Tax Increment Finance 101

TIF Mechanics in Brief

Tax increment finance (TIF) is a method to promote urban renewal efforts in an area by directing the property tax revenues generated from property value increases within a designated TIF district to finance the costs of improvements made in the district. TIF addresses a lack of state and federal programs.

Iowa cities, counties and community colleges may establish TIF districts. Although the terms urban renewal areas and TIF are often used interchangeably, TIF districts are established within approved urban renewal areas (URA). URAs often contain a larger geographic area than the TIF district that is established, and URA can contain more than one TIF district.

When a TIF district is created, a "base" valuation of the property value is established. It accounts for assessed values prior to the TIF designation. The tax revenue from this base value remains with all taxing authorities. Increases in the assessed value over time over and above the base are called the "increment." The TIF authority may access the tax revenue generated by the increment, or may choose to release some or all of this revenue back to the traditional taxing authorities.

New Total Valuation Levies returned to all taxing jurisdictions Post TIF Physical Plant & Equipment Levy (PPEL) & Instructional Support Levy (ISL) from increment returned to schools Increment used, per certified debt or allowable cost Unused increment returned Property Valuation to all taxing authorities Base valuation of property Time TIF End Date TIF Start Date

TIF Goals

TIF districts can be created to accomplish different goals, per Code Section 403.2. Success may look different depending upon whether a TIF was set up to address slum and blight, or economic development.

Slum and Blight

Address issues related to:

- the safety, health and welfare of an area
- areas experiencing impaired growth
- housing challenges
- increasing criminal activity
- traffic problems or hazards

Economic Development

Address the need for:

- creating economic development partnerships
- strengthening and revitalizing the economy of the state and municipalities
- providing jobs and housing (including LMI)

TIF Legislative Timeline

Legislature authorized urban renewal (SF184)

TIF law was expanded in 1985 to include allowable economic development purposes.

Legislature required annual reporting about TIF activity annually, including information on each TIF area and its projects (HF776).

HF2777 required more detailed reporting and accounting of TIF revenue and expenditure, to be included in the annual budget process, replacing the 1999 and 2003 reporting requirements.

1969

TIF was authorized under urban renewal law (HF562)

Urban renewal areas designated as economic development areas are limited to 20 years' duration, if not also designated as slum or blight. Those URAs designated prior to 1995 are not limited in duration.

The 1999 TIF reporting requirements were removed and instead required a semi-annual report on outstanding TIF obligations, to begin in 2003.

HF2460 replaced the 2006 requirement, with a more detailed reporting process due December 1 of each year. Cities and counties must submit a compliant report to the State prior to annual budget certification.









Tax Increment Finance: Important Statistics

All raw data obtained from Iowa DOM for FY12 unless otherwise indicated.

Non-revenue **Producing Projects**

48 percent of projects are nonrevenue producing, 80 percent of these are in the category of road and bridge infrastructure improvement.

Public buildings can lead to economic growth or stabilization in a slum or blight area. An example of a public building that receives TIF funds is a building for public safety that will serve a TIF area.



410 of 946 cities in Iowa use TIF. There are 1,011 urban renewal areas and 2,528 TIF districts among all local governments. Of these, 58 percent had a statutory end date reported. 496 had a slum or blight designation.



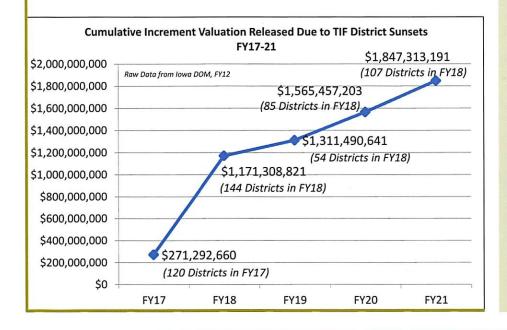
TIF increment (not discounting for increment returned) accounts for 6.2 percent of total taxable property valuation. 9.2 percent of city taxable property valuation is derived from TIF sources.



54 percent of TIF increment is returned to all tax authorities. This equates to about \$10-11B valuation, or roughly \$400M in unused increment.

Sunsetting TIF Districts: Increment Valuation Returned to All Tax Authorities

Many TIF districts will be expiring over the coming years, and valuations will return to all tax authorities. Of those established after 1995, 73 percent reported a statutory end date. The chart shows this trend over the next 10 years:



Partnering with IEDA

Local governments have partnered with the Iowa Economic Development Authority (IEDA) to promote business development projects in their communities.

From January 2011 through December 2013 IEDA awarded direct financial assistance and/or state tax incentives to 189 projects that are expected to result in \$7.5 billion in capital investment. Of the 189 projects 64.6 percent also received either TIFs, tax abatements, or tax exemptions from the local communities in which they are planning to locate. TIF, tax abatements and tax exemptions are often used to provide "local match" and are essential economic development tools for Iowa's communities, helping them to attract job creation projects to their area.

Data provided by IEDA





