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[HF 849](#) – Tax Increment Financing (TIF) (LSB2264HV)  
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Fiscal Note Version – New

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## **Description**

[House File 849](#) establishes two new duration limits for city and county ordinances establishing Tax Increment Financing (TIF) areas. The Bill:

- Establishes a sunset date of no later than July 1, 2041, for any TIF area in existence at the time of enactment of the Bill that does not already have a statutory end date under current law.
- Limits the duration of any TIF area created by ordinance on or after the effective date of the Bill to no more than 20 years following the calendar year in which the city or county first certifies TIF debt related to the new area.

The Bill is effective upon enactment.

## **Background**

Tax Increment Financing impacts local government financing by diverting property taxes paid on property within the increment value of the TIF area to projects that are specific to the TIF area. Local governments impacted by this diversion must set rates higher than would otherwise be the case if the tax revenue was not diverted. Alternatively, the local government can reduce expenditures in response to the diversion.

Iowa's school finance law requires all property subject to property tax to pay, among several school-related tax levies, an annual basic school finance levy equal to \$5.40 per \$1,000 of taxed value. While property value within a TIF increment pays this basic levy, the revenue from the levy goes to finance TIF and not to the school district. By function of Iowa's school aid formula, the diverted basic levy revenue is replaced by an increase in the State General Fund allocation to the impacted school district.

The background, legislative history, and usage of TIF in Iowa is discussed in an annual LSA [report](#) required by Iowa Code section [331.403\(3\)\(d\)](#). The Department of Revenue completes a periodic review and program evaluation [study](#) of TIF as required by Iowa Code section [2.48\(3\)\(c\)\(4\)](#).

## **TIF Statistics**

For FY 2021, \$12,998.0 million in taxed property value is included in a TIF increment, and \$383.5 million in property tax paid on the increment value is diverted to finance TIF projects. Of the diverted amount, \$70.2 million is replaced (backfilled) by the State General Fund through the school aid formula, and the remaining \$313.3 million represents a reduction in property tax revenue going to the local governments that imposed the levies on the increment value. **Figure 1** provides a history of the amount of increment value used to finance TIF and the resulting direct impact on State and local finance.

**Figure 1**  
**TIF Finance, Select Years**  
In Millions

	Used Increment Taxed Value	TIF Revenue	State School Aid	Local Property Tax
FY 2001	\$ 4,007.7	\$ 116.1	\$ 21.6	\$ 94.5
FY 2006	5,950.1	191.8	32.1	159.7
FY 2011	8,493.9	279.7	45.9	233.8
FY 2016	10,275.0	312.5	55.5	257.0
FY 2021	12,998.0	383.5	70.2	313.3

**Figure 2** provides a breakdown of TIF increment value by property class. **Figure 2** shows that in value, the TIF increment is concentrated in the commercial, residential, and industrial property classes, and as a percent of total value, the increment is concentrated in industrial (25.3% of value) and commercial (18.3%).

**Figure 2**  
**FY 2021 TIF Increment by Property Class**  
Dollars in Millions

Property Class	Increment Value	Total Value	Statewide % in TIF Increment
Industrial	\$ 2,478.5	\$ 9,811.9	25.3%
Commercial	6,739.1	36,742.4	18.3%
Multiresidential	393.1	4,501.5	8.7%
Residential	3,351.6	98,736.9	3.4%
Subtotal	\$ 12,962.3	\$ 149,792.7	8.7%
Agricultural	35.6	35,467.4	0.1%
Other	0.2	11,385.0	0.0%
Total	\$ 12,998.1	\$ 196,645.1	6.6%

While overall TIF is more concentrated in urban (within city boundary) areas, **Figure 3** shows that the percent of commercial and industrial value located within a TIF increment is higher in rural areas (22.9%) than in urban areas (19.2%).

**Figure 3**  
**FY 2021 Percent of Taxed Property  
Utilized to Finance TIF**

Location	All Property	Commercial & Industrial Only
Rural	2.6%	22.9%
Urban	9.1%	19.2%
Total	6.6%	19.8%

The large majority of TIF areas are created by cities and counties. Once a TIF area is created and a value increment develops, the incremental revenue from the TIF area represents the tax revenue raised by the rates established by the various local governments that have the authority to tax property within the increment. The top portion of **Figure 4** provides a breakdown of the incremental TIF revenue raised by type of taxing authority, while the bottom portion details the original source of the TIF revenue. Together, **Figure 4** indicates that while cities will receive \$340.2 million in TIF revenue in FY 2021, \$123.1 million is derived from city levy rates. Counties will receive \$38.9 million in FY 2021 TIF revenue and contribute \$80.8 million to TIF finance through county tax levies. For schools, \$145.8 million is contributed to TIF, with \$70.2 million replaced by the State through the school aid formula.

