

# Tax Increment Financing in Iowa: Results of a Recent Economic Analysis

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# Outline of Remarks

- ▶ Introduction and Brief History
- ▶ TIF in Other States and Research
- ▶ Analysis of TIF Valuation
- ▶ TIF and Economic Outcomes



# Intended Public Benefits of TIF

- ▶ Iowa Code 403.2
- ▶ To prevent and eliminate slum and blight
  - Economic and social liability
  - Decreases the tax base
- ▶ Economic development
  - Commercial and industrial enterprises
  - Public improvements to promote housing
  - Location and expansion of needed services and facilities



# How Tax Increment Financing Works

- ▶ Tax Increment Financing is a method of financing urban renewal
- ▶ City or county designates urban renewal area
- ▶ A taxable “Base” is established for the TIF area
- ▶ The “Increment” is any increase in assessed value above the base
- ▶ The TIF authority may access some or all of the taxes generated from the increment value
- ▶ Revenues from debt levies and other specified levies are exempt from TIF
- ▶ TIF has a direct impact on the State General Fund as a result of the State School Foundation Aid formula



## Brief History of Tax Increment Financing in Iowa

- ▶ Iowa Code Chapter 403
- ▶ Allowed in Iowa since 1969
- ▶ Originally limited to areas of slum and blight
- ▶ Expanded for economic development in 1985
- ▶ In 1995, limited to 20 years in duration
- ▶ In 2012, with passage of House File 2460, Iowa again updated its TIF law
  - New reporting requirements
  - New restrictions on use of money for relocating enterprises within a municipality



## Tax Increment Financing Around the United States

- ▶ 49 states and D.C. allow TIF
- ▶ 31 states require a finding of blight prior to the establishment of a TIF
- ▶ 7 states require that TIFs meet a “but for” test
- ▶ In 32 states, including Iowa, TIFs may be financed through general obligation bonds, whereby a municipality pledges its full faith and credit to repayment
- ▶ 14 states provide some type of exclusion of overlapping school districts from TIF (e.g., automatically excluded or opt out)

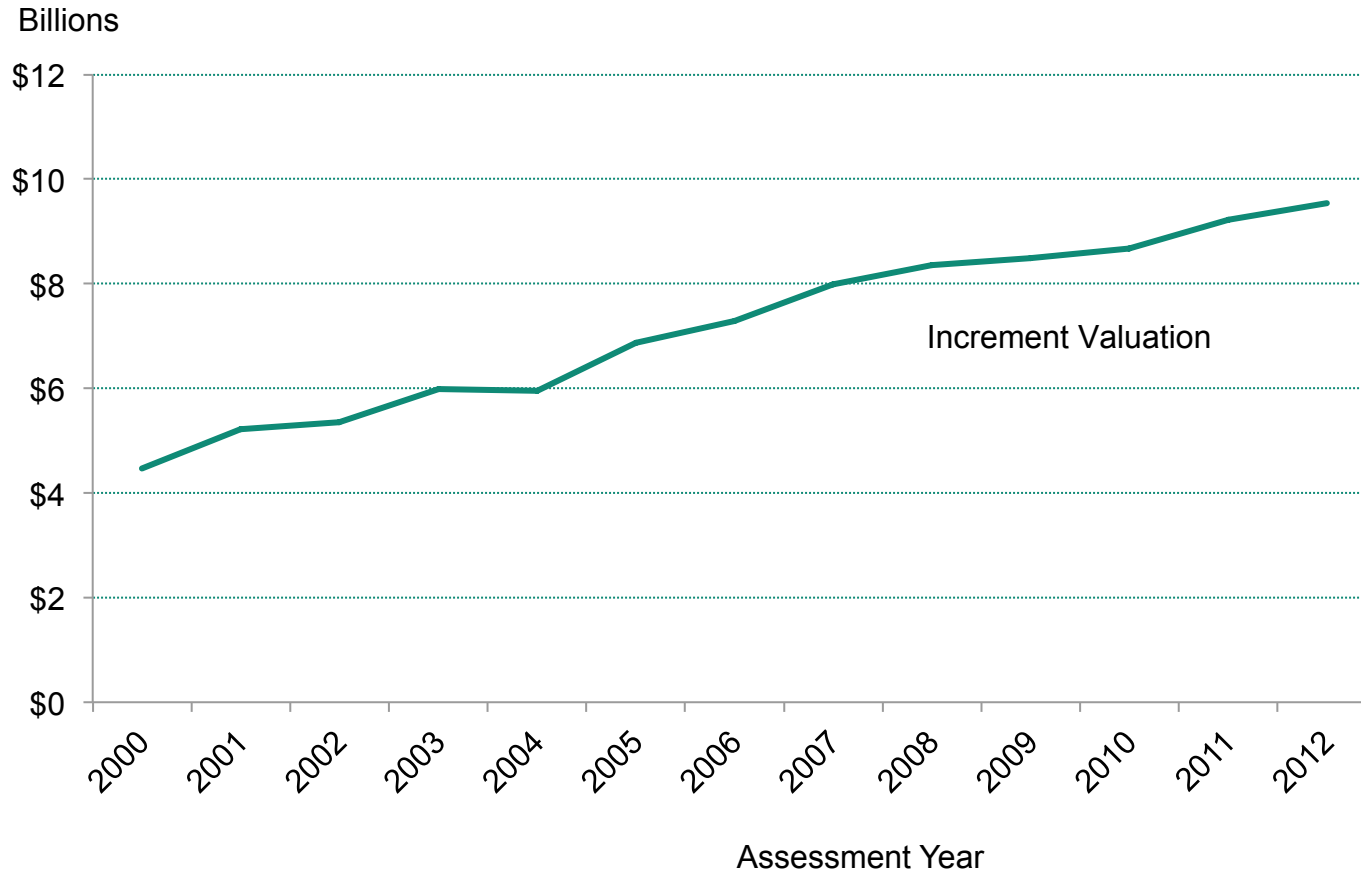


# Research on TIF

- ▶ Limited research on TIF
  - Is it necessary?
  - Is it efficient?
  - Is it effective?
- ▶ Findings on TIF economic impact are mixed
  - Some research says it has positive, beneficial impact
  - Some research says, “It depends”



