

Property Tax Increment Financing

Tax Expenditure Committee – December 4, 2013

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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 taxable 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 1994, economic development TIFs 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

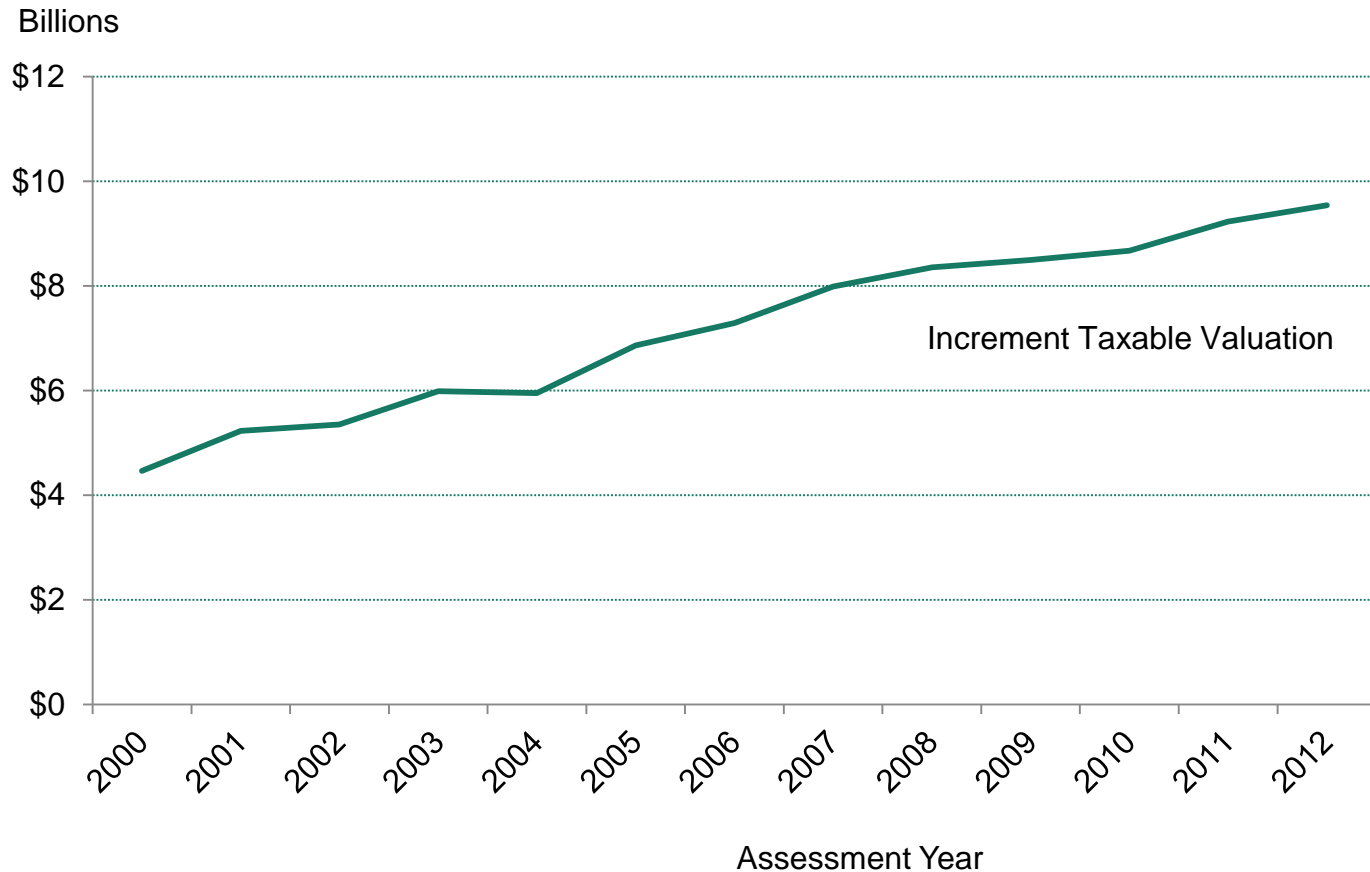
Tax Increment Financing Around the United States

- ▶ 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

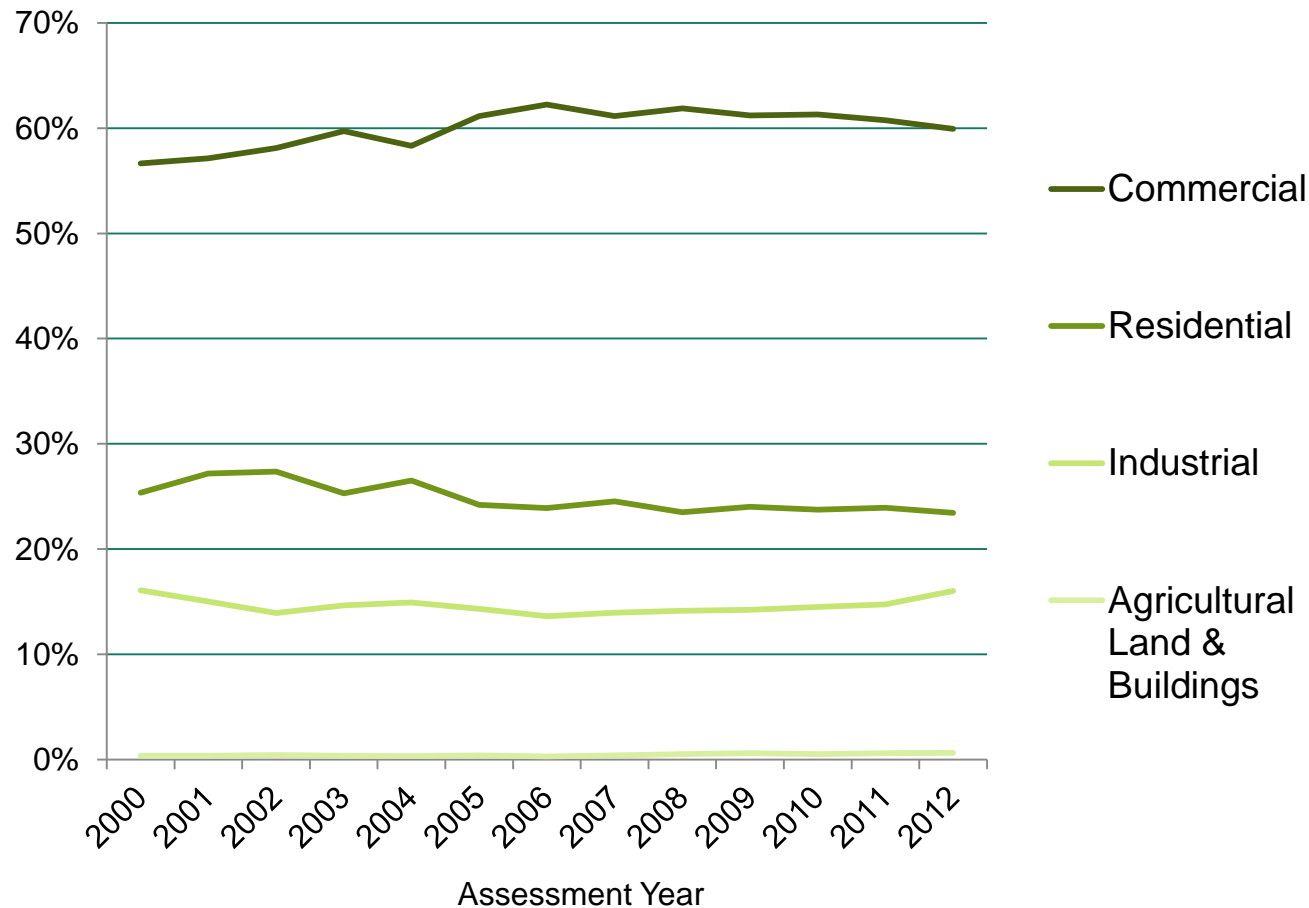
- ▶ Limited research on TIF
 - Is it necessary?
 - Is it efficient?
 - Is it effective?
- ▶ Findings on TIF economic impact are mixed
 - Some research says it has positive, beneficial impact
 - Some research says, “It depends”

