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## Polk County Cities Show Problems with TIF

### *Reforms Would Restrain, Correct Use of Tool*

IOWA CITY, Iowa (March 15, 2012) — Iowa’s largest county offers good examples of why tax-increment financing (TIF) can favor city development strategies at an unreasonable cost to schools and counties unless the tool is reformed, a new report illustrates.

“TIF practices of some cities in Polk County demonstrate the need for reforms to refocus TIF on its core purposes, to redevelop blighted areas and promote economic development,” said Peter Fisher, research director of the nonpartisan Iowa Policy Project and co-author of the report for the Iowa Fiscal Partnership (IFP).

The report, by Fisher and Michael Lipsman, who retired last fall as tax research and program analysis manager for the Iowa Department of Revenues, shows significant shares of the property tax base of cities in Polk County are locked in TIF districts.

“This affects all jurisdictions that provide services to residents in those communities, sometimes in a never-ending diversion of revenue,” Fisher said. “This why we need reform. TIF should be used in a much more targeted way, on projects where the subsidy actually makes a difference to improve the local tax base. And then, schools, counties, community colleges and the city all can benefit.”

Fisher said the new Polk County study shows similar results to an IFP study last fall of TIF use in Johnson County, in eastern Iowa.

“State law does not protect other local or neighboring jurisdictions from an abusive use of TIF,” Fisher said.

“Practices vary widely across the state, and within counties — as we saw last fall with Johnson County and now with Polk County. Some cities use the program quite judiciously to aid development projects in targeted areas. Then, taxes that have been diverted temporarily flow to their normal taxing authorities when the project is paid off.

“Unfortunately, some cities cash in on the loose law, putting most or nearly all of the city in a TIF area, then diverting all TIF revenues long after the original project costs have been recovered.

#### **What is TIF?**

Tax-increment financing, or TIF, is a mechanism to finance projects in an “urban renewal area” established by a city. The city then is permitted to divert taxes on the increased value in that defined area from school districts and counties to the city’s TIF fund. The diverted taxes are spent on projects within the so-called “urban renewal area.”

#### **What is the problem?**

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. Loose rules in state law have permitted a myriad of uses of TIF as the purpose has strayed. Costs to taxpayers can be substantial.

“These Polk County practices are symptoms of a statewide problem. TIF has been allowed to degenerate so that many cities view a TIF area as a perpetual cash cow to finance city operations that have nothing to do with economic development.”

Fisher has recommended severe limits on TIF involving residential property or to promote retail activity, and prohibiting TIF revenues from one school district or county being used to subsidize projects in a different school district or county.

Specifically in Polk County, the report — available at [www.iowafiscal.org](http://www.iowafiscal.org) — found:

- Four cities in Polk County — Altoona, Pleasant Hill, Polk City and Windsor Heights — have about one-fifth to almost one-third of their tax base in a TIF “increment” — the portion of property tax base designated for diversion of revenue to the TIF project. Altoona is highest at 31.7 percent.
- Windsor Heights has been diverting TIF revenue since 1990, Altoona since 1991. In these cities even the oldest TIFs continue to divert all or most of the available revenue. Both claim virtually all available TIF revenue every year, while Pleasant Hill, Clive and Polk City have all claimed over three-fourths.
- School districts losing tax base through TIF make up the lost revenue with higher property tax and greater state aid; the district most affected: Southeast Polk, where TIF diverts \$1,014 per pupil in property taxes, forcing the school tax rate up by \$2.86 per thousand, or 15 percent.
- In the current fiscal year, \$18.8 million in taxes is being diverted by TIFs throughout Polk County from jurisdictions with countywide levies: county government, the county assessor, Broadlawns Hospital, and Des Moines Area Community College.

On the final point, the report noted, TIF use has driven up countywide tax levies by as much as 93 cents per thousand dollars of taxable value. This represents almost a 10 percent increase in the overall tax rate for these four entities or about \$200 on a business assessed at \$200,000.

For school districts, the report said, the Southeast Polk School District sees the largest impact because it includes the two Polk County cities that have used TIF most aggressively: Altoona and Pleasant Hill.

“What Altoona and many cities have done is to use TIF on projects that will never add tax base to the school district, by continuing a TIF after a project is done and then using TIF funds on public projects that are tax exempt, or by using TIF revenues from one school district — Southeast Polk — to subsidize a development in another school district,” Fisher said.

“Altoona did this with the Bass Pro Shops project. Southeast Polk taxpayers are helping to finance that over three decades, and the project is in the Bondurant-Farrar school district. Southeast Polk will never benefit.”

The Iowa Fiscal Partnership is a joint policy analysis initiative of two nonpartisan, nonprofit Iowa-based groups, the Iowa Policy Project in Iowa City and the Child & Family Policy Center in Des Moines. Reports are available at [www.iowafiscal.org](http://www.iowafiscal.org).

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