



EXECUTIVE SUMMARY

Tax Increment Financing: A Case Study of Johnson County

By Peter S. Fisher

Tax Increment Financing, or TIF, is poorly understood, yet hotly debated. Cities tout it as an important tool to promote local economic development, yet often its principal effect is to shift taxes from business to residential taxpayers, or from one city's taxpayers to residents of neighboring towns and rural areas. In other cases, TIF has been used to entice businesses to move from one city to another with no economic benefit to the region. Some cities use it very selectively, while other cities have placed most of the city in a TIF area, or are well on their way to doing so.

TIF is a financing mechanism whereby cities establish an "urban renewal area" (URA) and are then allowed to divert taxes on the increased value in the URA (the tax increment) from school districts and counties to the city's TIF fund. These diverted taxes are spent on development projects within the URA. These diversions, in fact, can be direct payments back to those who do the development within the URA, in effect rebating the developer's property taxes. This report illuminates how TIF has changed from a tool for redeveloping blighted areas to a means of subsidizing development projects of all kinds, often with little or no public benefit, and a device for shifting the costs of city infrastructure to taxpayers in rural areas and neighboring cities. The report focuses on the experience with TIF in Johnson County.

Key Findings

- Countywide, \$759 million worth of taxable property, representing nearly 15 percent of the county urban tax base, is now part of a city TIF increment.
- Four cities now have over a third of their tax base in a TIF increment: Coralville (39.7 percent), Oxford (50.7 percent), Shueyville (55.4 percent) and Tiffin (56.7 percent).
- The City of Coralville accounts for 68.4 percent of the TIF valuation in the county, followed by North Liberty with 14.6 percent. Iowa City, with 56 percent of the total urban value in the county, accounts for only 3.3 percent of the TIF value.
- The City of Coralville's Merged Highway 6/Coral Ridge Mall Urban Renewal Area (the Mall/6 URA) is by far the largest in the county (54 percent of the county total TIF valuation) generating \$12.8 million in property taxes diverted to the city's TIF fund this year: \$5 million comes from the Clear Creek Amana (CCA) and Iowa City Community school districts, \$2.7 million from Johnson County, and \$4.7 million from the city's own general fund
- Of the \$5 million in school property taxes diverted because of the Mall/6 URA, 44 percent is offset by increased state funds through the school aid formula. The remaining 56 percent is recovered through higher school property taxes. The Iowa City district levy is higher by \$0.56 per \$1,000 of taxable value because of the Mall/6 TIF, while the CCA levy is \$2.83 higher.
- Through higher school and county tax rates, Iowa City residents and businesses are effectively being taxed by Coralville to build facilities that compete with Iowa City's hotels and to lure Iowa City businesses, such as Von Maur, to Coralville. The average single-family residence in Iowa City pays an extra \$80 per year because of the Mall/6 TIF. A small business with \$300,000 in taxable property pays an extra \$254 per year.

- Clear Creek Amana school district residents forgo most property taxes from the Mall area, and these tax dollars are being used to redevelop the Iowa River Landing, entirely within the Iowa City Community School District. The average homeowner in CCA pays an extra \$319 per year in property taxes because of the Mall/6 URA.
- In five cities, TIF revenue now exceeds regular property tax revenue. TIF revenue accounts for 83.8 percent of Shueyville's property taxes, 78.0 percent of Tiffin's, 75.4 percent of Oxford's, and 59 percent of Swisher's and Coralville's.
- TIF revenue diverted from the county and school district forces higher property taxes on county and district taxpayers residing outside the city, and higher state taxes through the higher school aid payments. Among the eight heavy TIF-using cities in Johnson County, Shueyville leads the pack with 62 percent of its property taxes exported to non-city taxpayers, followed by Tiffin at 49 percent, Oxford at 48 percent, Swisher at 42 percent and Coralville and Lone Tree at 31 percent.
- Five small towns (Swisher, Shueyville, Oxford, Tiffin and Lone Tree) are using TIF revenues primarily or exclusively to retire debt for water, sewer and street projects that otherwise could be retired entirely from a city debt service levy or from water charges.
- All of the growth in the number of school children in the county over the past 10 years has been in the eight communities that have placed much of their new tax base off limits to the school districts through the heavy use of TIF.
- The average residence in Johnson County, with a market value of \$200,000 and a taxable value of about \$94,000, pays an extra \$373 a year because of all TIFs in the county if it is located in a rural portion of Clear Creek Amana. A small business with \$250,000 in taxable real property would pay an extra \$991, and an average 1,000-acre farm would pay an additional \$2,489. In the rural part of the Iowa City school district, the corresponding effects of TIF are an extra \$140 for the average residence, \$371 for the small business, and \$1,038 for the farm.

Conclusions

TIF promotes local government spending by lowering its perceived cost. When 50 percent of TIF revenues are exported, the effect is a half-price sale on public projects and TIF incentives. In the process, spending priorities are skewed in favor of incentives, buildings, and infrastructure, and away from services such as mental health, recreation, police protection, library acquisitions, and others.

TIF has been allowed to degenerate to the point that many cities view a TIF area as a perpetual cash cow to finance a wide range of city operations that have nothing to do with economic development. It is used to build hotels that lose money and compete with unsubsidized hotels in the same area, to entice retail stores to relocate from neighboring communities, and simply to get other people to pay for a community center or street improvements.

Without serious reform, we can look forward to a future in which increasing numbers of cities TIF all or most of their city for the primary purpose of shifting taxes to non-residents, and more and more cities join the incentive wars in retaliation for the piracy of retail and other businesses by their neighbors. The end result will be a local property tax system that is increasingly unfair, and an erosion of revenues that threatens the ability of cities and counties to finance important public services, many of which are part of the foundation for future economic growth. Ironically, this result will have been arrived at in the name of promoting "economic development."

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