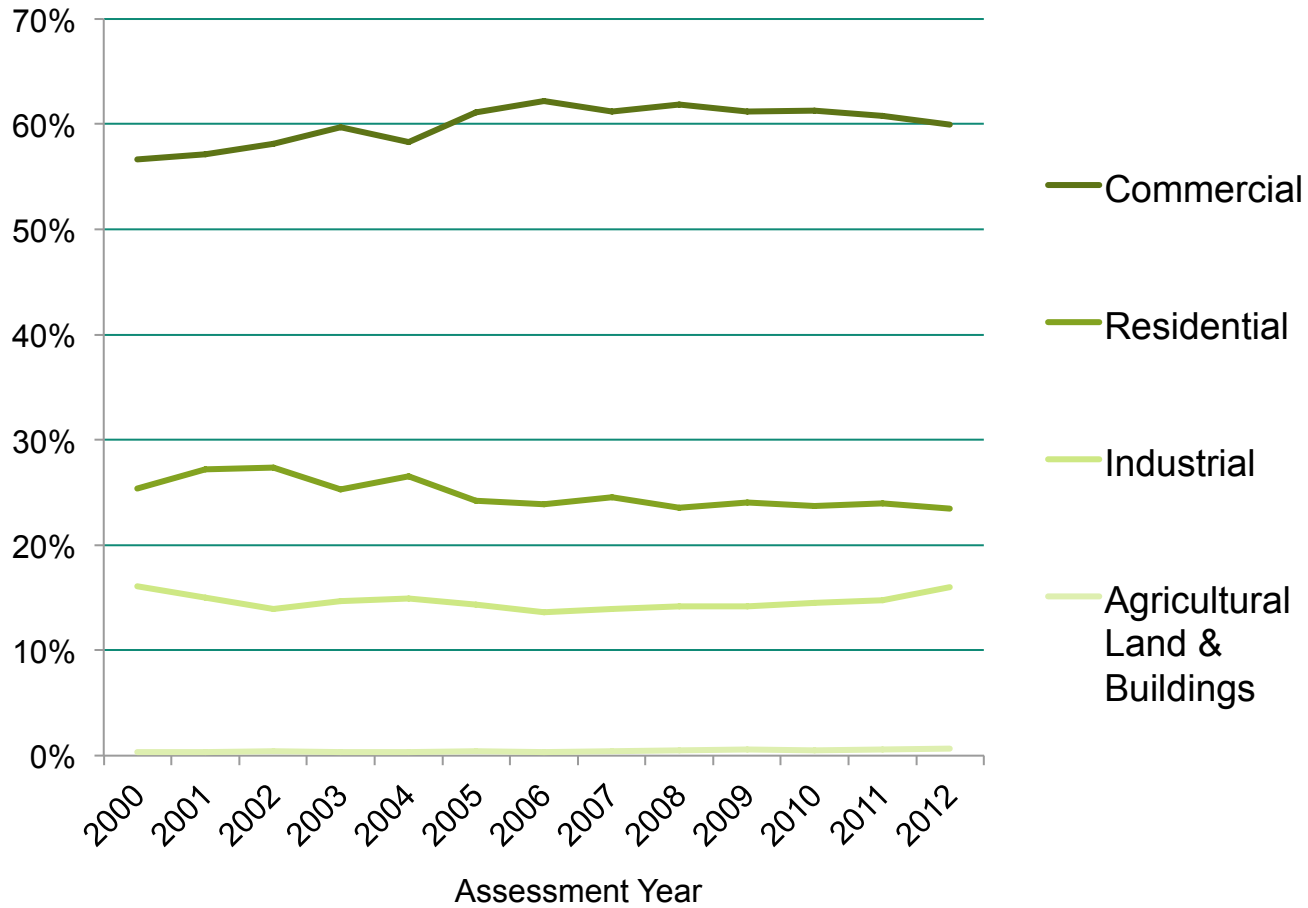
# TIF Increment Valuation



Source: Iowa Department of Management Property Valuation System

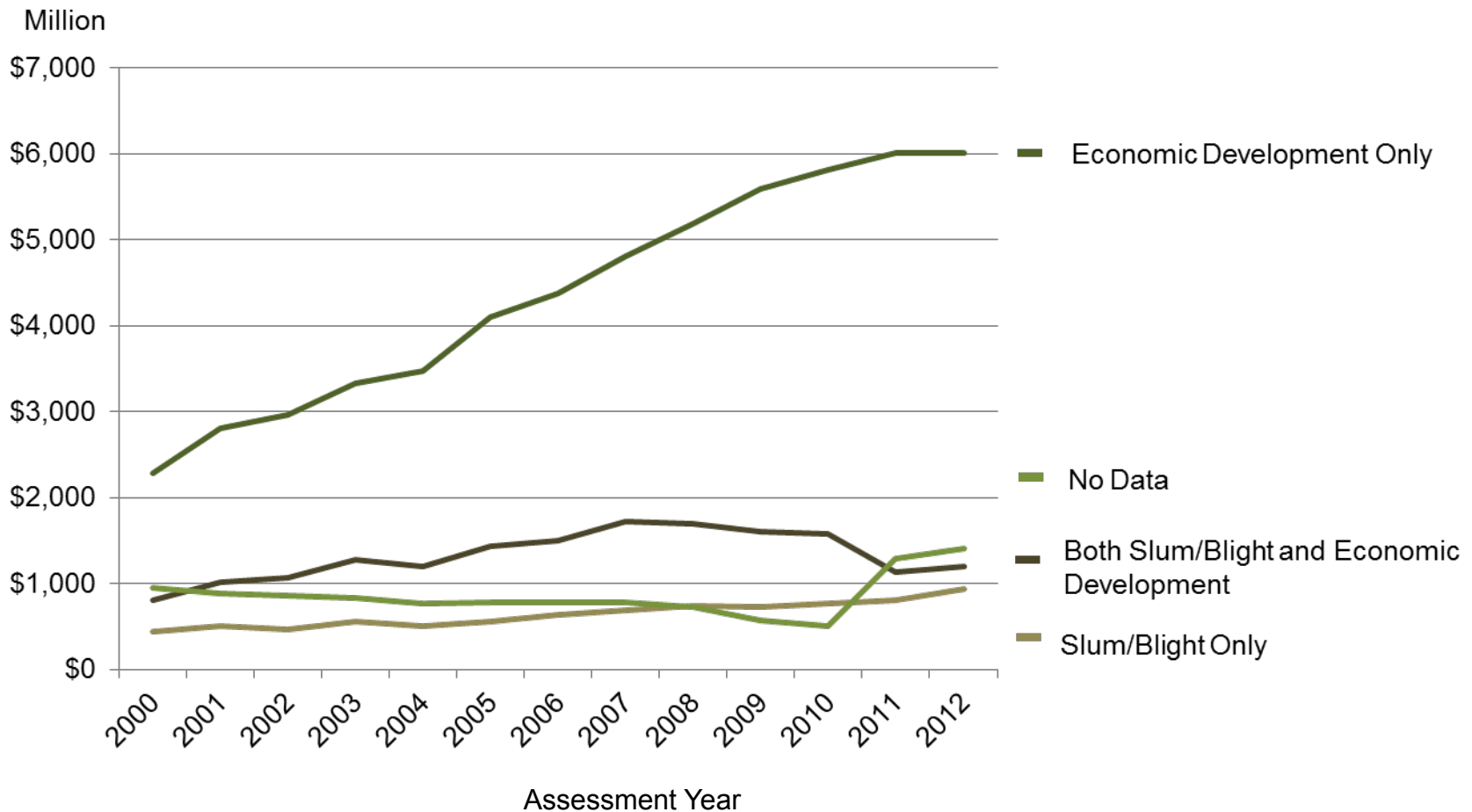


# Share of Total TIF Increment Valuations by Property Class



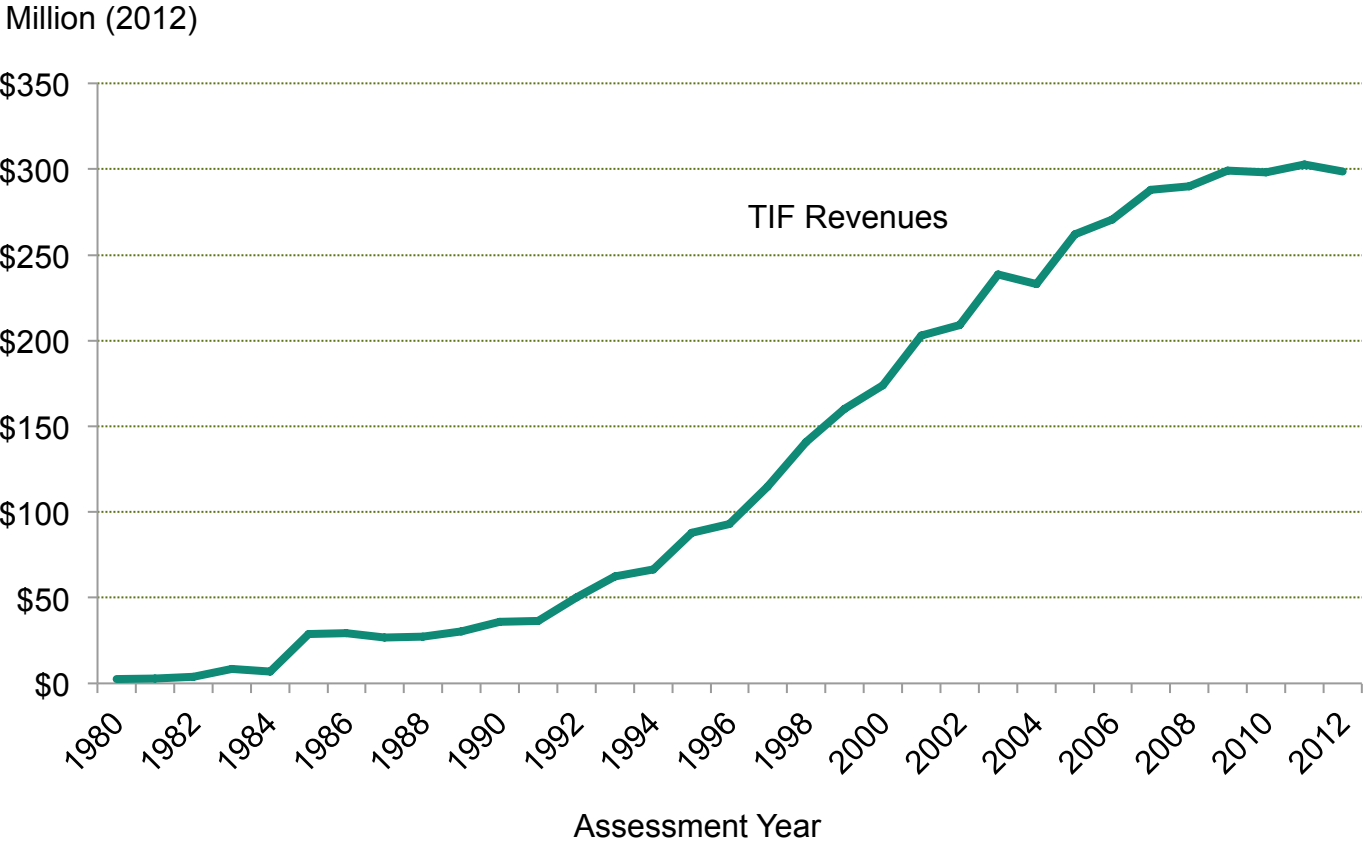
Source: Iowa Department of Management Property Valuation System