TIF Increment Valuation



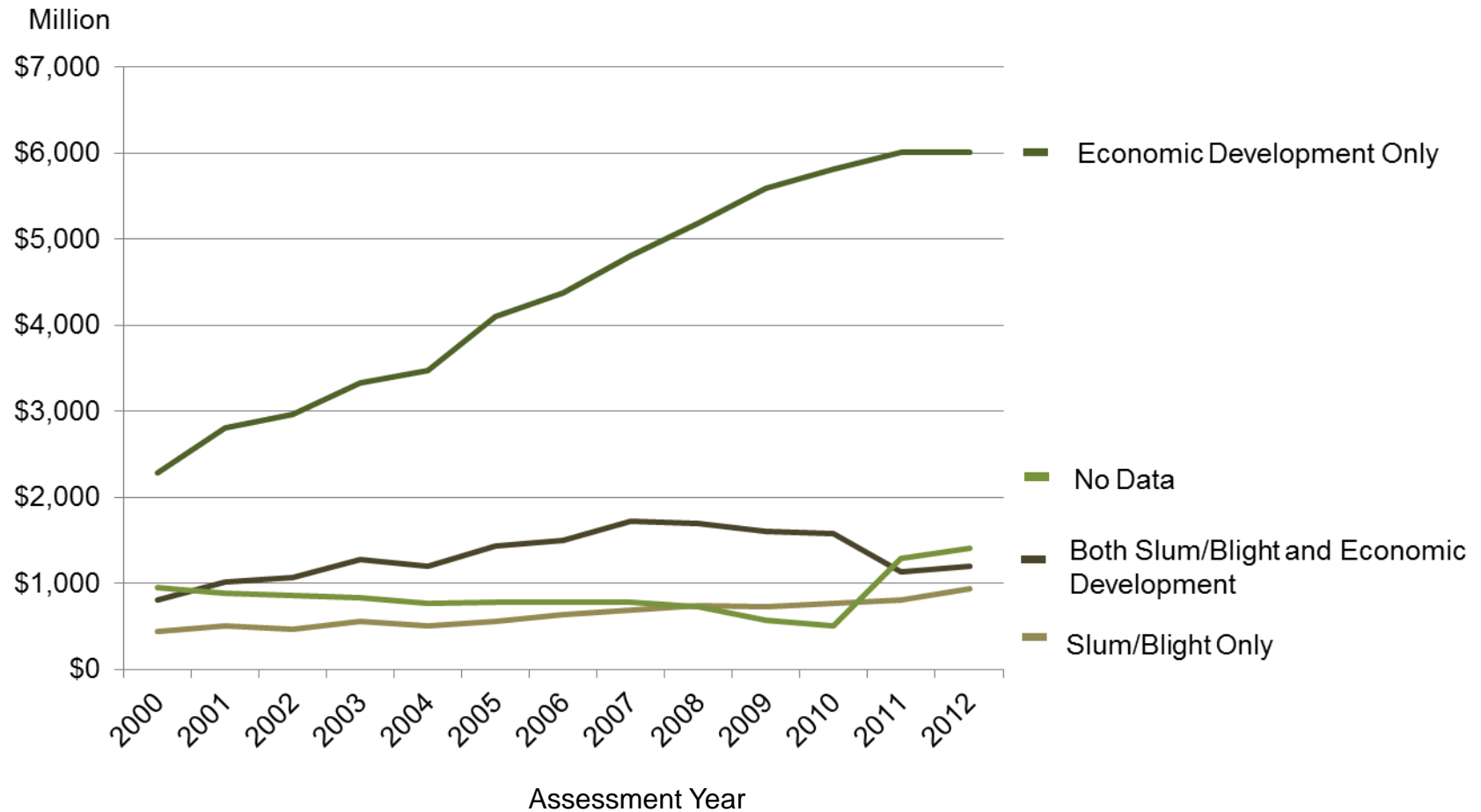
Source: Iowa Department of Management Property Valuation System

