

# by the numbers

## Excessive and Inappropriate TIF Use

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At a recent meeting on property tax issues, I described one of ISAC's legislative priorities on Tax Increment Financing (TIF) reform as designed to prevent the "excessive and inappropriate" use of TIF. One of the listeners bristled at the suggestion that TIF was being used either excessively or inappropriately, and he asked for examples. In this month's *By the Numbers*, I oblige.

According to FY 2008 valuation data from the Department of Management (DOM), there are ten Iowa cities in which more than 50% of the total taxable valuation is in a TIF increment. That means, of course, that more than half of the taxable value in those cities is being used to retire TIF debt – and not to fund normal government operations of the city, county or school district. Huxley, whose population of 2,959 makes it the largest city among Iowa's top-ten TIF-users, has \$73 million of taxable value, \$39 million of which (or 53%) is in a TIF increment. West Okobojo, whose vacation-town status gives it a small population (432) but a large taxable value (\$75 million), has 58% of its value locked up in TIF. Many of Iowa's larger cities, while not at the top of the list, still have a significant percent of their taxable value in TIF. Spirit Lake, for example, is 11<sup>th</sup> on the list with 49% of its taxable value in TIF. West Burlington, Pleasant Hill, Le Mars and Altoona all have more than 30% of their taxable value in a TIF increment.

But the poster child for excessive TIF usage is tiny McCallsburg (population 318) in Story County. Of McCallsburg's \$5.4 million in taxable value, \$4.9 million – over 90%! – is in a TIF increment. Most of that is in residential TIF districts. In fact, 100% of McCallsburg's taxable residential value – every last dollar – is in a TIF increment. It's a wonder the city has enough revenue to function. According to McCallsburg's budget for FY 2008, the city will collect just under \$8,000 in general property taxes, and a whopping \$174,000 in TIF property taxes. For comparison's sake, the city of Kelley, also in Story County and about the same size as McCallsburg,

will collect about \$50,000 in general property taxes in FY 2008 and zero TIF property taxes.

Of course, it's not just having too much of a city's value in a TIF that seems excessive – it's also how long the value is tied up in a TIF. Any TIF district created before 1995 can run forever. According to DOM's valuation data, Iowa has more than 800 TIF districts created in 1994 or earlier. All of them are potentially unlimited in duration. Not all of these districts are active (meaning they still have valuation in the increment), but many are. In fact, the cities of Evansdale, Carroll, Mason City, and Dubuque all have active TIF districts that began in the 1960s. Evansdale releases over 80% of the possible increment value in its 40-year-old TIF back to the base. That's good, because releasing value to the base benefits all taxing districts, and it's how TIF is supposed to work. But Carroll, Mason City and Dubuque are still using every last bit of their increment valuation, nearly 40 years after their TIFs began. The value in Mason City's TIF has more than doubled; the Dubuque TIF's value is up over 500%; and the Carroll TIF's value is up almost 800%. Yet in each of these cases, none of that increase in value is available to finance the general operating costs of the cities, counties or schools.

Lest anyone spin this article as a call for the end of TIF, let me be clear: it's not. It's a call for reasonable limitations on TIF. No TIF should be allowed to siphon money from the other local governments for more than twenty years. No city or county should be allowed to have more than 50% of its value in a TIF increment. (A much lower limit say 25% is eminently reasonable, and there are 65 Iowa cities above that level.) No city or county should be able to circumvent the constitutional debt limit by using so-called "annual appropriation" debt. For the vast majority of cities and counties who use TIF wisely and fairly, these limits would have no effect. But the limits would act to rein in those jurisdictions that are using TIF excessively and inappropriately.

Iowa's Top Ten TIF-Users			
City	Total* Taxable Value	TIF* Taxable Value	Percent of Taxable Value in TIF
McCallsburg	5,438,852	4,902,900	90.1%
Marquette	18,559,064	14,976,437	80.7%
Kellogg	11,239,336	8,520,557	75.8%
Baxter	19,382,936	14,029,255	72.4%
Panama	5,393,805	3,607,333	66.9%
Tiffin	49,500,413	31,446,707	63.5%
Carson	15,268,733	9,392,243	61.5%
West Okobojo	75,418,824	44,001,200	58.3%
Huxley	72,636,129	39,194,598	54.0%
Mingo	5,802,050	3,104,842	53.5%

\*FY 2008 taxable values excluding gas and electric utilities

Source: Iowa Department of Management