# TIF Incremental Valuation by Purpose



Sources: Iowa Department of Management Property Valuation System, Legislative Services Agency TIF Reporting Project

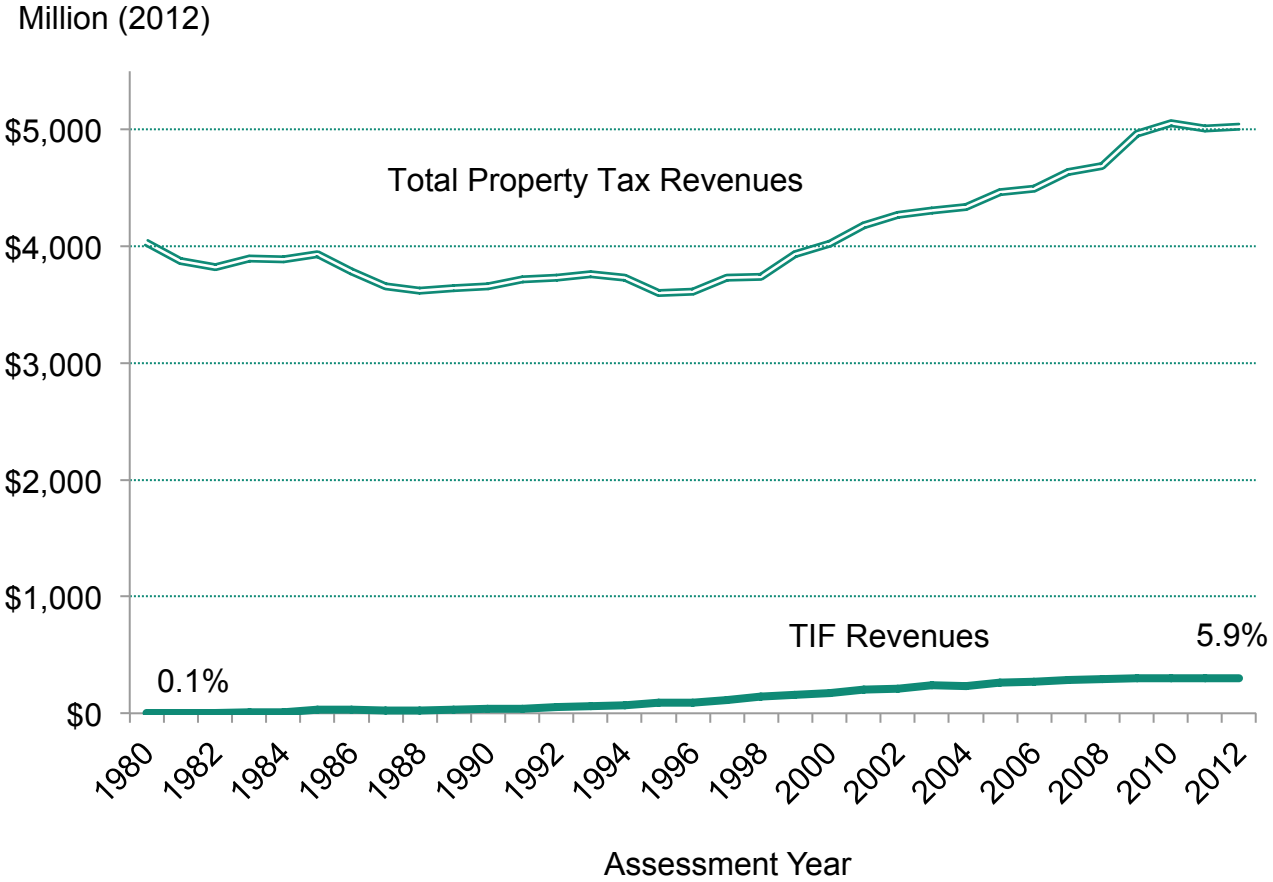
# Property Tax Revenues to TIF



Source: Iowa Department of Management Property Valuation System. Revenues are estimates.



# TIF Revenues and Total Property Tax Revenues



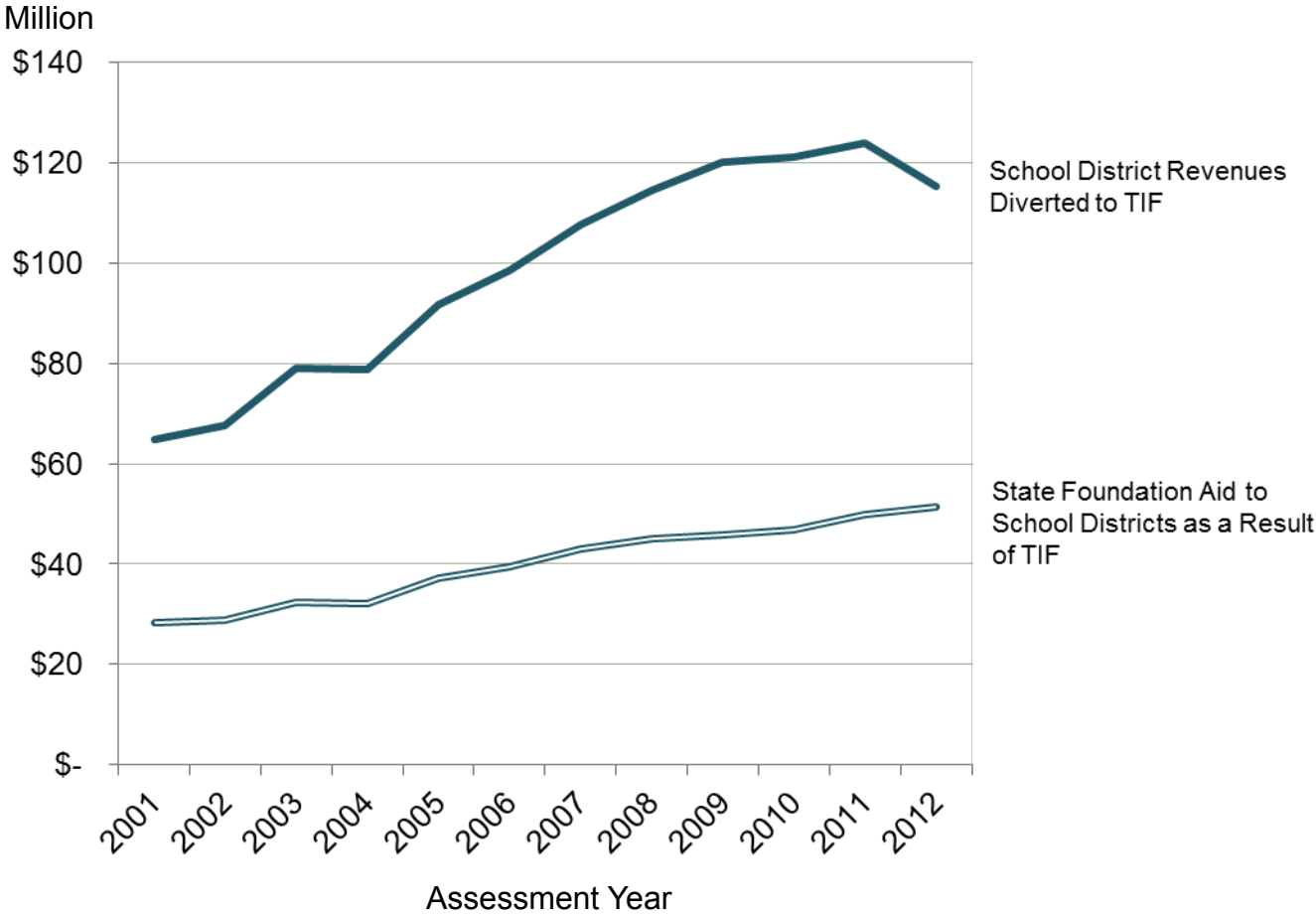
Source: Iowa Department of Management Property Valuation System. Revenues are estimates.