Share of Total TIF Increment Valuations by Property Class



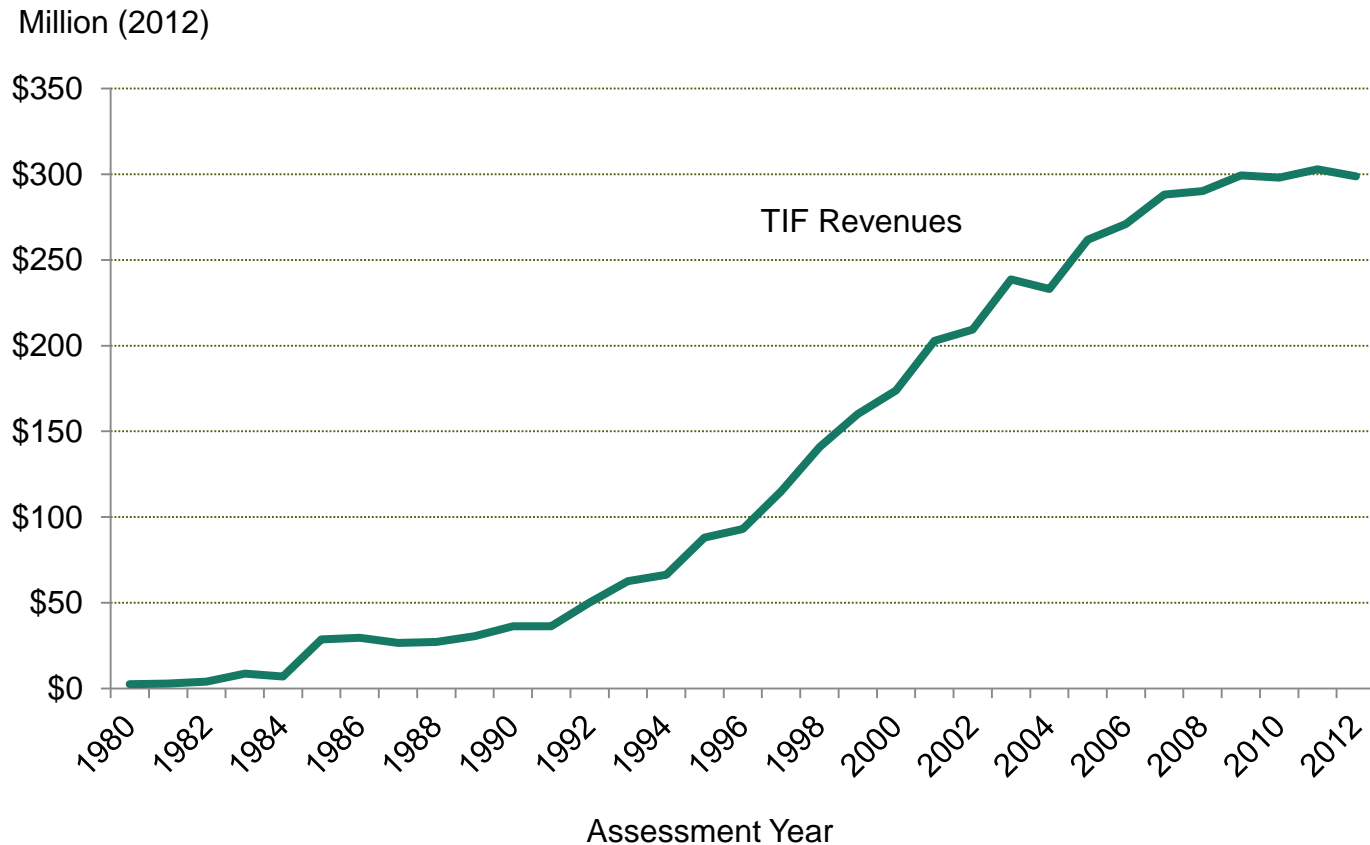
Source: Iowa Department of Management Property Valuation System

TIF Incremental Valuation by Purpose



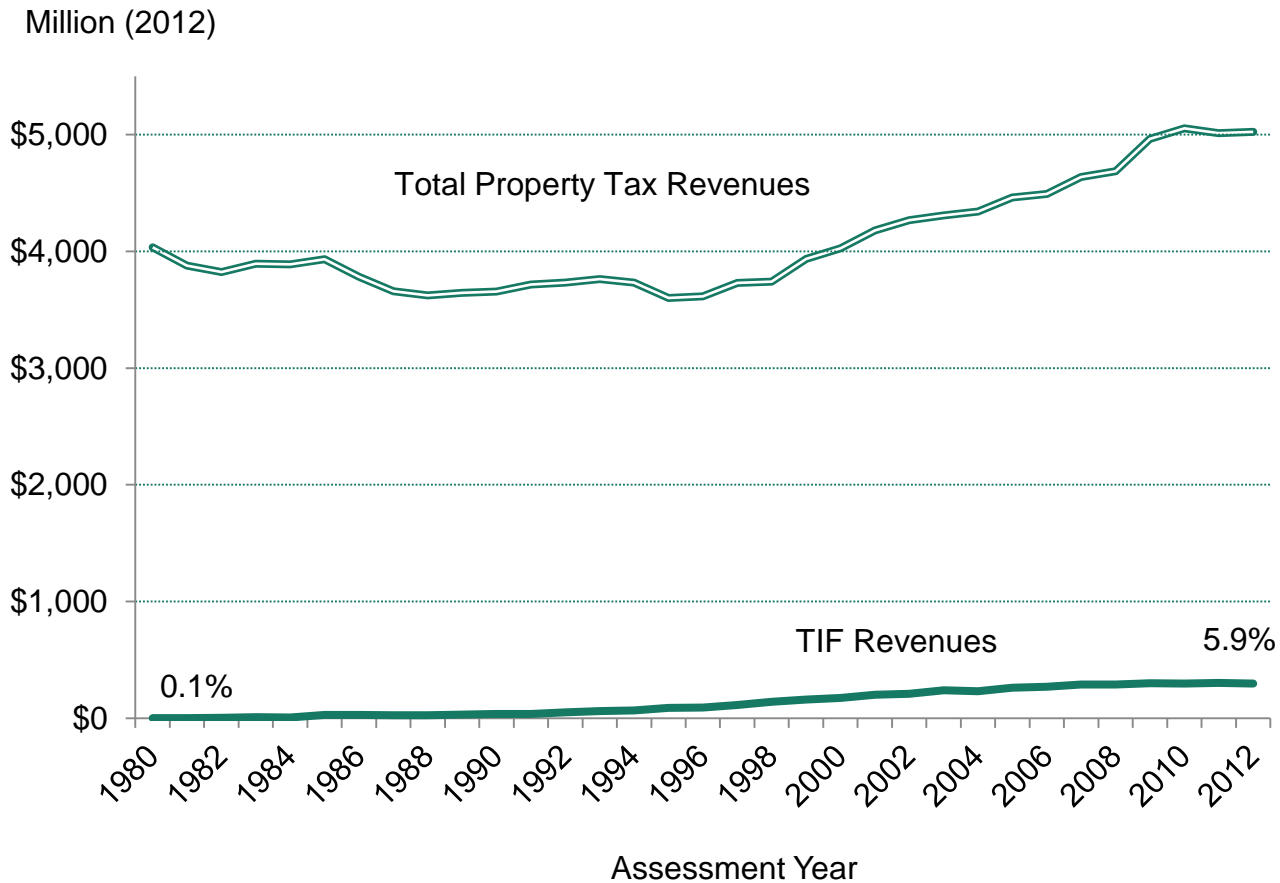
Sources: Iowa Department of Management Property Valuation System, Legislative Services Agency TIF Reporting Project

