a Percentage of Total Valuation	City	TIF Valuation $	TIF as a Percentage of Total Valuation
Des Moines	684,785,234	9.1%	Le Claire	142,352,937	58.5%
Coralville	676,604,278	42.3%	Clive	132,952,776	9.6%
West Des Moines	444,016,337	9.3%	Waukee	131,350,231	15.6%
Dubuque	367,989,395	13.5%	Spirit Lake	122,314,713	35.7%
Sioux City	357,865,957	12.5%	Pleasant Hill	106,122,319	18.5%
Altoona	329,959,469	35.6%	Marion	103,565,885	6.9%
Cedar Rapids	295,494,849	4.7%	Council Bluffs	98,171,483	3.7%
Cedar Falls	286,407,647	15.3%	Nevada	89,830,846	32.2%
Urbandale	230,220,914	8.0%	Norwalk	79,451,686	18.9%
Waterloo	229,899,157	9.2%	Burlington	76,961,624	10.1%
Ankeny	229,889,792	7.9%	Grinnell	74,945,040	22.9%
Johnston	185,211,094	13.3%	Asbury	73,346,902	31.6%
Davenport	172,747,044	4.1%	Sioux Center	72,900,993	21.7%
Le Mars	159,867,335	31.1%	Iowa City	72,650,838	2.1%
North Liberty	154,566,045	16.9%	Huxley	72,554,015	50.7%

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THANK YOU

….. QUESTIONS???