# TIF and School Funding

- ▶  $\text{Tax Rate} * \text{Taxable Value} = \text{Tax Revenues}$ 
  - $\text{Total School District Revenues Diverted} = \text{Taxable Value TIF Increment} * \text{Applicable School District Levies}$
  - $\text{State Foundation Aid as a Result of TIF} = \text{Taxable Value TIF Increment} * \$5.40 \text{ Uniform Levy}$

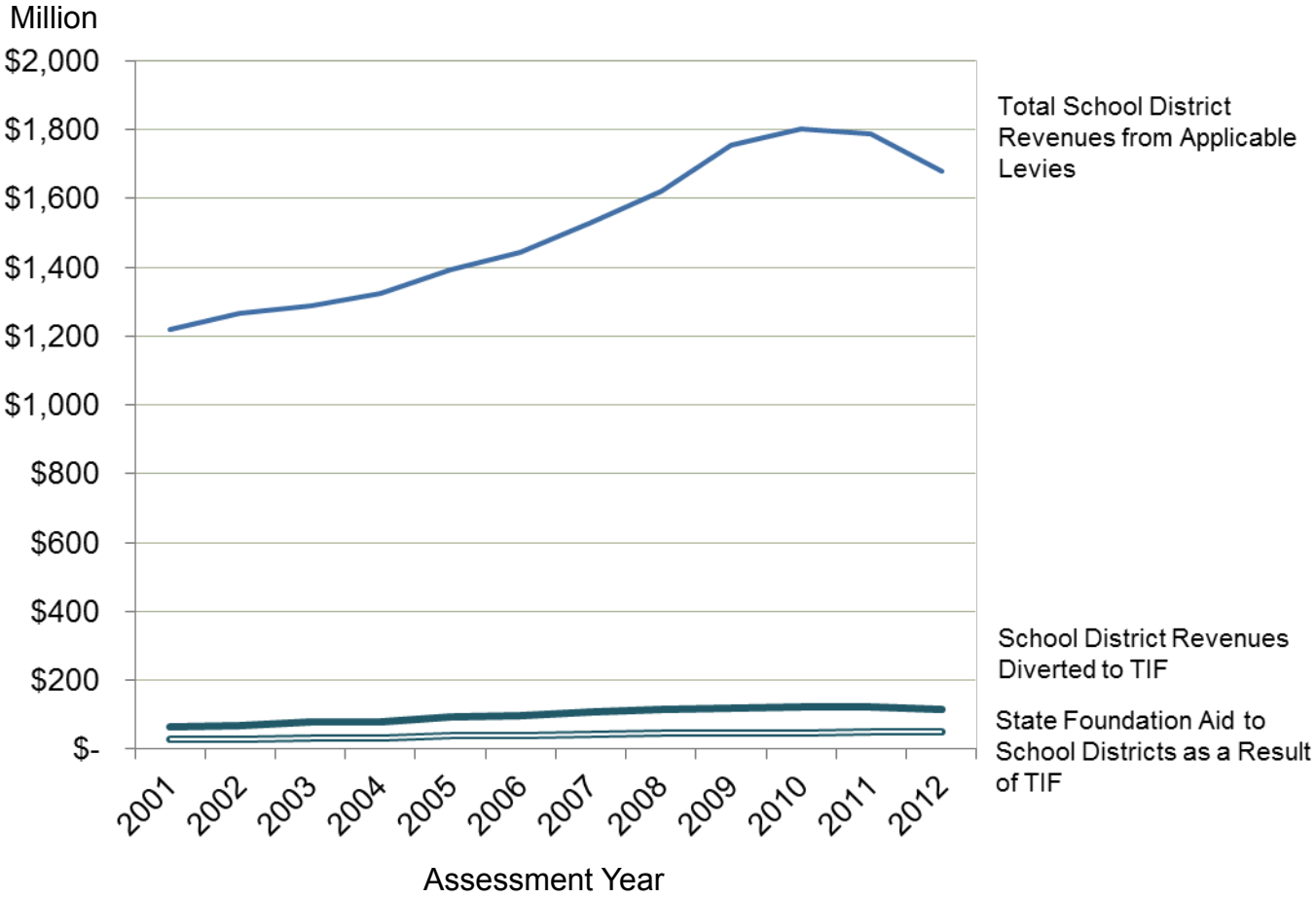


# School District Diverted Revenues



Source: Iowa Department of Management. Revenues are estimates.

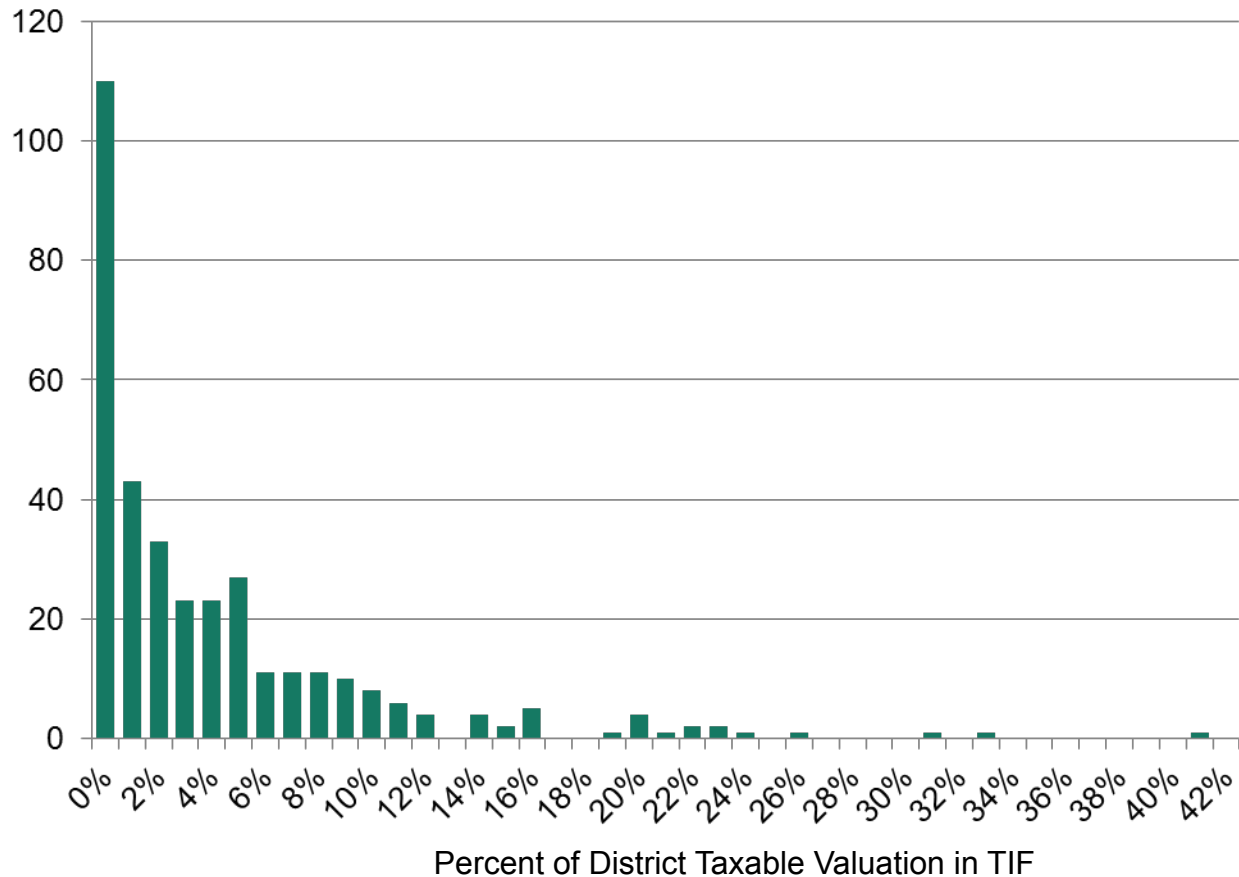
# School District Total Revenues



Source: Iowa Department of Management. Revenues are estimates.

