
FISCAL TOPICS

Fiscal Services Division

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Tax Increment Financing

History and Purpose

Tax Increment Financing, commonly referred to by its acronym of “TIF,” is part of Iowa’s urban renewal law, and it is a financing option for urban renewal activities designed to address slum, blight, and/or promote economic development. Authorization for city and county urban renewal and TIF activities is found in Iowa Code chapter [403](#). Urban renewal was enacted in 1957 ([SF 184](#)), and TIF was added as a financing mechanism for urban renewal in 1969 ([HF 562](#)).

Property tax revenue may also be subject to TIF for two additional purposes. Rural Improvement Zones (Iowa Code chapter [357H](#)) are allowed to utilize TIF as a funding source and the Industrial New Jobs Training Program (Iowa Code chapter [260E](#)) may access TIF as part of an agreement between an Iowa community college and a qualified employer. A [Legislative Guide](#) describing Iowa’s urban renewal law and related TIF provisions is available from the Legislative Services Agency.

Current and Historical TIF Reporting Requirements

Iowa Code sections [384.22\(2\)](#), [331.403\(3\)](#), and [357H.9\(2\)](#) require cities, counties, and Rural Improvement Zones with one or more active urban renewal areas to file a report with the Department of Management (DOM) providing financial and operational information for each area. By December 1 following the end of a fiscal year, the DOM is required to provide a public [database](#) covering the information provided in the local government annual reports, and by February 15, the Legislative Services Agency is required to publish a [report](#) summarizing the annual reports filed by local governments. A history of Iowa TIF reporting requirements and reports includes:

- In 1999, the General Assembly ([HF 776](#)) enacted language requiring municipalities to report TIF activity annually to the State. The report was required to include detailed information on each TIF area and the associated projects.
- In 2003 ([SF 453](#)), the 1999 reporting requirements were removed and replaced by a semiannual report requirement detailing outstanding TIF obligations. Debt reports were filed in 2003 and 2005.
- In [HF 2777](#), the 2006 General Assembly enacted language requiring more detailed accounting of TIF revenue and expenditures. The report was made part of the budget documents and budget process.
- In [HF 2460](#), the 2012 General Assembly replaced the budget process reporting with the required reporting that is the subject of the current annual report.
- Previous LSA documents on the topic of TIF include:
 - [FY 2012 Through FY 2021 Annual LSA TIF Reports](#)
 - [2005 TIF Debt Report](#)
 - [2003 City TIF Report](#)
 - [2003 County TIF Report](#)
 - [1997 TIF Report](#)
 - [1993 TIF Report](#)

More Information

Urban Renewal and TIF Legislative Guide: legis.iowa.gov/docs/publications/LG/802031.pdf

Urban Renewal — Iowa Code chapter 423: legis.iowa.gov/docs/code/403.pdf

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FY 2022 TIF Statistics¹

- For FY 2022, 499 local governments had Urban Renewal Areas listed in the DOM property valuation database. Of that number, 391² had TIF increment value and therefore received FY 2022 TIF property tax revenue, including:
 - 337 cities
 - 49 counties
 - 5 Rural Improvement Zones
 - No community colleges
- There were 904 active Urban Renewal Areas in Iowa (the Areas have a base value, increment value, or both). Another 285 Areas are in the database but did not have any FY 2022 taxable value. Of the 904 active Urban Renewal Areas, 732 Areas had an increment value and therefore generated TIF revenue in FY 2022.
- Of the 732 Areas that generated TIF revenue, 135 did not have a taxable base value for FY 2022, meaning that with the exception of any TIF-exempt debt levies, the entire property tax revenue generated by the Area went to TIF.
- By value, the largest active FY 2022 Urban Renewal Area in the State was the Metro Center Merged Area in downtown Des Moines. That Area generated \$29.4 million in FY 2022 TIF revenue. A total of 89 Urban Renewal Areas generated \$1.0 million or more in FY 2022 TIF increment revenue.
- While in general, property tax revenue generated from the tax increment value is TIF revenue and therefore not shared with the traditional taxing bodies, debt levies and two school finance levies are exempt from TIF diversion. Across all TIF increments in FY 2022, 17.7% of property tax revenue³ generated by increment value was not diverted to TIF but instead was remitted to the traditional taxing bodies as a result of the TIF-exempt levies.

