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TAX ABATEMENTS MEANS LOST REVENUE

Towns weigh trade-offs of incentives to plants

FUELING IOWA'S FUTURE

By PAULA **LAVIGNE**

REGISTER STAFF WRITER

Ogden, Ia. - If Bill Roederer had more money, he'd figure out what to do with that empty swimming pool.

The Ogden schools superintendent has a wish list of renovations for the 40-year-old high school that would include turning a leaky indoor pool into something useful.

So it was difficult when Roederer recently watched the county offer \$7.5 million dollars in potential property tax revenue to a new ethanol plant. Schools would have received most of that money.

"It's not a school's best friend when they give those tax abatements, but you certainly understand why because you want to attract these types of businesses into the community," said Roederer, who supports the county's decision to award the tax breaks to Alternative Energy Sources over 13 years.

From central Iowa to southern New Jersey, states, counties and cities are following the lead of the federal government in offering tax credits, grants, loans and other publicly financed incentives to attract biofuel developers.

In Iowa, at least 70 percent of biofuel plants have received some state incentive; counties and cities often follow suit.

For Alternative Energy, the company building in Ogden, 24 miles west of Ames, state agencies awarded \$11.2 million in tax credits and \$239,000 in grants and loans for rail construction.

Boone County Attorney Jim Robbins said he was surprised to learn what other counties offered biofuel plants. Until the Alternative Energy deal, Boone County usually offered new businesses incentives of no more than five years off the tax rolls.

Local leaders offer incentives to be competitive, basing their decisions on economic impact studies that predict a multiplying trickle-down effect of new jobs, increased local spending and other business development.

Economic experts say it's too early to tell whether the long-term benefits of biofuel plants will exceed the taxpayer dollars invested in them.

Representatives of many biofuel companies admit that government gifts aren't a driving factor in deciding where to locate.

Proximity to feedstocks, transportation or consumer markets is far more important, said Ronald Steenblik, director of research for the Global Subsidies Initiative of the International Institute for Sustainable Development in Geneva, Switzerland. The nonprofit institute, which opposes such subsidies, published a report in October that calculated how much U.S. taxpayer money went into a gallon of ethanol and biodiesel.

Consultants will go from town to town saying, "We have a client interested in an investment, but also considering the tax situation, benefits and so forth. What can you do?" Steenblik said. "Maybe they've already decided to go to this town, but they'll still play this game. ... They don't need to do this, but everybody does it, and it's hard for everybody to quit."

Economic impact studies exaggerate the real benefit of the plants, according to Iowa State University economist David Swenson. Studies often attribute new farm production jobs to biofuel plants, but many of those jobs already existed, he said. And, Swenson said, they include construction jobs as long-term employment when they merely provide a short-term boost.

Many communities that offer multimillion dollar incentives are locked in "a short-sighted, narrow-minded bidding war" with competitors elsewhere, not because they need to, Swenson said.

"Who is going to pay for the property taxes the plant's not paying? Who is going to pay for bridges torn up because we're hauling a lot more corn into the county?" he asked.

"They're giving plants a pass on property taxes in the name of creating jobs when the plant would have to be here nonetheless."

There's an economic return beyond the taxes. Outside the Story Farm & Home hardware store in Nevada, owner Mike Potter said workers at the nearby Lincolnway Energy ethanol plant often come into his shop.

"Their business has been faithful to use local merchants. That helped us all," he said.

Lincolnway, which is locally owned, also will put money into Iowans' pockets through investment returns, he said.

But some who support renewable fuels doubt the plants have an economic impact beyond creating greater demand for corn. The plants typically employ a few dozen people, unlike other industrial businesses that create hundreds of jobs.

A Hawkeye Renewables plant operates near Fairbank, on the county line between Buchanan and Fayette counties. County officials offered a 15-year tax abatement, based on a University of Northern Iowa study that said the plant could create 220 jobs in the region and pump \$188 million into the economy each year.

Greg Halverson, director of the Buchanan County Economic Development Commission, said officials didn't calculate how much the company would have paid in property taxes because it didn't matter.