# Number of Iowa School Districts by Percent of District Taxable Valuation in TIF in 2012

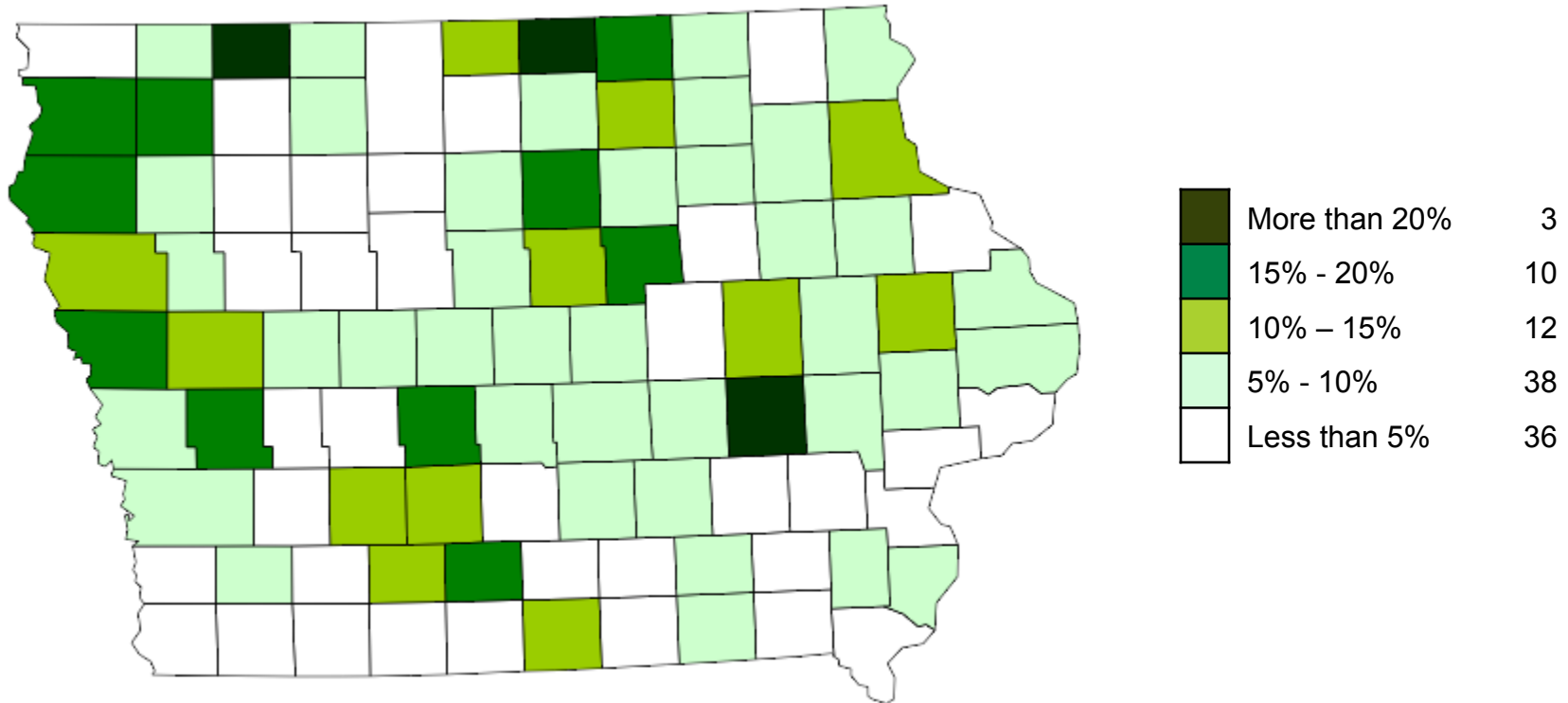
Number of School Districts



Source: Iowa Department of Management Property Valuation System

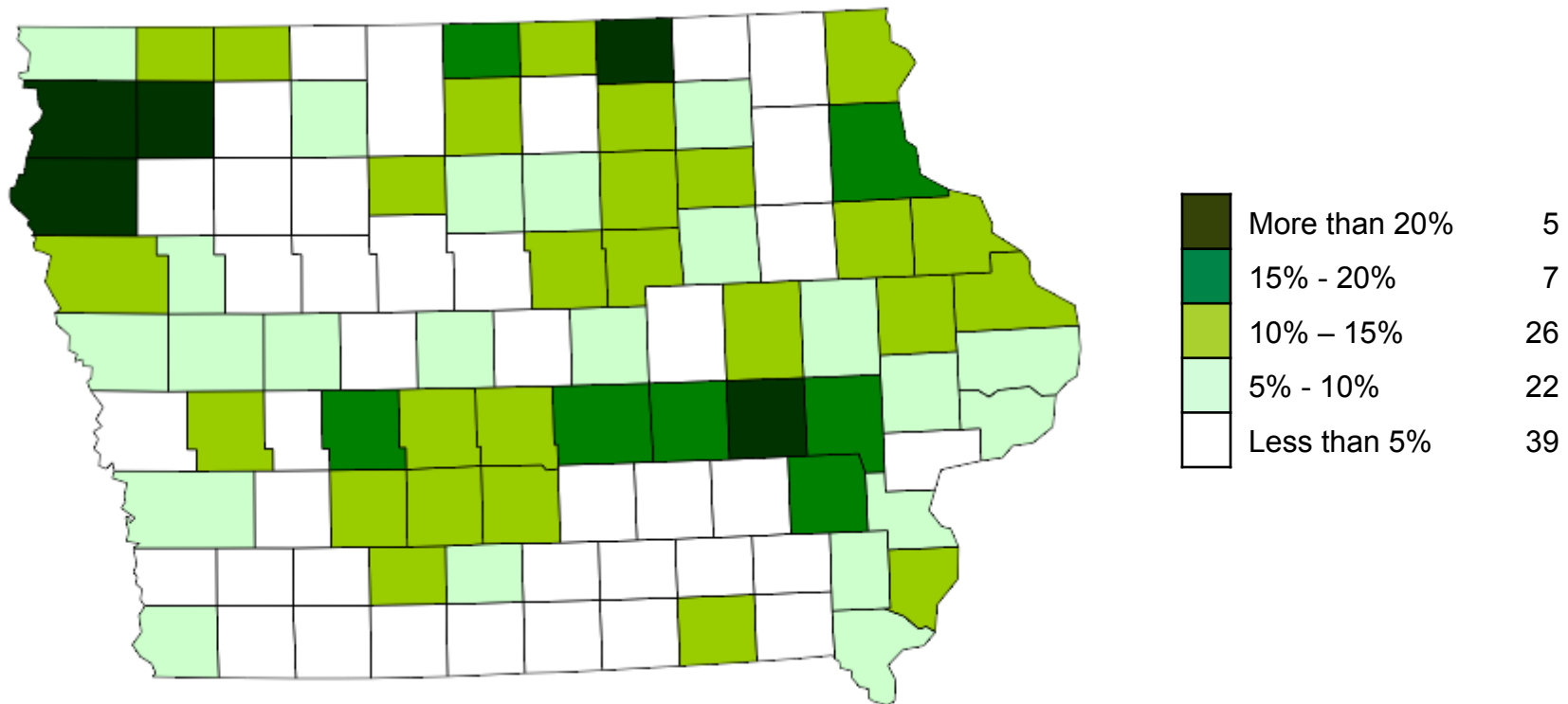


# Percent Taxable Value of Urban Property in TIF Increments by County in 2000



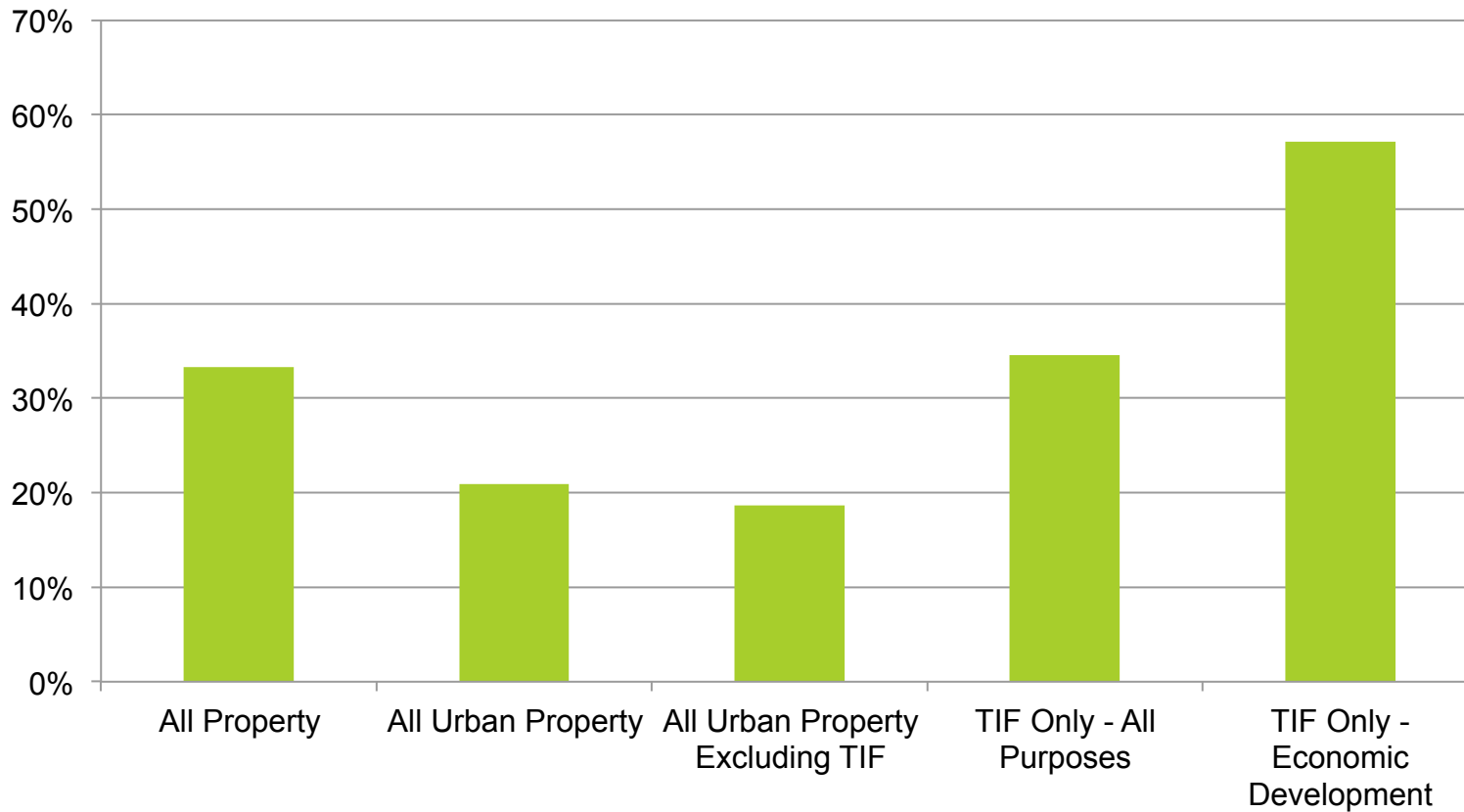