Property Tax Revenues to TIF



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

TIF Revenues and Total Property Tax Revenues

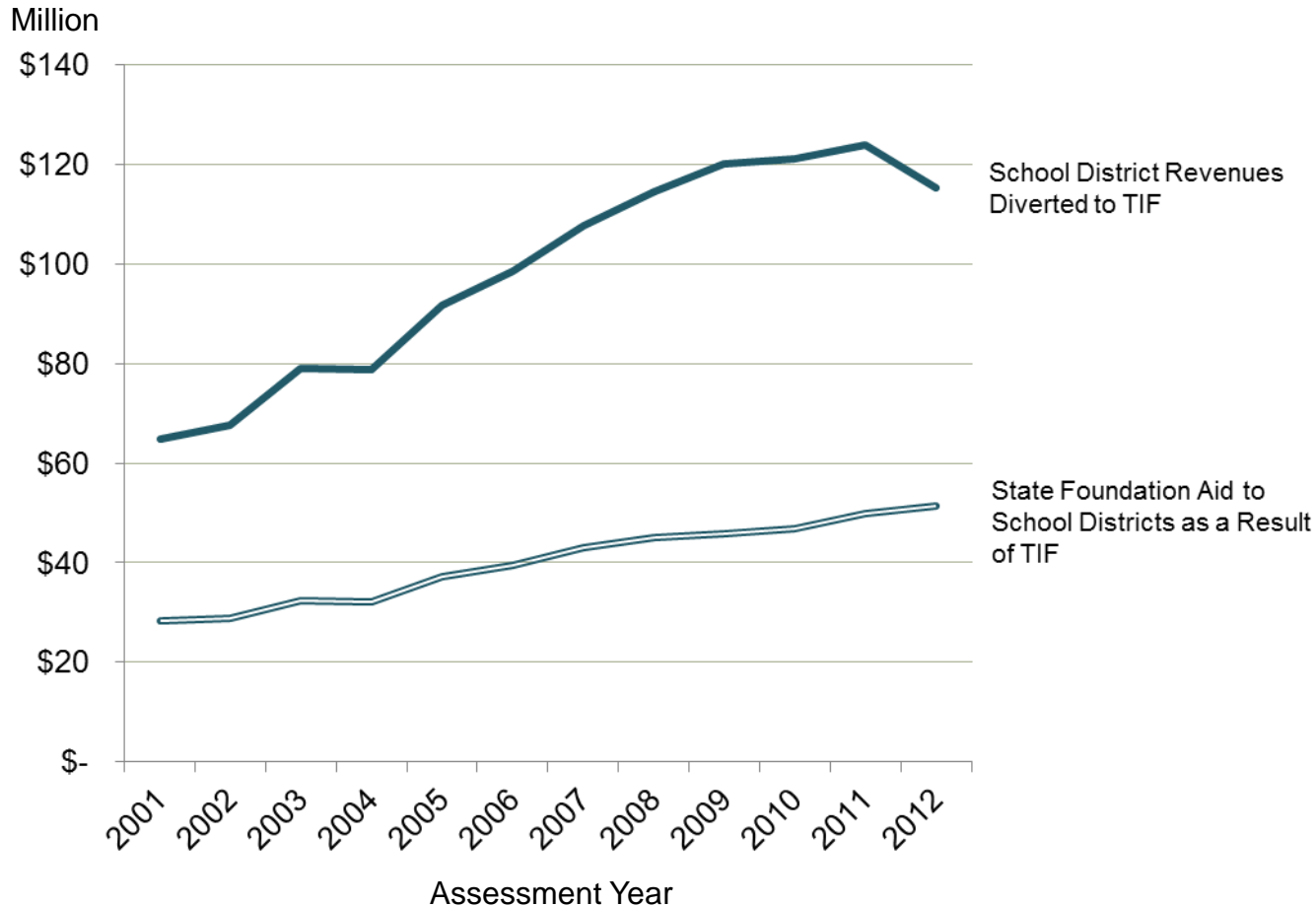


Source: Iowa Department of Management Property Valuation System. Revenues are estimates.