Figure 1 depicts the amount of property tax dollars statewide that financed TIF from FY 1982 through FY 2022 (bars, left axis). The TIF finance total reached \$100.0 million by FY 2000, \$191.0 million by FY 2005, \$272.0 million by FY 2010, and \$349.5 million by FY 2020 and totaled \$404.9 million for FY 2022. In addition to the property tax dollars, TIF also receives commercial and industrial property tax replacement payments from the State General Fund. Statewide, the reimbursement payments for TIF Taxing Districts totaled \$6.9 million in FY 2022.

The black line in **Figure 1** (right axis) depicts the percentage of all property taxes paid in the State, including the State reimbursement for commercial and industrial property taxes, that financed TIF from FY 1982 through FY 2022. The graph shows that a significant change in the slope of the line started in FY 1994 and that the increase was fairly consistent, reaching 6.2% in FY 2009. Since FY 2009, the percentage growth in tax dollars supporting TIF grew more slowly than the overall property tax base, a situation that resulted in a modest decrease in the percentage of total property tax dollars dedicated to TIF (5.7% in FY 2022) since the FY 2009 peak. This decline was the result of acceleration in the taxable value growth of agricultural and residential property, two classes of property that are not a significant part of TIF finance. Green bar segments depicted on the graph for FY 2015 through FY 2022 represent commercial and industrial property tax replacement claims directed to local government TIF accounts.

¹ The FY 2022 TIF statistics presented in this *Fiscal Topic* are derived from the DOM Property Valuation System.

² There are 499 local governments with TIF Taxing Districts in the DOM Property Valuation System for FY 2022. However, 108 of the 499 local governments had no TIF increment value and therefore received no TIF revenue from FY 2022 property taxes.

³ For FY 2022, TIF increments generated a total of \$491.9 million in property tax revenue. Of that amount, \$404.9 million (82.3%) was used to finance TIF, and \$79.8 million (17.7%) was directed to local governments through property tax levies that are exempt from TIF.