Source: Iowa Department of Management Property Valuation System

# Percent Taxable Value of Urban Property in TIF Increments by County in 2012



Source: Iowa Department of Management Property Valuation System

# Valuation Increase 2000 – 2012



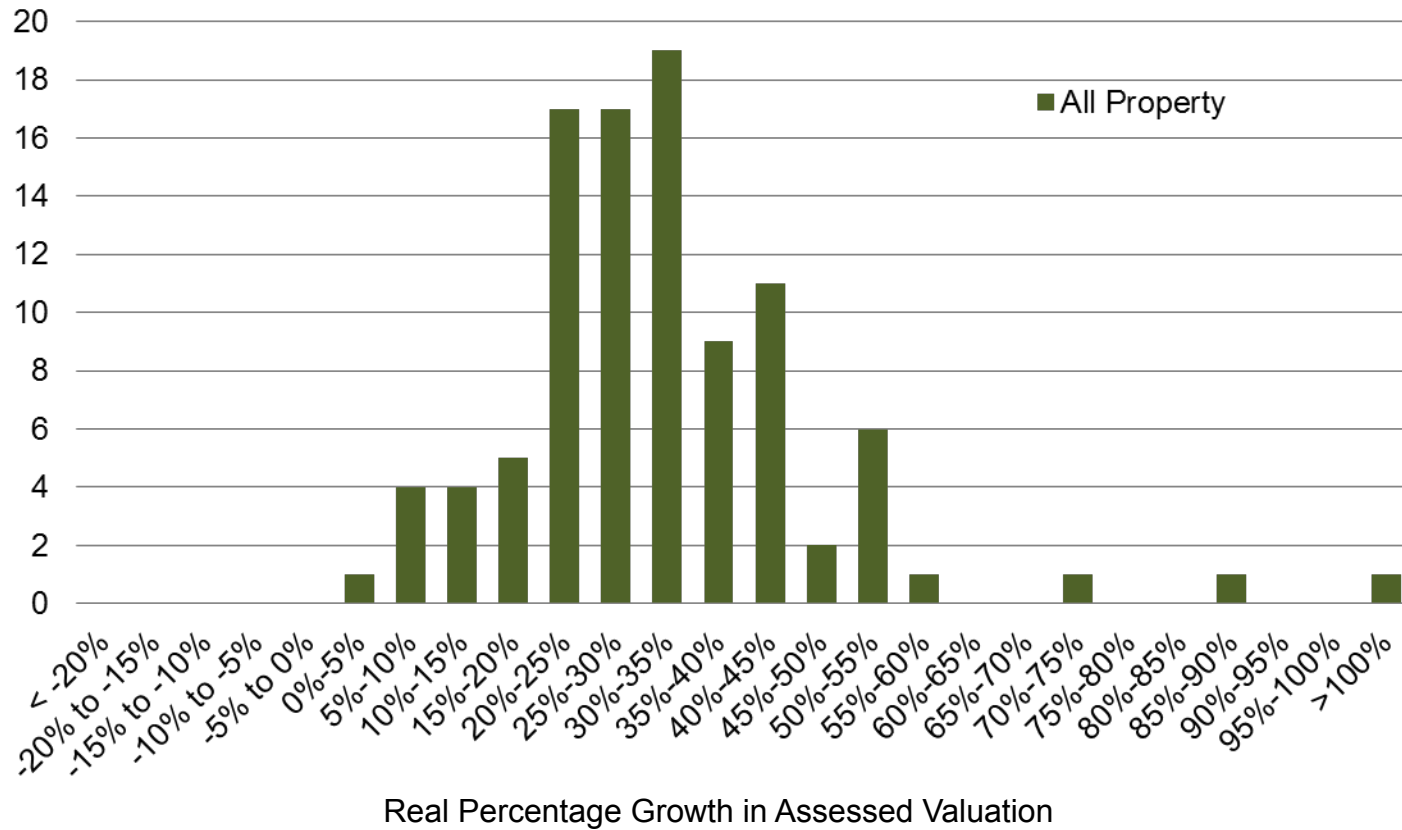
Real Percentage Growth in Assessed Valuation