TIF and School Funding

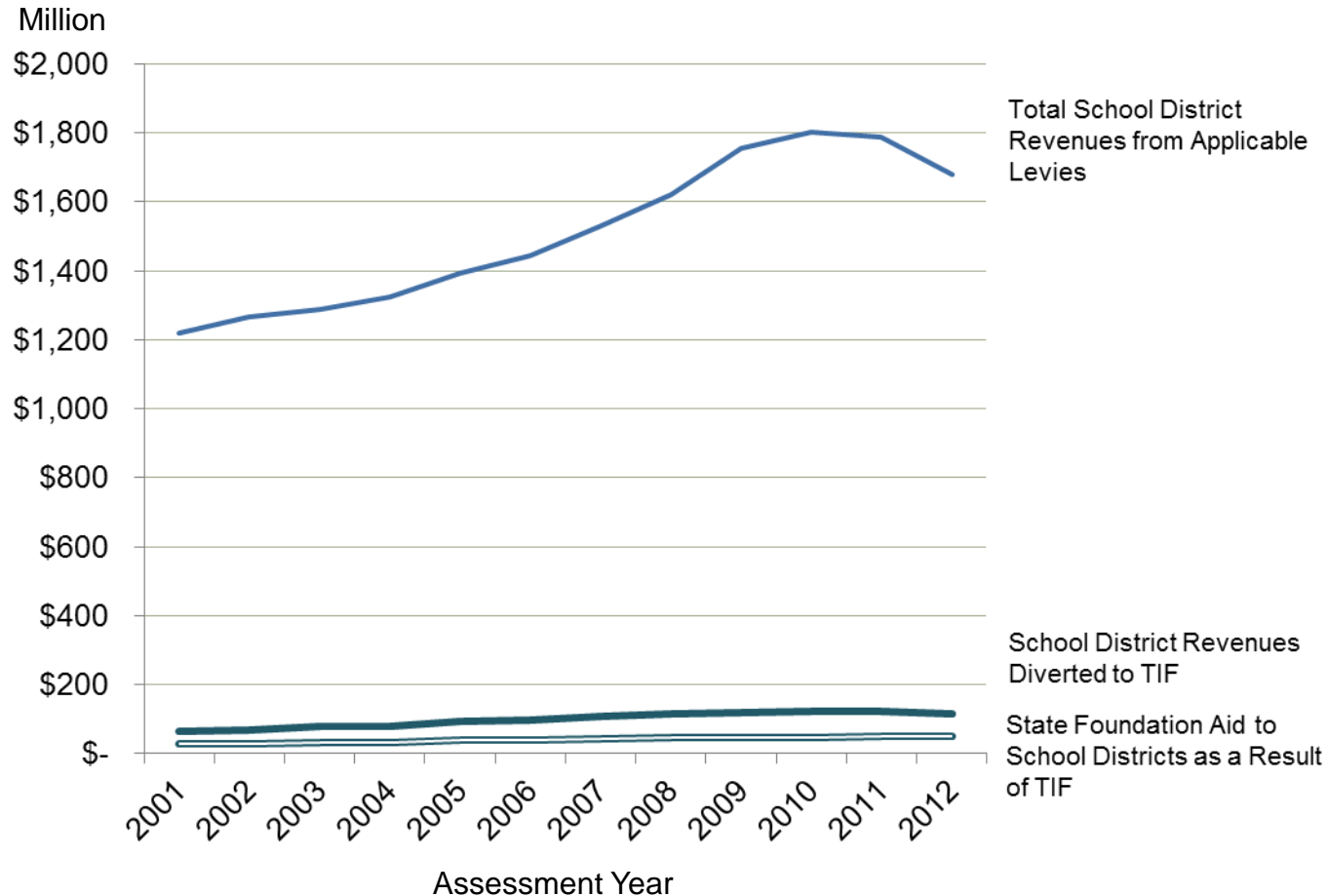
- ▶ $\text{Tax Rate} * \text{Taxable Value} = \text{Tax Revenues}$
- $\text{Total School District Revenues Diverted} = \text{Taxable Value TIF Increment} * \text{Applicable School District Levies}$
- $\text{State Foundation Aid as a Result of TIF} = \text{Taxable Value TIF Increment} * \$5.40 \text{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

School District Diverted Revenues



Source: Iowa Department of Management. Revenues are estimates.

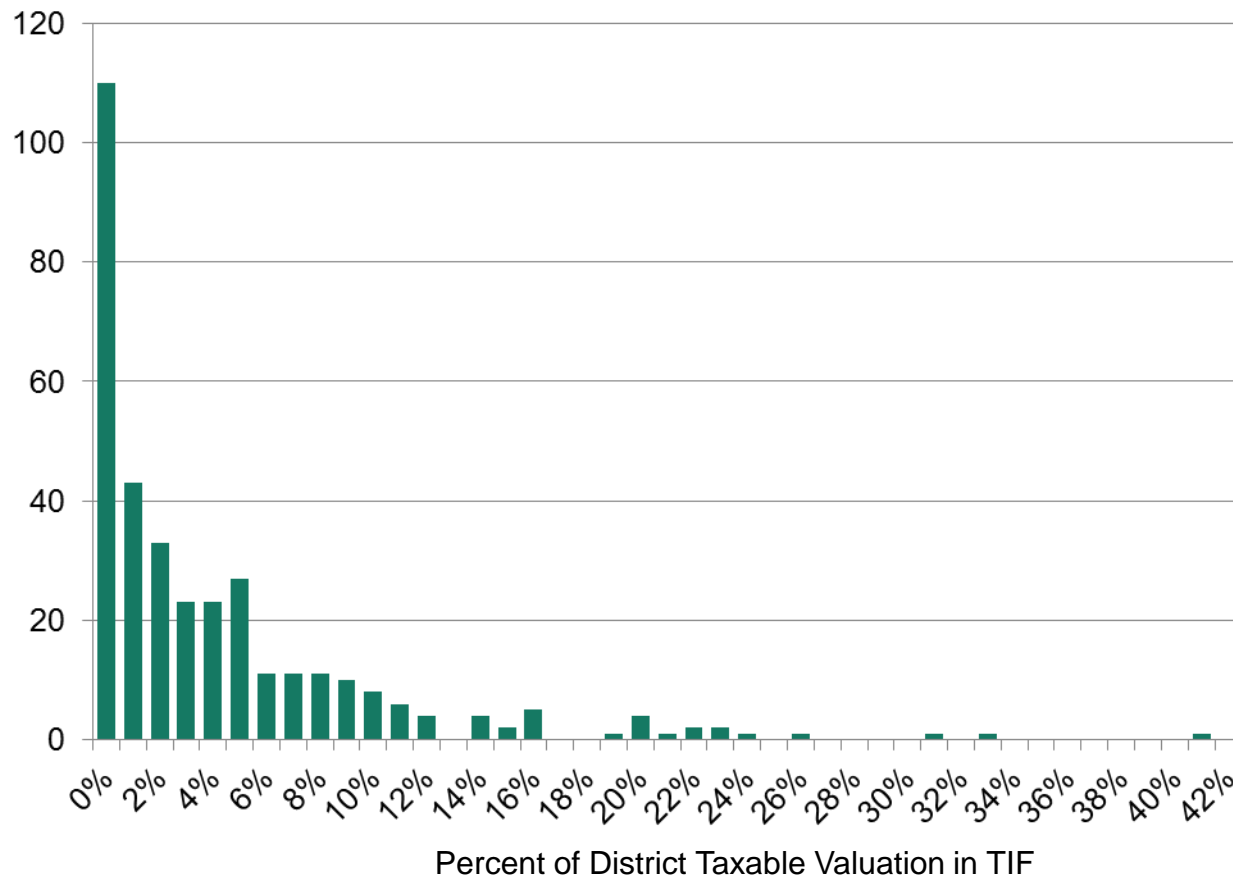
School District Total Revenues



Source: Iowa Department of Management. Revenues are estimates.

