ISSUE REVIEW

Iowa Legislative Fiscal Bureau

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Tax Increment Finance Options

ISSUE

A review of Tax Increment Financing (TIF).

AFFECTED AGENCIES

Cities, Counties, and Merged Area Schools

CODE AUTHORITY

Sections 260E, 260F, and 403, Code of Iowa

BACKGROUND

A TIF area is established when a local government (city, county, or community college) adopts a resolution or ordinance establishing an urban renewal project or a jobs training program. Urban renewal projects are defined in Section 403.17(23), Code of Iowa, as follows: ". . . may include undertakings and activities of a municipality in an urban renewal area for elimination and for the prevention of the development or spread of slums and blight, may include the designation and development of an economic development area in an urban renewal area, and may involve slum clearance and redevelopment in an urban renewal area, or rehabilitation or conservation in an urban renewal area, or any combination or part thereof. . ." The adoption of the resolution or ordinance causes the valuation of the TIF area to remain at the taxable valuation in the year prior to the ordinance or resolution being adopted for the purpose of establishing the base value of the TIF area. The TIF area base value is taxed at the total combined tax rate by all taxing districts (county, city, schools, and miscellaneous entities) with revenues being distributed to all taxing entities.

The increased value of a TIF area is called the incremental value. The incremental value is taxed at the consolidated tax rate of all the taxing entities but the revenues are pledged to the TIF project. The exception is bonded indebtedness levies. The incremental value of a TIF area is levied against all taxing districts that have bonded indebtedness levies and the revenues are distributed to the appropriate taxing entity.

The impact of TIF areas' incremental value on taxing entities is it removes the incremental value from the taxing entities taxable valuation. This removal either reduces the amount of funds a taxing entity may generate if at a levy rate limit or increases the levy rate on current property owners since the budget request is spread over a smaller taxable valuation amount.

The exclusion of TIF valuations from the taxable base impacts cities, counties, community colleges, and miscellaneous districts alike noting that cities, counties, and community colleges are the control agencies for TIF projects and revenues.

CURRENT SITUATION

In FY 1992, the most recent year that detailed information is available, the total incremental value of all TIF areas was $969.6 million of taxable valuation and generated $30.1 million for TIF projects. The amount generated for TIF projects was determined after adjusting for bonded indebtedness levies for all taxing entities.

School districts have a unique funding formula that sets a maximum budget that must be generated. The impact of TIF areas' incremental value being excluded caused the State to increase General Fund support by $5.2 million in FY 1992, for revenue not generated by the uniform levy rate of $5.40 per $1,000 of taxable valuation. It additionally forces property owners in the school districts to absorb the remaining budget with a higher levy rate due to the property tax portion of the budget being spread over a smaller taxable valuation base. The impact in FY 1992 was an increase in the property tax levy rate of 1.1% (8 cents per $1,000 of taxable valuation) on a statewide basis.

ALTERNATIVES

1. Leave the statutes as they are.
2. Require local governments to contact all other impacted local governments in writing prior to implementing a TIF area.
3. Allow school districts to levy against TIF areas for the uniform levy rate of $5.40 per $1,000 of taxable valuation.
4. Change the definition of urban renewal.
5. Implement time limits for TIF projects or require a review of TIF projects by local governments with the adoption or reconfirmation of TIF programs every 10 or 20 years.

BUDGET IMPACT

Alternative 3 would result in a $5.2 million reduction in the State Aid distribution from the State General Fund to local school districts based on FY 1992 data. None of the other alternatives have a direct fiscal impact on the General Fund of the State.

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