



[HF 656](#) – Tax Increment Financing, Prospective Backfill Elimination (LSB2339HV)
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Fiscal Note Version – New

Description

[House File 656](#) excludes the school foundation levy from the division of property tax revenue allowed under Iowa Code chapter [403](#) (Urban Renewal). The division of property tax revenue is commonly referred to as Tax Increment Financing (TIF). The change takes effect upon enactment and applies to property taxes due and payable on or after July 1, 2017 (FY 2018).

The exclusion of the school foundation levy applies to TIF areas where the ordinance providing for the division of property tax revenue takes effect on or after the effective date of the Bill, and property annexed into the TIF area on or after the effective date of the Bill. The change does not apply to existing TIF areas.

Background

As part of the property tax levy for schools, all property in Iowa subject to property tax is subject to a property tax levy of \$5.40 per \$1,000 of taxed value. The money from this levy contributes to the school aid formula that dictates the amount of State General Fund support each school district receives. For property located within a TIF area, the property tax associated with the \$5.40 levy does not go to the school district, but instead goes to the government authority (city, county, community college, or Rural Improvement Zone) that initiated the TIF. The money that is diverted to TIF is not included within the school aid formula calculations and through action of that formula, the State General Fund makes up for (backfills) the school foundation levy tax dollars diverted to TIF dollar-for-dollar.

For FY 2017, total TIF increment value utilized by local governments for TIF finance equaled \$10.8 billion and the total property tax revenue diverted to TIF equaled \$326.6 million. The impact on the State General Fund school aid appropriation to backfill that amount of value is \$58.5 million (the \$58.5 million is part of the \$326.6 million).

Assumptions

All TIF areas have a base assessment year value from which the amount of increment value (value growth) within the TIF area is calculated. Local governments may choose to utilize all or a portion of the calculated TIF increment. For this estimate, the utilized increment value of all TIF areas in the State with a base assessment year of 2007 through 2014 was aggregated by base year. A total of 625 TIF areas have a utilized increment value and a base assessment year between and including 2007 through 2014. The FY 2017 utilized increment value of these TIF areas totals \$1.2 billion in taxed value.

From the utilized TIF increment value, the amount of revenue generated through the \$5.40 foundation levy for each base year was calculated. This produces the increment value growth and \$5.40 State General Fund impact growth for all new TIF areas created over those eight assessment years. Each year's average amount of growth is then calculated by dividing the \$5.40 State General Fund impact by the number of years the TIF areas have been in existence. Finally, the average annual amount is calculated based on the average of the eight individual base years.

Based on Assessment Year 2015 (FY 2017) Property Value and Tax

Base Assessment Year	Value of TIF Increment in Millions	Additional General Fund (GF) Appropriation	Number of Years of Increment Growth	Average Annual GF Impact
AY 2007	\$ 360.0	\$ 1,944,000	8	\$ 243,000
AY 2008	352.5	1,903,500	7	271,929
AY 2009	378.2	2,042,280	6	340,380
AY 2010	254.8	1,375,920	5	275,184
AY 2011	208.6	1,126,440	4	281,610
AY 2012	225.0	1,215,000	3	405,000
AY 2013	226.5	1,223,100	2	611,550
AY 2014	150.4	812,160	1	812,160
Total	\$ 2,156.0	\$ 11,642,400	Average --->	\$ 405,102

Going forward, the impact of new TIF areas on the State General Fund appropriation for school aid is assumed to equal the average impact over the past eight years. The change would first apply to TIF areas created, or that would have been created, beginning assessment year 2018.

Fiscal Impact

Excluding the school foundation levy from revenue division as part of new or annexed TIF areas is projected to reduce the school aid standing appropriation by the following amounts:

- FY 2020 = \$ 405,000
- FY 2021 = \$ 810,000
- FY 2022 = \$1,215,000
- FY 2023 = \$1,620,000
- FY 2024 = \$2,025,000

The General Fund appropriation reduction is projected to continue to grow in future fiscal years. Property tax revenue generated by the school foundation \$5.40 levy represents 17.8% of annual TIF property tax revenue. Property tax revenue diverted to TIF can only be used to repay TIF debt. Without the school foundation levy revenue, local governments creating new TIF areas will not be able to incur as much TIF debt, or will need to make up for the reduction in revenue from another funding source.

Sources

Legislative Services Agency analysis
 Department of Management property tax rate and value files

/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.