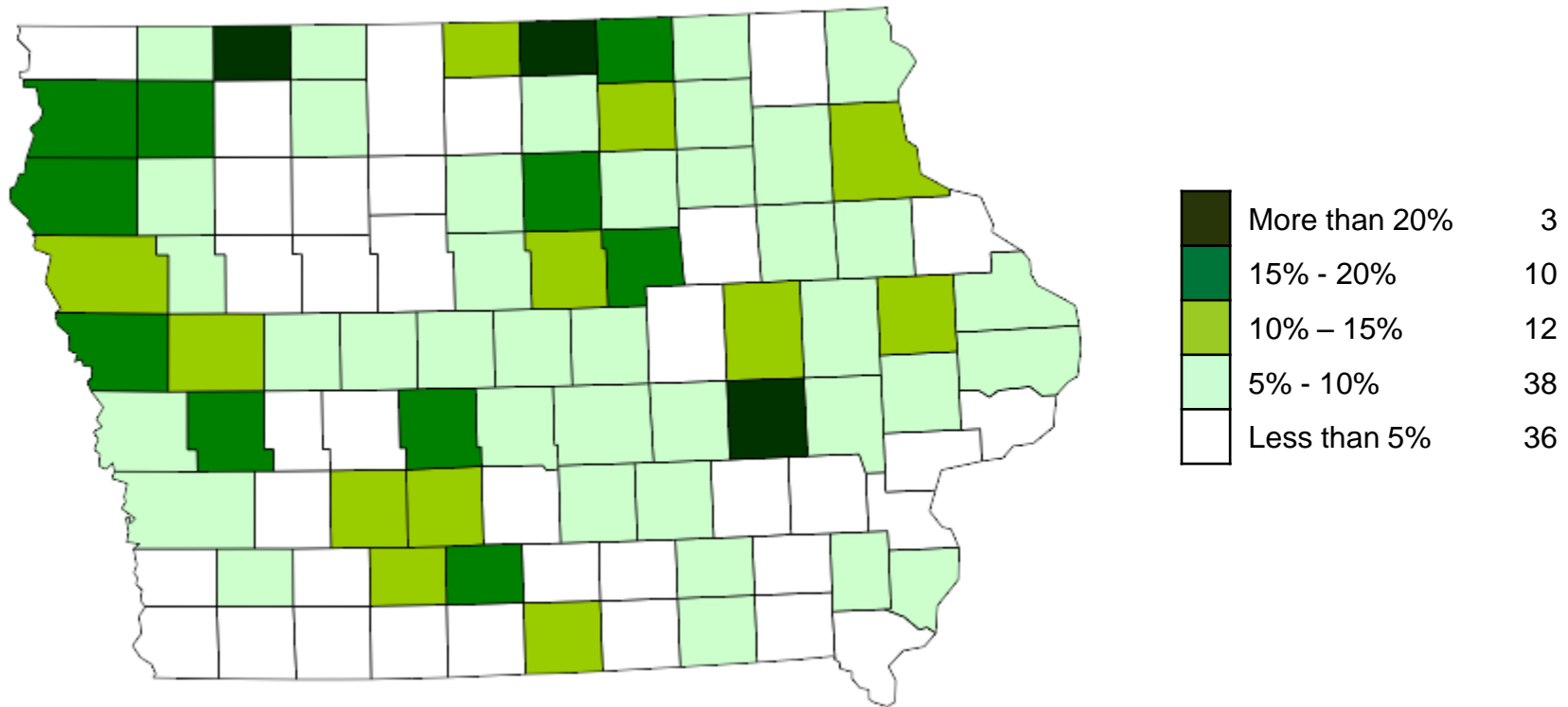
Number of Iowa School Districts by Percent of District Taxable Valuation in TIF in 2012

Number of School Districts



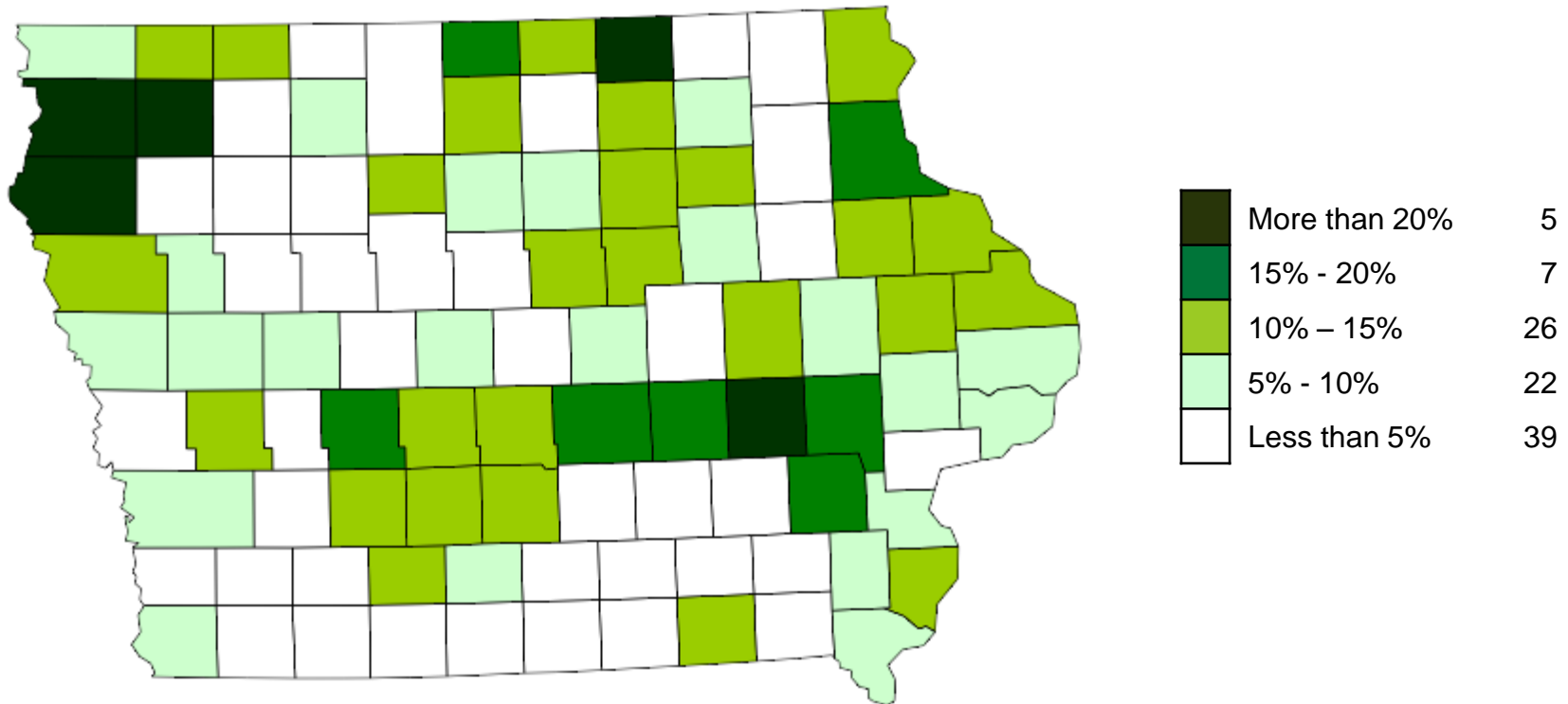
Source: Iowa Department of Management Property Valuation System

