

Why We Need Serious TIF Reform

Some strange things are happening in Iowa this year:

- Residents of Davenport are paying higher county taxes so that the residents of LeClaire can have a new library, and upgrade their sewer system without having to increase their sewer fees.¹
- Some farmers and rural residents of Linn County are paying higher school taxes to finance a new city hall and street improvements in Shueyville, in Johnson County.²
- Taxpayers in Oxford — in the Clear Creek Amana School District — will soon be helping to pay for incentives to entice a brewery to locate in the Iowa City School District.³
- The owners of the Sycamore Mall in Iowa City will soon be paying for part of the \$18 million in incentives and infrastructure provided to lure their mall's anchor store to neighboring Coralville; adding insult to injury, they will also be paying part of the cost of the city's TIF lobbyist.⁴
- Residents of the town of Runnells, in the Southeast Polk School District, will be helping to pay for the \$56 million spent by Altoona for the Bass Pro Shops store 18 miles away, in the Bondurant-Farrar School District.⁵
- Residents of Fremont County are paying higher county taxes once again to help finance public facilities in neighboring Page County, in the City of Shenandoah.⁶
- Osceola County is considering a TIF on a wind farm, after it has been built, for the sole purpose of skimming revenues from the school district for use by the county.⁷

If all this seems nonsensical and unfair, it is. And yet it is all happening, thanks to Iowa's TIF laws.

How TIF Works

The argument for allowing a city or county to divert taxes for a TIF project is that the entire community and its taxing bodies will benefit in the long run from the additional tax base. A TIF project for a city will impact a county and school district for a period of time — until the TIF costs are recovered.

Tax shifting is an integral part of TIF. When cities are allowed to divert taxes from overlying entities — school districts, community colleges, transit authorities, the county — those entities are forced to raise taxes to make up for the lost revenue from the increment. Residents of those broader jurisdictions — inside and outside the city — thus pay higher taxes. When TIFs are working as they should and producing new economic activity that otherwise would not exist, this may be justifiable.

What we are seeing in too many instances, however, is the continued diversion of revenue long after the initial project has been paid for. At that point TIF becomes a cash cow. Many cities are unable to resist using that revenue for speculative projects that could never pay for themselves, or for tax-exempt infrastructure or city facilities that are normally financed with city bonds or fees. This shifts costs from city taxpayers to other county or school taxpayers, who will never see the benefits of offsetting revenue and lower tax rates that are supposed to materialize when the TIF diversion ends, and that are the entire justification for TIF.

TIF Reforms

How can the system be reformed to prevent abuses while still allowing it to function as an effective tool for local economic development?

At a minimum, all TIF financing (with the possible exception of some long-term redevelopment efforts in truly blighted areas) should be project-based, with the revenue flows returning to the school district and the county as soon as the project is paid off. The funding or incentives should be provided to projects that result in new property going on the tax rolls for all to draw upon. State law also should require that TIF funds be used only when necessary.

This could be accomplished by requiring that:

- TIF projects be subjected to a “but for” test to demonstrate the likelihood that the project could not proceed “but for” TIF incentives or subsidies;
- TIF projects produce an increase in taxable value;
- TIF areas be narrowly confined to the area that will directly benefit from TIF-financed improvements;
- TIF revenues be used only to retire original TIF project debt or for rebates;
- TIF diversions end once that project debt has been retired or rebates end; and
- No TIF area span more than one school district or county.

These restrictions would not interfere with the legitimate use of TIF to stimulate development that adds to the tax base. In fact, they would ensure that TIF be used *only* for such purposes. Nor would they interfere with a long-term redevelopment effort that requires multiple investments. If a second project is undertaken within the same TIF area, the base valuation for determining the increment for that project would be the taxable value as of the year preceding the issuance of debt for that second project, and so on. This is already how rebate TIFs work.

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.”

¹The City of Le Claire, with over half its tax base in a TIF increment, in recent years has collected nearly twice as much in TIF revenues as in other property taxes and has used TIF revenue to fund a variety of tax-exempt facilities, including a new city hall, a new library, a new fire station, and a major upgrade to the sanitary sewer system. The city has stated that without TIF, sewer fees would have had to double. Part of the LeClaire TIF revenue has come from a TIF area used to build streets, sidewalks and sewers for a luxury home development. The County has also objected to the use of providing incentives to retail businesses in competition with similar businesses in the county.

² See Peter Fisher, *Tax Increment Financing: A Case Study of Johnson County*, Iowa Fiscal Partnership, Nov. 21, 2011, at <http://www.iowafiscal.org/TIF.html>

³ The City of Coralville is negotiating to provide substantial incentives, paid for out of TIF revenues largely from the Coral Ridge Mall area (much of which is in Clear Creek Amana School District), to entice a brewery to locate in the Iowa River Landing, in the Iowa City School District.

⁴ See Peter Fisher, *Tax Increment Financing: A Case Study of Johnson County*, Iowa Fiscal Partnership, Nov. 21, 2011, at <http://www.iowafiscal.org/TIF.html>

⁵ Bass Pro Shops is in the small corner of Altoona that lies within the Bondurant Farrar School District, yet most of Altoona’s TIF revenue comes from the portion of the city in Southeast Polk, forcing Southeast Polk to raise school taxes substantially. See Peter Fisher and Michael Lipsman, *Tax Increment Financing in Polk County*, Iowa Fiscal Partnership, March 15, 2012, at <http://www.iowafiscal.org/TIF.html>

⁶ The City of Shenandoah lies mostly in Page County, but extends into neighboring Fremont County. The city in 2008 merged a TIF area in Fremont with a second TIF area containing much of the city in Page County. While most of the TIF revenue comes from Fremont County, the merger allows it to be spent in Page County.

⁷ Osceola County has proposed the creation of a TIF area around a 60-turbine wind farm that already exists. The wind farm is located primarily in the Harris Lake Park School District and the TIF would therefore force an increase in the district additional and management levy rates, as well as causing additional state funding through the school aid formula. At least seven counties have created TIF districts around a wind farm. When counties do TIF a wind farm, even two years after the facilities are finished, all or most of the taxable value will be counted as a TIF increment because the taxable value (other than the land) in the base year will be zero under Iowa law providing for wind farm incentives through reduced assessments.