# IASB Recommended Changes to the Tax Increment Financing (TIF)

- A municipality may have a maximum 25 percent of assessed valuation or land area, whichever is less, placed in a TIF area. Cities having more than the 25 percent maximum shall not be able to establish new areas or projects until they release increment valuation or land area to an amount below 25 percent. The State Appeal Board may grant exemptions to the 25 percent requirement based on specific criteria.
  - Rationale: The purpose of TIF is to provide a targeted economic development incentive. Targeting all, or substantially all, of a city does not make sense.
- All TIF areas shall expire after a specified period of time (10 years). This includes previously established TIF areas. TIF area may be reestablished only after the release of all incremental valuation in the original TIF.
  - Rationale: There are TIF areas having no established sunset date. The purpose of a TIF is to provide a targeted economic development incentive. The premise behind the TIF is similar – allow a community to redevelop an area using the taxes from schools, counties, etc. Once the area is redeveloped, those entities who contributed towards the redevelopment (once again, schools, counties, etc.) should reap the rewards of their investment through increased property valuation. If the TIF area goes on in perpetuity, then the promised economic development and corresponding valuation growth, the very reason for the TIF from a public purpose standpoint, is never delivered.
- Residential TIF areas may only be established in slum/blight areas.
  - Rationale: The economic development rationale in the law essentially allows a TIF anywhere. Residential housing should be built by a demand-driven concept. Subsidizing new residential housing through tax dollars contributed by existing homeowners makes little sense. The existing homeowners are forced to use their tax dollars to subsidize the new homes, which has the effect of reducing the value of the existing home stock, and also shoulder the burden of subsidizing the children moving into the area through increased property taxes to fund local schools.
- Use of TIF revenues should be limited to a set of specified criteria established by the legislature.
  - Rationale: Currently, there is almost no regulation limiting TIF use. A number of cities are using the revenue collected from schools, counties, etc. to rebate the taxes of property within the TIF project. While it may be good public policy to reduce or eliminate property taxes within a defined jurisdiction for the purpose of developing an area, the same cannot be said for all taxing authorities (school, county, etc.). Because city borders can cross county and school district lines, it is very likely that taxes from one taxpayer may be rebated to another taxpayer who doesn't live in the same city. This creates a taxation-without-representation issue because the taxpayer whose money is being exported to another jurisdiction has no say in the election of officials responsible for the allocation of the money. A city should only be able to rebate taxes collected by it and not those taxes collected by other entities.
- TIF increment should only include the valuation from new construction value in the TIF area.
  - Rationale: Other valuation would have naturally grown which becomes an economic opportunity loss to other taxing entities.
- TIF increment should be based upon the taxable rather than assessed basis.
  - Rationale: Due to the current method of calculating the increment and base valuation of a TIF area, during a period of decreasing rollback percentages (e.g., from 56 percent to 54 percent), the base valuation of a TIF area bears the entire burden of the rollback. This has the effect of causing a further and less visible shift to the state and other property taxpayers.
- TIF decisions should be approved by other taxing entities.
  - Rationale: If the plan can demonstrate a return on the investment for the other taxing jurisdictions, approval should be easily accomplished.
- TIF should not be allowed for property that will never be taxed.
  - Rationale: The idea is that improvements will improve the tax base of the other taxing entities. If TIF money is spent on a jail or city hall, there is no eventual payoff.
- TIF taxes should be reported under the issuing entity's tax rate and adjusted out of the other taxing authorities' tax rate.
  - Rationale: Reporting taxes levied by one authority when in reality they flow to another misleads the taxpayer.
- TIF should be allowed for rapidly growing school districts as a means to finance new buildings.

- Rationale:  Rapidly growing school districts should be able to capture the valuation growth they are responsible for as a means of paying for those facilities.  Existing property owners should not solely bear the full burden of future (new) property owners and students.