Figure 1

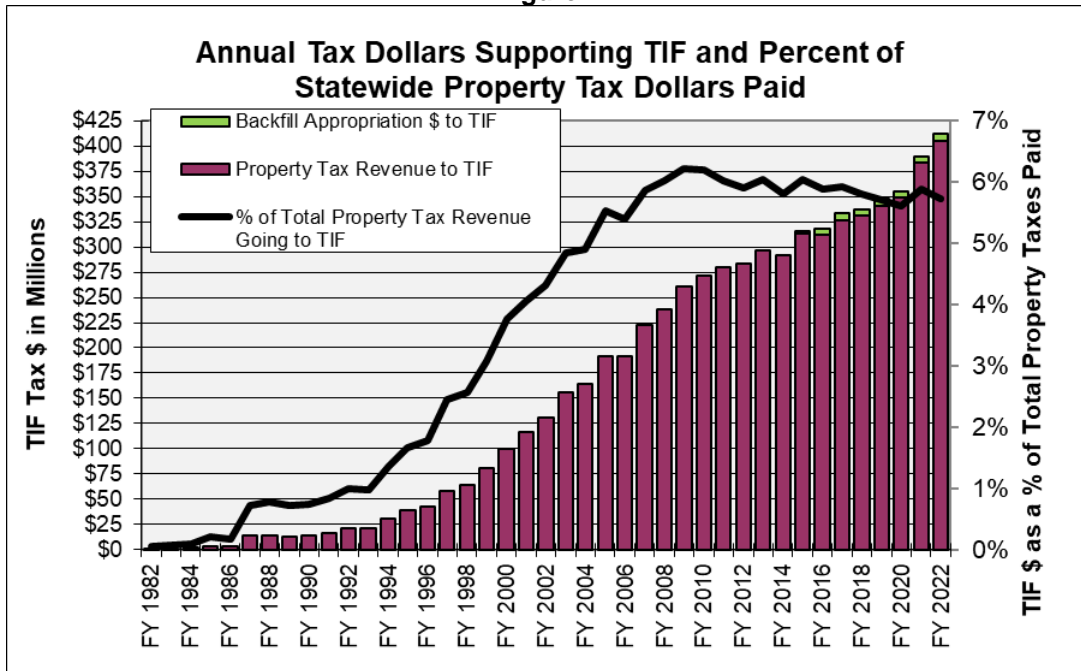


Figure 2 provides a breakdown of FY 2022 property tax revenue by property tax class, with tax payments divided into the amount that goes to regular local government finance and the amount that is diverted to TIF. Statewide, 20.8% of all property tax paid on industrial property and 16.1% paid on commercial property is diverted to TIF. For the remaining property classes combined, the percentage of property tax revenue that is diverted to TIF is 2.3%. Across all property classes and including the State reimbursement to local governments for property tax replacement claims associated with the 10.0% rollback for commercial and industrial property, the FY 2022 overall TIF portion of the property tax revenue stream equals 6.1%.