Source: Iowa Department of Management Property Valuation System



# Valuation Growth by County 2000–2012

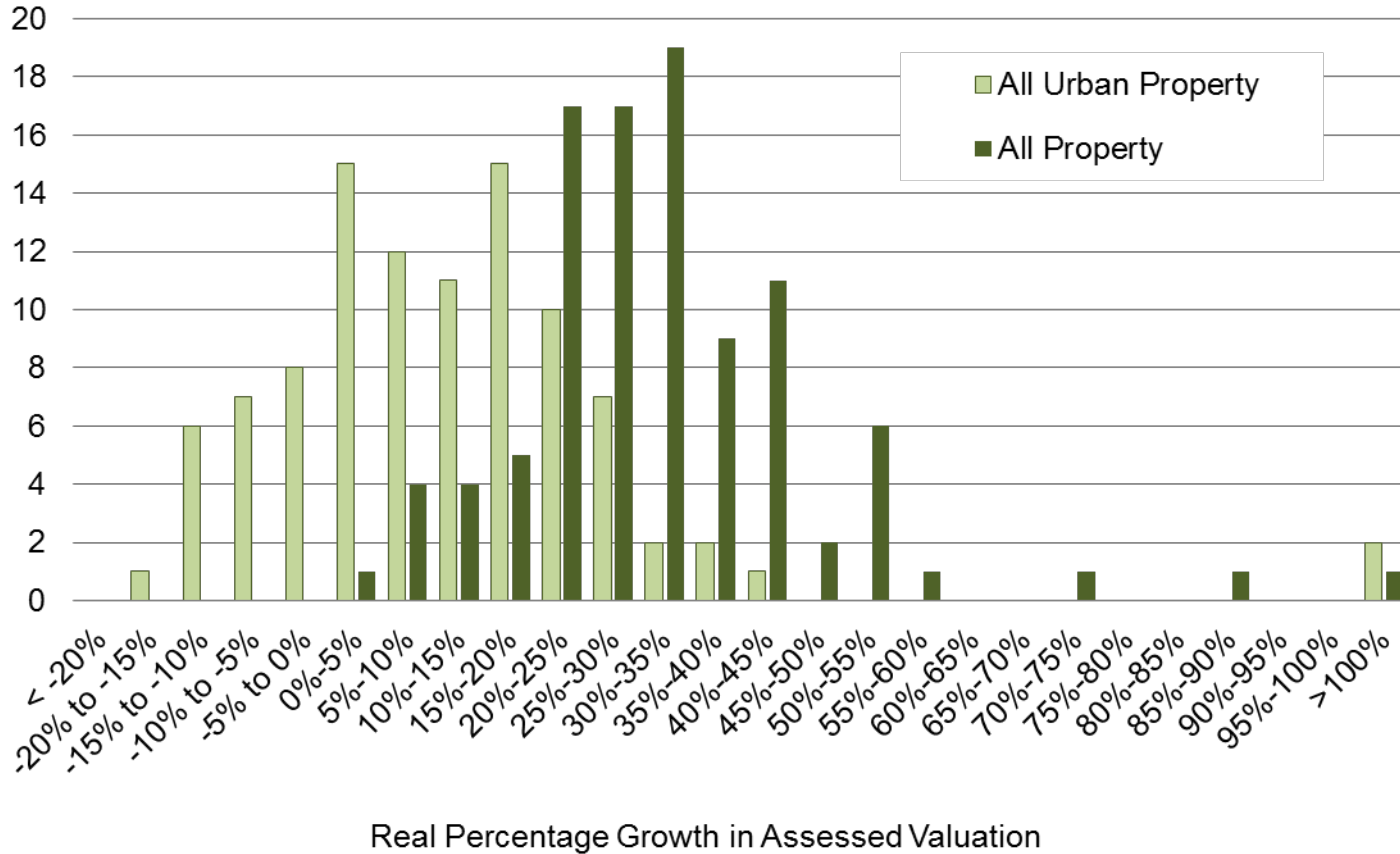
Number of Counties



Source: Iowa Department of Management Property Valuation System

# Valuation Growth by County 2000–2012

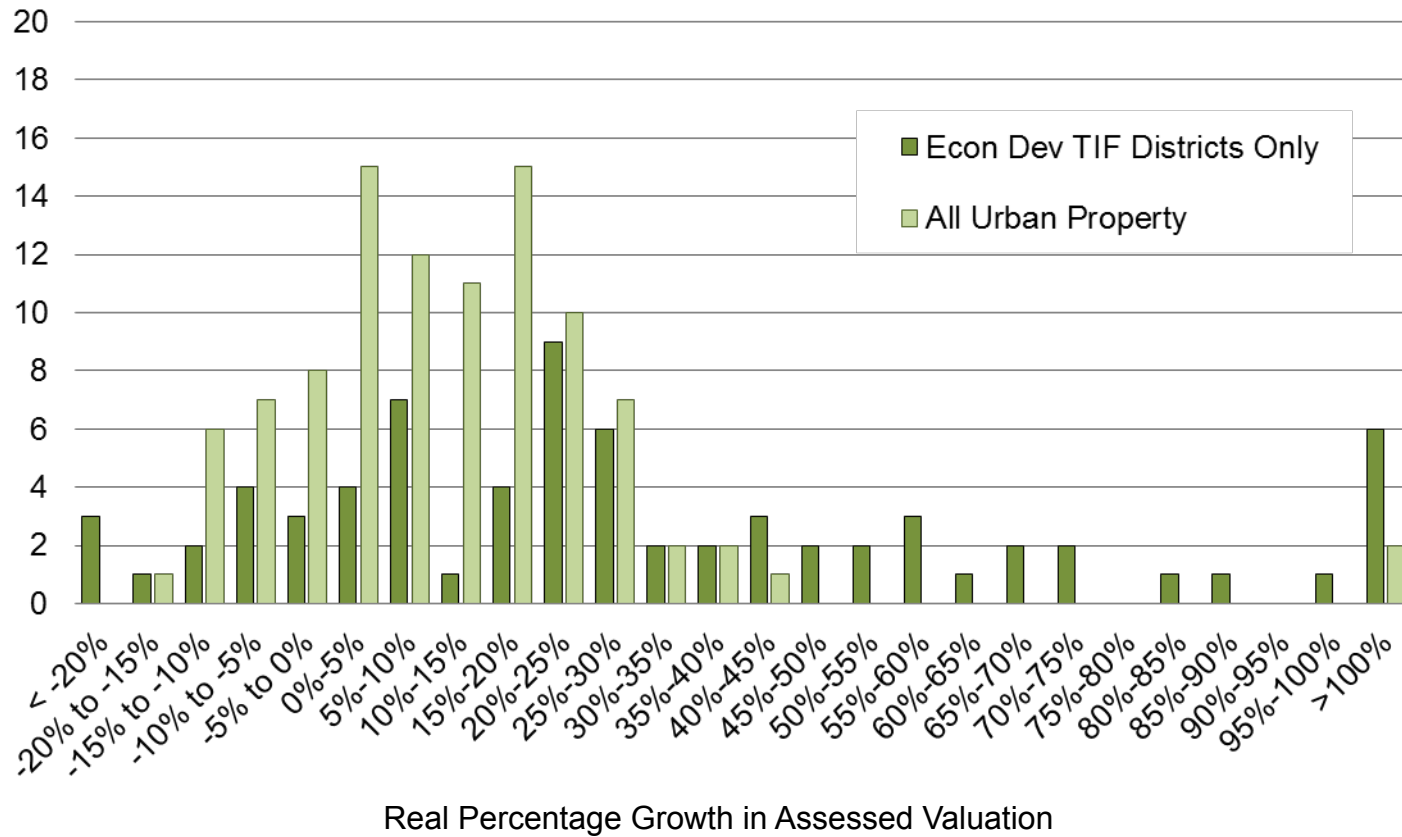
Number of Counties



Source: Iowa Department of Management Property Valuation System

# Valuation Growth by County 2000–2012

Number of Counties



Source: Iowa Department of Management Property Valuation System

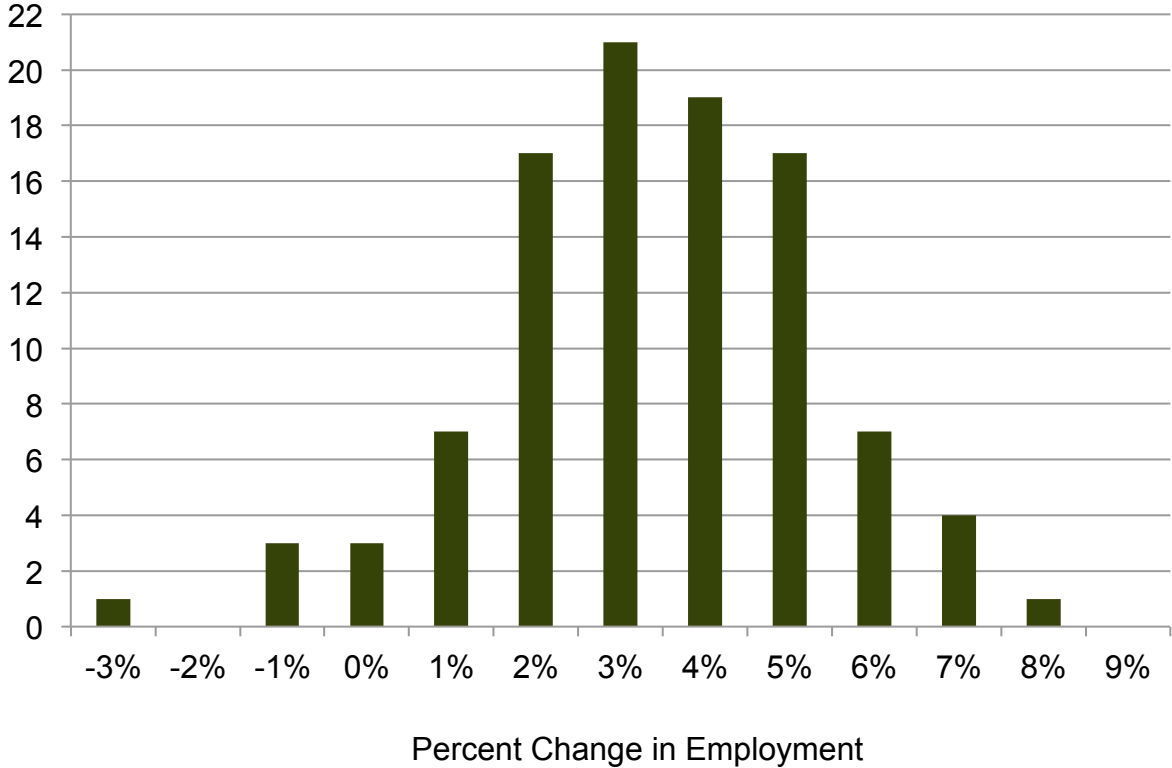
# Assessing the Economic Effects of TIF

- ▶ Unit of analysis: County
- ▶ Descriptive statistics:
  - Percent of total revenues in urban districts to TIF during the period of FY 2002–2012
  - Changes in county employment and wages during the same period



