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Fiscal Note

Fiscal Services Division

HF 2435 – Urban Renewal and Tax Increment Financing (LSB6015HV)
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Fiscal Note Version – New

Description

House File 2435 relates to **Urban Renewal** and **Tax Increment Financing** (TIF). The bill:

- Expands debt-reporting requirements to be included in the current annual TIF report completed by the Legislative Services Agency (LSA) and the Department of Management.
- Prohibits the financing of public buildings through TIF for Urban Renewal plans and projects approved after the effective date of the bill.
- Makes changes to the definition of the term "blighted area" as it relates to slum and blight Urban Renewal.
- Terminates existing Urban Renewal areas that are based on a finding of economic development necessity only (not slum and/or blight) on July 1, 2036. The duration of some economic development areas is currently not limited while others are limited to 20 years from the calendar year in which the municipality first certifies debt that is to be repaid with TIF revenue.
- Terminates existing Urban Renewal areas that are based on a finding of slum and/or blight on July 1, 2041. The duration of existing slum and/or blight areas is currently not limited.
- Limits the duration of new Urban Renewal areas based on a finding of slum and/or blight to 25 years from the calendar year in which the municipality first certifies debt that is to be repaid with TIF revenue. The duration of slum and/or blight areas is currently not limited.

The bill is effective on enactment.

Background

Tax Increment Financing provides revenue for Urban Renewal efforts of Iowa cities and counties. The revenue is provided through the division (splitting) of property taxes paid on property within the Urban Renewal Area between the traditional taxing authorities (schools, cities, counties, community colleges, hospitals, and other forms of government) and the purposes of the Urban Renewal area. Tax Increment Financing does not, in and of itself, reduce or increase the property tax paid on property within the Urban Renewal area and subject to the TIF process.

Legislative changes that expand or restrict TIF can have an impact on the State General Fund appropriation for school aid. All property owners pay, as part of the consolidated property tax bill, a basic school levy of $5.40 per thousand of taxed valuation. Property value that is subject to division for TIF (referred to as the TIF increment value) still pays this $5.40 tax, but the tax paid goes to TIF finance and not the school district. By action of the state school aid formula, the State General Fund appropriation for school aid pays the $5.40 amount for all value included in a TIF increment.

For FY 2016, a total of $10.3 billion in taxed property value was included in TIF increments statewide (6.5% of statewide taxed value). This value generated $312.5 million in TIF increment property tax. Of the $312.5 million, $55.5 million is reimbursed through the state school aid formula and the remaining $257.0 million is property tax revenue diverted from the traditional taxing authorities and to the TIF process.

The total debt outstanding for all cities and counties at the conclusion of FY 2015 that is to be repaid with future TIF revenue equaled $3,041.4 million. Of that amount, $371.8 million (12.2%) was reported by a total of 15 cities as having a debt schedule with projected debt repayments beyond FY 2036. As FY 2036 is 20 years away, much of the $371.8 million will have been repaid prior to the TIF termination dates implemented in this bill.

Of the $371.8 million:

- $117.4 million is general obligation debt with final payments due in FY 2042 and FY 2043. This debt is associated with an Urban Renewal area designated as blighted, so the termination date of this Urban Renewal area under the bill will be the end of FY 2041. By that time, very little of the $177.4 million in debt will remain.
- $197.8 million is classified as annual appropriation debt, meaning each year's debt payment is at the discretion of the city council in the year that the debt is due.
- $8.8 million is a rebate debt that extends to FY 2040. That debt is included in an Urban Renewal area that is in part classified as blighted so a portion of that Urban Renewal area will not be terminated prior to the end of the debt schedule.
- $47.1 million is a TIF revenue bond debt that extends to FY 2037. That debt is included in an Urban Renewal area that is in part classified as slum and blight so a portion of that Urban Renewal area will not be terminated prior to the end of the debt schedule.

Fiscal Impact

This bill restricts TIF by introducing maximum timeframes for some existing TIFs, limiting the duration of future TIFs that will not otherwise be limited, and prohibiting the future use of TIF for public buildings.

Restricting the use of TIF for public buildings could begin to have an impact in three fiscal years. Without TIF as a funding source, municipalities may turn to other financing methods for the same public buildings and those financing sources are likely to be predominantly property tax. So, for public building expenditures that do occur, it will mean a shift between taxpayers as the alternative property tax funding will have a different property tax base than the tax base available through TIF. For public building expenditures that do not occur because a non-TIF funding source is not secured, the expenditure will not occur and overall tax revenue demand will decrease.

Introducing maximum timeframes will terminate currently unlimited TIFs and the taxes paid on property within the TIF increment will return to the traditional taxing authorities. Under the provisions of the bill, this termination process will not begin until after FY 2036. Current debts of 15 cities totaling $371.8 million could be impacted by the imposition of the Urban Renewal area termination dates include in the bill. However, much of that debt will be repaid through the normal TIF revenue and debt payment process before the termination date.

For the portion of any debt schedule that remains after the FY 2036 and FY 2041 termination dates, a city has the ability to repay the debt earlier or set aside additional TIF revenue to make those final payments. As additional alternatives after 20 years, the city could use other funds available to make any remaining debt payments or in the case of annual appropriation debt the city could decide to not make the final debt appropriations.

The TIF restrictions contained in the bill (restricting TIF timeframes and prohibiting TIF use for future public buildings) will reduce the amount of backfill for school finance needed from the State General Fund appropriation, but the reduction amount cannot be estimated at this time.

Sources

Legislative Services Agency analysis
Department of Management property tax files
Iowa League of Cities

/s/ Holly M. Lyons

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