**Figure 4**  
**Tax Increment Financing Breakdown — FY 2021**  
Dollars in Millions

	City TIF's	County TIF's	Community College TIF's	Rural Improvement Zone TIF's	Total TIF's
Total	\$340.2	\$38.9	\$0.0	\$4.3	\$383.4
Percent of Total	88.7%	10.1%	0.0%	1.1%	100.0%

  

Source of Revenue	TIF Impact	% of Total
County	\$80.8	21.1%
City	123.1	32.1%
School (\$70.2 million of the school amount is backfilled by the State)	145.8	38.0%
Community College	10.0	2.6%
Ag. Extension	1.6	0.4%
Assessors	4.3	1.1%
Townships	1.0	0.3%
Hospitals	11.5	3.0%
Other	3.1	0.8%
Self-Supporting Municipal Improvement District (SSMID)	2.2	0.6%
State Brucellosis Fund	0.0	0.0%
<b>Total TIF Revenue</b>	<b>\$383.4</b>	<b>100.0%</b>

Iowa Code sections [384.22](#) and [331.403\(3\)](#) require cities and counties to report information to the State regarding their use of TIF at the conclusion of each fiscal year. The information required to be reported includes the type of finding identified within the TIF ordinance (a finding of slum and/or blight and/or economic development), the base year for calculating TIF revenue, and the end date for the TIF area if the TIF area is an economic development TIF area initiated after 1995 (statutory end date). The information reported by local governments for the annual report for FY 2020 indicates that the total increment value was \$11,776.2 million for all FY 2020 TIF areas. Of that amount:

- The increment value coded as slum and/or blight was \$3,640.6 million (31.0% of total).
- The increment value not coded as slum and/or blight that has a base year of 1995 or earlier was \$2,786.9 million (23.7% of total).
- The increment value not coded as slum and/or blight that has a base year of 1996 or after was \$5,348.7 million (45.3% of total).

The new TIF sunset date proposed in the Bill (July 1, 2041, for all existing TIF areas without a current-law sunset date) will potentially limit the longevity of the TIF areas described in the first two bullets above. The TIF areas described in the third bullet are not impacted as they must be disbanded by that date under existing law. A total of 258 local governments have existing TIF areas that do not expire (perpetual TIF areas) under current law. Of these 258 local governments, 160 are utilizing less than 50.0% of the available increment. Of the 15 largest local governments in terms of the value of their perpetual TIF areas, six utilize 95.0% or more of

their available increment and the remaining nine utilize an average of 38.3%. Since the property tax paid on unused increment value flows through the regular property tax system, local governments that utilize only a portion of the available increment have the ability to significantly reduce the size of their current TIF areas and not change TIF finance at all.

Faced with a looming sunset deadline, either under existing law or under the Bill's proposal, TIF areas that do not utilize all of the available increment value may have options to reconfigure TIF areas in order to continue to benefit from incremental taxes after the expiration of the original TIF area.

### **Fiscal Impact**

The Bill proposes to add an additional statutory end date that will impact a subset of existing TIF areas. A number of local governments report that they have existing debt schedules that extend beyond FY 2021 that are related to the TIF areas that will sunset July 1, 2041, under this Bill. If the impacted local governments cannot restructure the existing debt in order to have it fully paid by the conclusion of FY 2041 or cannot set aside sufficient TIF revenue over the next 20 years to pay any debt that remains after FY 2041, there may be financial consequences for the local governments at that time. Beyond this issue, the additional sunset date for existing TIF areas proposed in the Bill is not expected to have any other direct fiscal impact on State or local finance until at least FY 2042.

It should be noted that the intent of the new sunset date (to return used increment value to the normal property tax base) could be circumvented by modifying existing TIF areas by bifurcating the TIF areas into used and unused value portions, releasing the unused value portion by shrinking the area of the original TIF area, and then reestablishing the unused portion as a new TIF area within the same Urban Renewal area. As time passes, the "released and then reestablished" areas will grow in available increments that can later be used to supplant the used increment value that is forced to expire by July 1, 2041. This option is not available for TIF areas that utilize all or substantially all of the available increment.

### **Sources**

Department of Management property tax value and rate files  
Department of Management TIF Report [website](#)  
Department of Revenue 2018 TIF Analysis  
Legislative Services Agency Annual TIF Report  
Legislative Services Agency analysis

/s/ Holly M. Lyons

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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