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



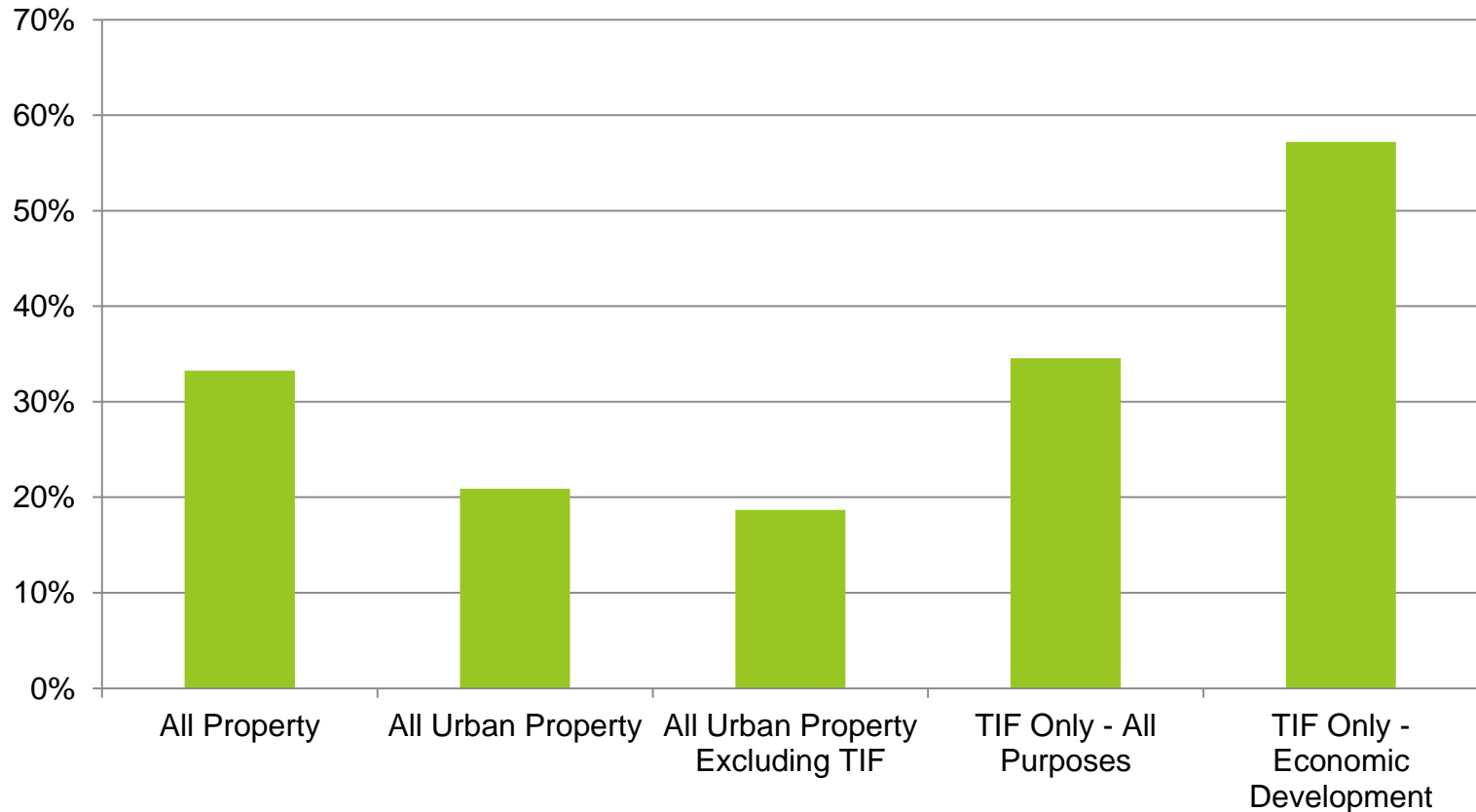
Source: Iowa Department of Management Property Valuation System