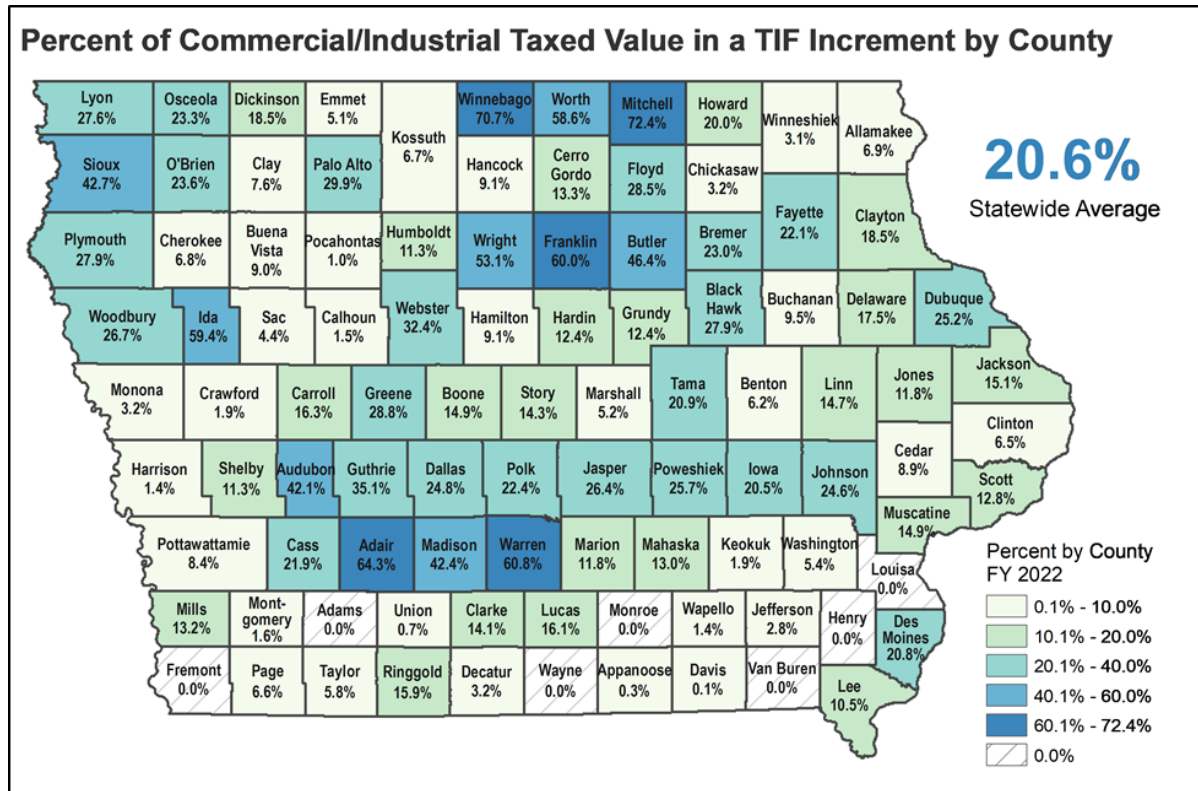
Figure 2

FY 2022 Property Tax by Property Class
Dollars in Millions

| Class | Total Property Tax | Regular Property Tax | TIF Increment Property Tax | % of Property Tax Dedicated to TIF |
|---------------------------|--------------------|----------------------|----------------------------|------------------------------------|
| Residential | \$ 3,514.8 | \$ 3,413.8 | \$ 101.0 | 2.9% |
| Agricultural | 910.3 | 909.6 | 0.7 | 0.1% |
| Commercial | 1,392.4 | 1,168.6 | 223.8 | 16.1% |
| Multiresidential | 166.7 | 153.8 | 12.9 | 7.7% |
| Industrial | 319.4 | 252.9 | 66.5 | 20.8% |
| Other | 329.9 | 329.9 | 0.0 | 0.0% |
| Total Property Tax | \$ 6,633.5 | \$ 6,228.6 | \$ 404.9 | 6.1% |
| Prop. Tax Replacement | \$ 152.0 | \$ 145.1 | \$ 6.9 | 4.5% |
| Total | \$ 6,785.5 | \$ 6,373.7 | \$ 411.8 | 6.1% |

Figure 3 is a map that shows the FY 2022 percentage of total commercial and industrial taxable value within each county that is TIF increment value. As TIF increment value, the nondebt portion of property taxes paid on the property is used for the purposes of TIF and is therefore not available for regular local government finance.

Figure 3



TIF Finance — By TIF Authority, By Property Class, and By Local Government Levy Source

Figure 4 provides a breakdown of the source of TIF property tax revenue (columns) and the taxing authorities that created the TIFs (rows). **Figure 4** shows that statewide, 89.1% of all TIF revenue finances city TIF projects and just under 75.0% of statewide TIF revenue is generated from commercial, industrial, and other business property.

Figure 4

| Source of TIF Funding by Property Type - FY 2022 | | | | | | |
|--|----------------------|------------------|----------------------|---------------------|----------------------|---------------|
| TIF Authority | Residential | Agricultural | Commercial/Multi | Industrial/Other | Total | % of Total |
| City | \$95,490,945 | \$278,815 | \$232,073,440 | \$33,103,283 | \$360,946,483 | 89.1% |
| County | 1,372,468 | 358,725 | 4,532,670 | 33,399,397 | 39,663,260 | 9.8% |
| Com. College | 0 | 0 | 0 | 0 | 0 | 0.0% |
| Rural Imp. Zone | 4,201,055 | 14,512 | 86,985 | 0 | 4,302,552 | 1.1% |
| Total | \$101,064,468 | \$652,052 | \$236,693,095 | \$66,502,680 | \$404,912,295 | 100.0% |
| % of Total | 25.0% | 0.2% | 58.5% | 16.4% | 100.0% | |

All TIF revenue is initially generated through the levy authority of the various levels of Iowa local government with property tax levy authority. TIF takes the property tax revenue generated from these

local levies and deposits it to special accounts controlled by the local authorities that created the TIF. **Figure 5** shows the local government source of the property tax revenue that is diverted to TIF. Local grade K-12 school levies contributed \$153.2 million to TIF for FY 2022, with \$75.1 million of that amount backfilled by the State General Fund through the action of the school aid formula.