"We weren't giving up anything because there was nothing there," he said.

That's the way Boone County Attorney Robbins views the tax break given to Alternative Energy Sources. He doesn't see the \$7.5 million as lost revenue because there was only farmland generating taxes on the land. The abatement is on the plant itself. The county will still collect about \$135,000 in taxes on the land, which should pay for any services the plant requires, Robbins said.

The county also could get about \$100,000 a year in grain handling taxes paid by the plant,

although not all of that would be new revenue, Robbins said.

Mark Beemer, the company's CEO, said the taxpayers' financial support helped the plant leverage its bank financing.

Using public funds to support private ventures benefits taxpayers in the long run, said Robert Fisher, executive director of the county's economic development agency.

"Life is a risk. Business is a risk. Our job is to minimize the risk and present an opportunity for other people to take a more major risk," he said.

Roederer, the superintendent, said the schools will benefit if new plant workers bring children into the community. The state pays districts per pupil, and drops in enrollment have cost Ogden schools.

"You get five to 10 families moving in and each has two kids. You get an increase of 10 to 20 kids. At more than \$5,000 a child, that helps out quite a bit," Roederer said. "And that's what we're hoping for in the long run."

BIOFUEL PLANS

Proposals that could affect Iowa

Here is a list of legislation Congress is considering that would influence Iowa.

Bigger ethanol mandate: A Senate energy bill would increase the amount of ethanol and other biofuels that refiners are required to use to 15 billion gallons by 2015 and 36 billion gallons by 2022. The House is developing similar legislation.

More use of E85: Sen. Tom Harkin, D-Ia., and others have proposed requiring carmakers to make nearly all vehicles capable of using E85 within 10 years. Oil companies also would be required to install E85 pumps. To get motorists to buy E85, the lawmakers want a special subsidy that starts at 35 cents a gallon and then decreases.

Higher ethanol blends: Ethanol producers say conventional cars should be allowed to run on gasoline with more than 10 percent ethanol. That would require altering federal environmental regulations and changing auto industry warranty practices.

End the subsidies for corn ethanol: Groups representing cattle, hog and chicken producers as well as meatpackers want to abolish the subsidy for corn ethanol and a tariff on imported ethanol.

Vary the subsidies: Some lawmakers and livestock producers want to tie the 51-cent-a-gallon tax credit for ethanol to the price of oil. Under a proposal by Sen. Richard Lugar, R-Ind., the subsidy would be triggered when oil falls below \$45 a barrel.

More corn acreage: Livestock producers want to allow land now idle under the federal Conservation Reserve Program to be used for growing corn. Wildlife conservation groups are opposed.

Commercialize cellulosic ethanol: The Biotechnology Industry Organization, whose member companies are trying to commercialize ethanol made from corn stover and other sources of plant cellulose, wants a special subsidy of 75 cents a gallon to offset the higher production costs. The higher ethanol mandates, or renewable fuel standards, being developed in Congress would require some of the additional production to come from cellulose, not corn. The 2007 farm bill is likely to include subsidies for farmers who grow bioenergy crops such as switchgrass or sell corn stover and other types of crop residue for ethanol production.

YOUR THOUGHTS

- What issues do you want us to explore as you think about how Iowa could be a leader in producing the world's next generation of fuels? Send your questions and information to Register Executive Business Editor Lynn Hicks at lhicks@dmreg.com.

- Is it good or bad that most of the biofuel produced in Iowa is owned by outside investors? Join the discussion at DesMoinesRegister.com/biofuels.

DISCUSS ONLINE

What should Congress do with the farm bill, energy bill and biofuels subsidies? Follow the debate - and weigh in with your opinion - on Register reporter Phil Brasher's Cash Crops blog. Brasher reports from Washington, D.C., and shares updates and analysis about subsidies. His blog also includes reaction from Iowa's congressmen and Agriculture Secretary Mike Johanns. Join the discussion at DesMoinesRegister.com/Brasher.

Graphic Table: Examples of incentives: Here are some examples of how much government funding an Iowa ethanol and biodiesel plant receive.