# Number of Counties by Percent Change in Employment 2002 - 2012

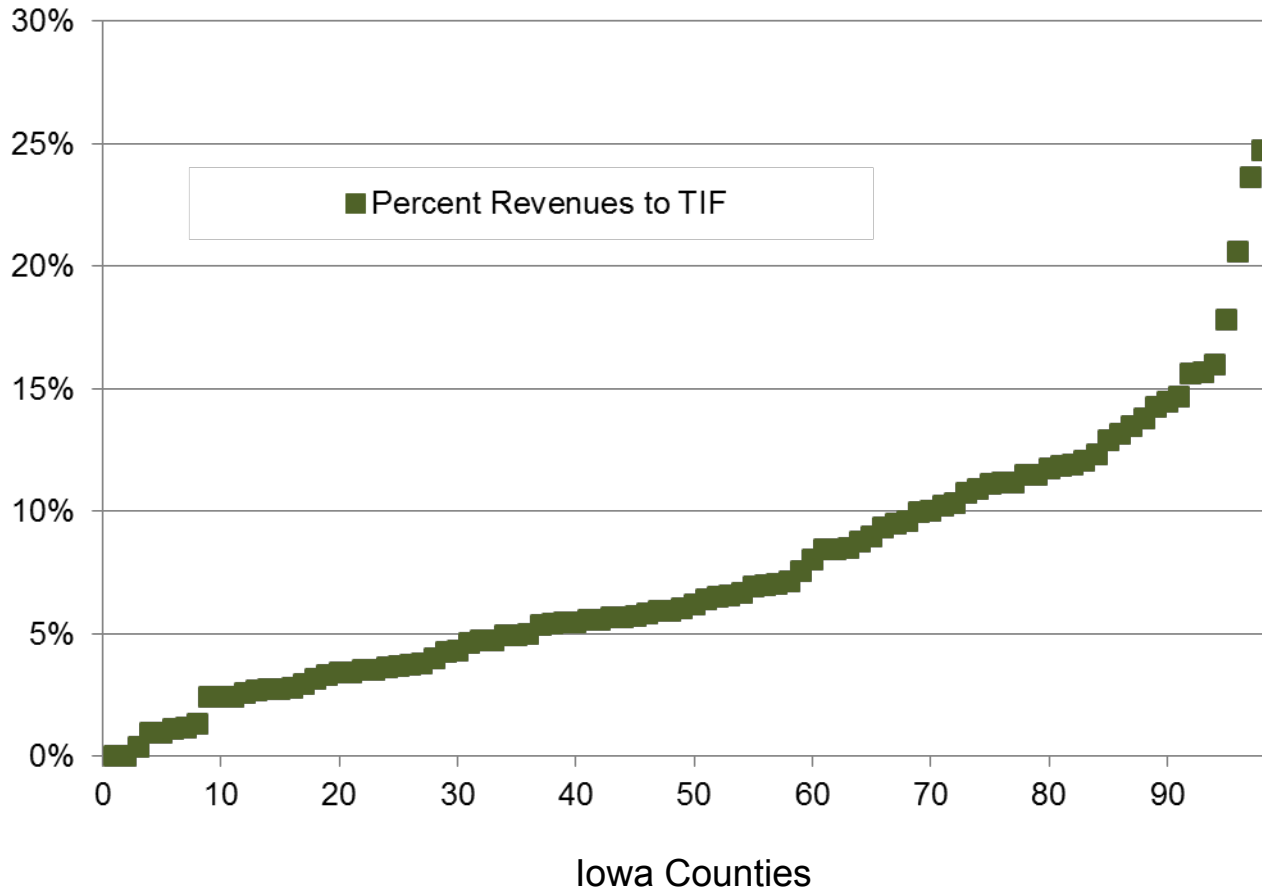
Number of Counties



Source: Bureau of Labor Statistics

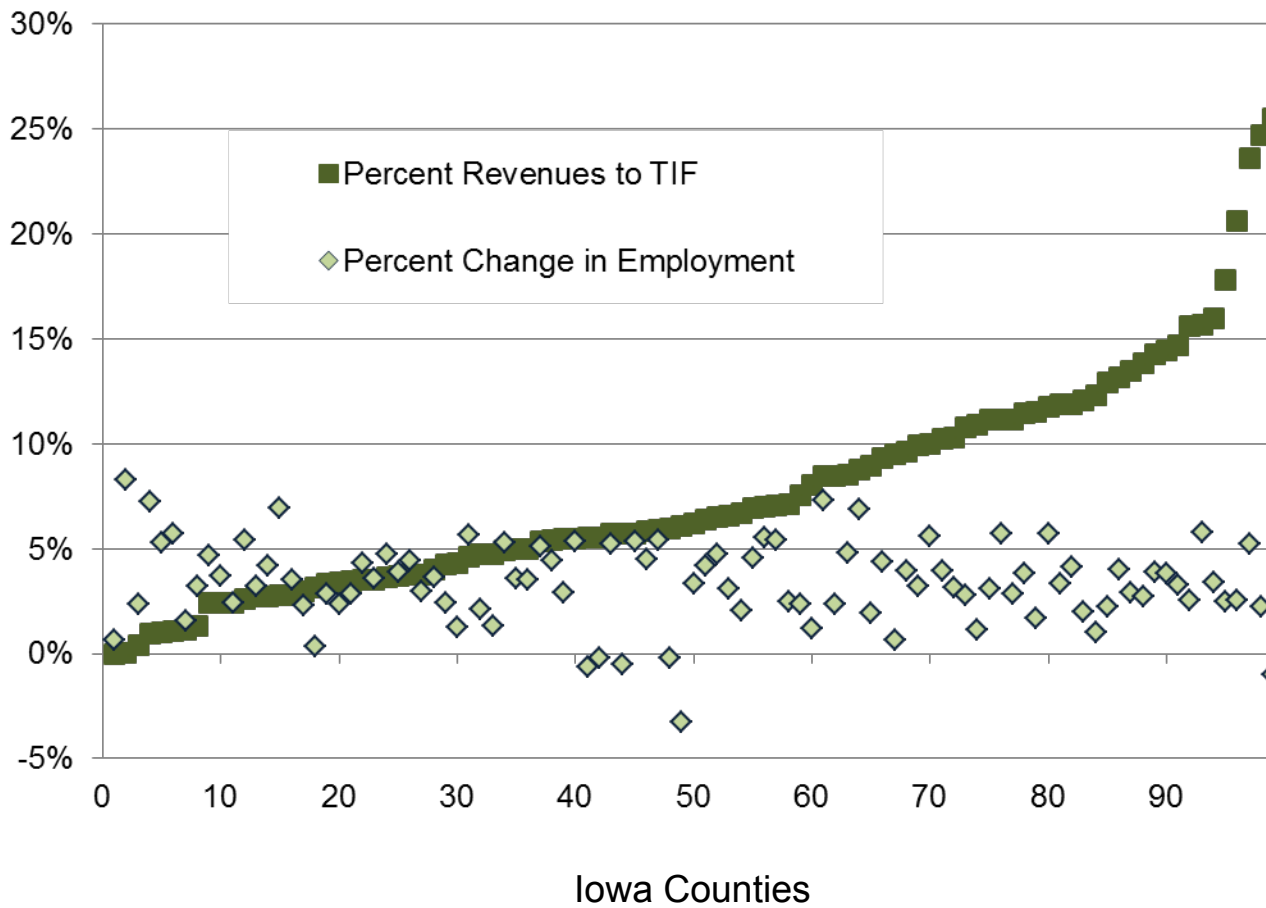


# Iowa Counties Sorted by Percent of Total Revenues to TIF Increment 2002 - 2012



Source: Iowa Department of Management Property Valuation System. Revenues are estimated.

# Comparing Counties by Percent TIF Revenues and Employment Growth 2002 - 2012



Sources: Bureau of Labor Statistics, Iowa Department of Management Property Valuation System. Revenues are estimated.

Questions?