Figure 5

| Source of TIF Funding By Original Taxing Authority – FY 2022 | | |
|---|----------------------|-------------------|
| <u>Government Type</u> | <u>Amount</u> | <u>% of Total</u> |
| City | \$131,913,995 | 32.6% |
| County | 83,745,045 | 20.7% |
| K-12 Schools | 78,080,251 | 19.3% |
| State General Fund | 75,107,051 | 18.5% |
| Hospitals | 11,382,715 | 2.8% |
| Community College | 11,362,093 | 2.8% |
| Assessor | 4,418,335 | 1.1% |
| Township | 976,303 | 0.2% |
| Ag Extension | 1,681,448 | 0.4% |
| SSMID* | 2,541,573 | 0.6% |
| Other | 3,667,323 | 0.9% |
| Brucellosis Fund | 36,163 | 0.0% |
| | <u>\$404,912,295</u> | <u>100.0%</u> |

*Self-Supporting Municipal Improvement District

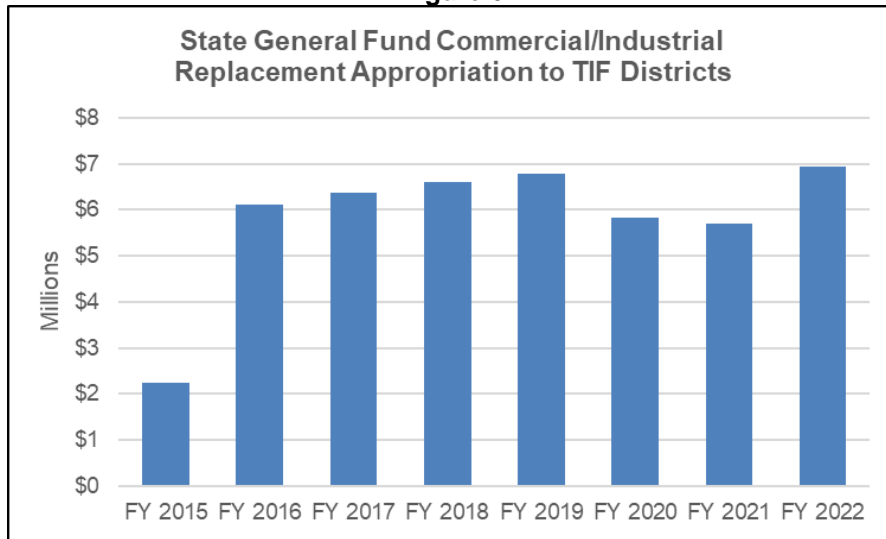
Taken together, **Figure 4** and **Figure 5** show that for FY 2022, city levies contributed \$131.9 million of the \$360.9 million in TIF revenue collected by cities with TIFs. County levies contributed \$83.7 million to TIF finance, while county TIF authorities collected \$39.7 million in property tax revenue for TIF projects.

TIF Impact on the State General Fund

Tax increment financing directly impacts the State General Fund through the following two appropriations:

- **Property Tax Replacement Claims** — Modifications to Iowa's property tax system enacted in 2013 ([SF 295](#) — Property Tax Modifications Act) resulted in an annual State General Fund standing appropriation to be used to replace property tax revenue reductions associated with commercial and industrial taxable value reductions mandated in that Act. A portion of the statewide value of commercial and industrial property is located within TIF increments. State General Fund reimbursement for property included within TIF increment areas totaled \$6.9 million in FY 2022, and totaled \$46.5 million from FY 2015 through FY 2022.

Figure 6



- School Finance** — Iowa’s method of financing grade K-12 education requires a combination of property tax and State General Fund moneys. One component of property tax financing for schools requires all taxed property value in the State to contribute a base \$5.40 per \$1,000 of value to school finance each year. While all taxed value within a TIF increment is assessed this base \$5.40 levy, the tax revenue raised within the TIF increment does not go to school finance, but instead is paid to the local government that created the TIF Taxing District. The TIF increment funds raised by the \$5.40 that do not go to school finance are replaced, dollar for dollar, by the State General Fund through action of Iowa’s school funding formula. For FY 2022, the State General Fund backfill of the \$5.40 levy totaled \$75.1 million, a \$4.9 million increase from the FY 2021 level. The FY 1992 through FY 2022 history of the backfill amount is depicted in **Figure 7**.

Figure 7

