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Fiscal Note

Fiscal Services Division

HF 2460 – Tax Increment Financing (LSB 5418HV)
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Fiscal Note Version – New

Description

House File 2460 relates to Iowa's Urban Renewal law (**Iowa Code chapter 403**) and the financing option for urban renewal projects known as Tax Increment Financing (TIF).

The Bill restricts the types of projects allowed for future TIF treatment, prohibits the creation of new Urban Renewal areas under certain circumstances, increases Urban Renewal and TIF reporting and auditing requirements, and establishes a procedure that will set a termination date for existing Urban Renewal areas that do not currently have a statutory end date. The Bill also eliminates provisions relating to local option sales tax TIFs (**Iowa Code section 423B.10**).

Provisions of the Bill that impact State and local expenditures and/or revenue include:

- Requires that cities, counties, and rural improvement zones utilizing TIF complete an annual report and submit that report electronically to the Department of Management (DOM) by December 1.
- Requires that the DOM develop, in consultation with the Legislative Services Agency (LSA), an electronic system for local governments to submit Urban Renewal and TIF reports and also requires that a searchable, web-based data system be developed.
- Requires that each municipality with an active Urban Renewal area annually certify that the municipality has complied with the reporting requirements contained in the Bill. The certification is required to be audited in any official audit of the municipality. For the years that the municipality does not have an official audit conducted, the municipality is required to hire an auditor to attest to the certification. For reference, the Iowa Code requires:
    a. Cities with a population of 2,000 or more must be audited each year.
    b. Cities over 700 but less than 2,000 must be audited every four years.
    c. No periodic audits for a city of 700 or less.

Assumptions

For FY 2012, there were 348 cities and 47 counties utilizing TIF. All counties are audited every year. For the 348 cities:

- 149 are audited each year.
- 136 have populations between 700 and 2,000 and are audited every 4 years.
- 63 have populations below 700 and those cities are not currently subject to audit.

The DOM and the LSA will collaborate in the development of the web-based reporting system and web-based data access system, and the system will be operational by December 2012. The DOM duties will also include education of city and county staff and ongoing management and enforcement of the reporting requirements.

Fiscal Impact

All cities, counties, and Rural Improvement Zones with existing, active, Urban Renewal areas will have some additional administrative expense each year complying with the reporting requirements of the Bill. The most significant new requirement will be the added requirement to categorize TIF expenditures by purpose and assign those expenditures to an outstanding TIF debt. This duty will be required each year after the end of the fiscal year in question.

The amount of administrative staff time required for compliance with the reporting requirements is not known. If the 399 local governments with active TIFs each devote 12 hours of administrative staff time to the added reporting requirements, and if staff time is valued at $40 per hour, the estimated statewide expense would be $192,000.

Local governments could also incur new expenses for the audit provisions of the Bill. Those provisions require, as a part of any audit, compliance with the reporting requirements will be a portion of the audit. For counties, and for cities that have a population of 2,000 or more, this additional expense should be minimal as long as the reporting requirements were met.

Cities with a population below 2,000 will incur the additional expense of hiring an auditor to attest to the city's certification of compliance with the reporting requirements. The cost for an auditor to attest to the accuracy of a city's TIF report certification is not known. If the 199 TIF cities with a population below 2,000 each expend $1,500 on additional audit costs, the estimated statewide impact of the audit provision is $299,000.

The DOM, in consultation with the LSA will be required to develop a web-based reporting and searchable database by December, 2012. This may require $100,000 to $200,000 in expenditures, although a considerable portion of the expense would involve existing staff. The DOM will have ongoing site maintenance expenditures, as well as increased staff duties involving local government education and compliance monitoring. The Bill does not provide funding outside of the current annual appropriations to the DOM and LSA.

Sources

Department of Management property valuation statistics
U.S. Census Bureau
Legislative Services Agency

/s/ Holly M. Lyons

April 10, 2012

The fiscal note for this bill was prepared pursuant to **Joint Rule 17**. Data used in developing this fiscal note, including correctional and minority impact information, is available from the Fiscal Services Division of the Legislative Services Agency upon request.