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

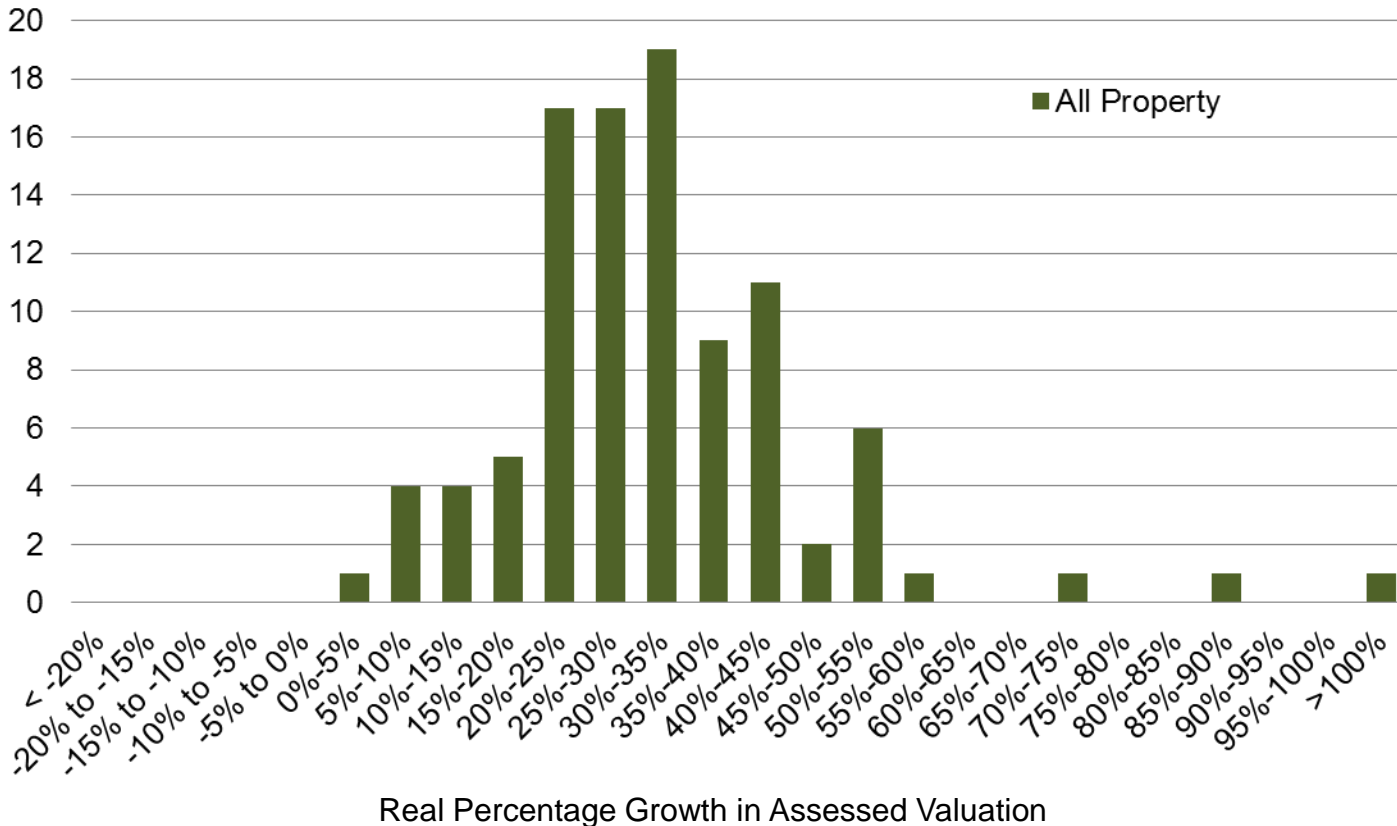


Real Percentage Growth in Assessed Valuation

Source: Iowa Department of Management Property Valuation System

Valuation Growth by County 2000–2012

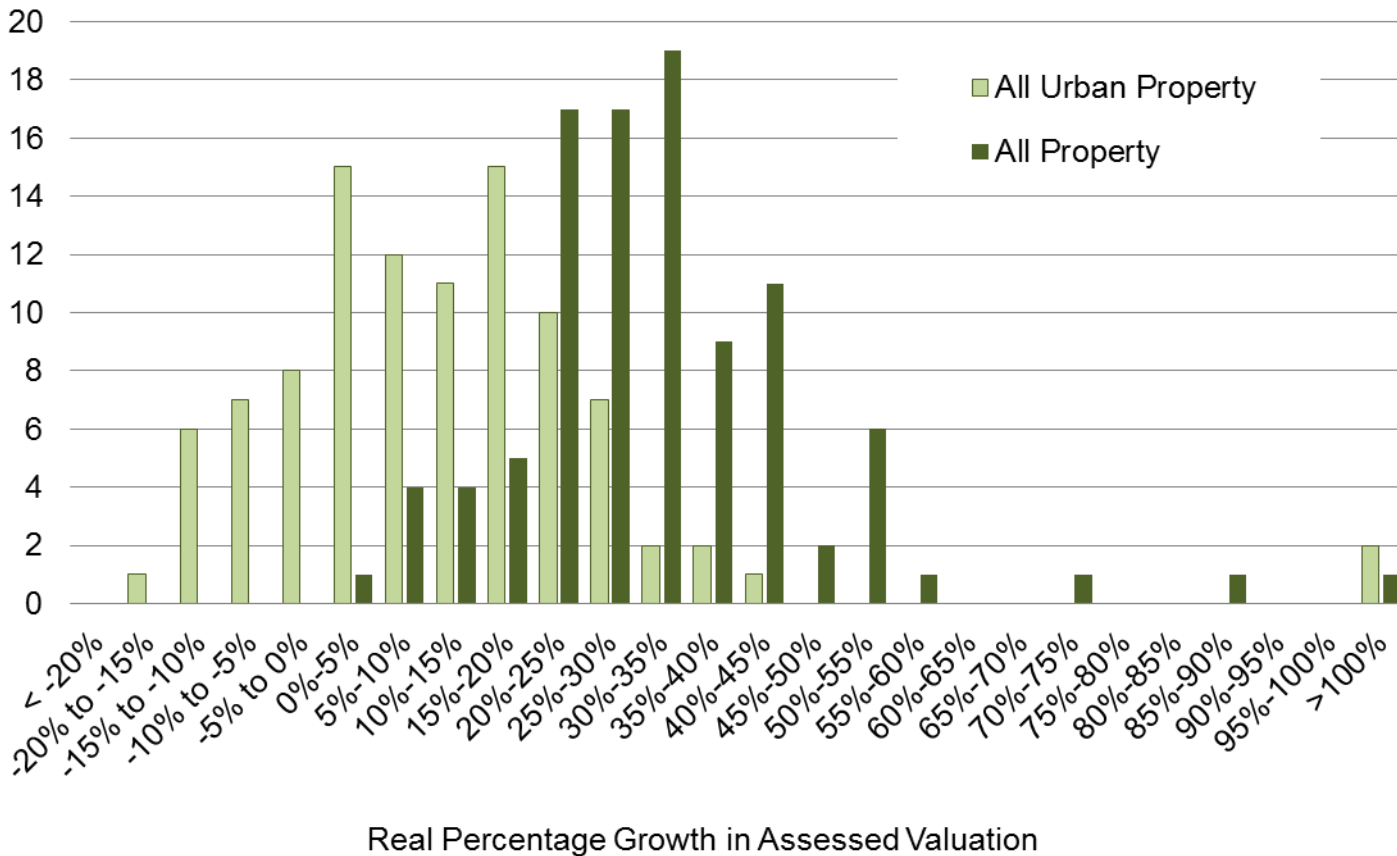
Number of Counties



Source: Iowa Department of Management Property Valuation System

Valuation Growth by County 2000–2012

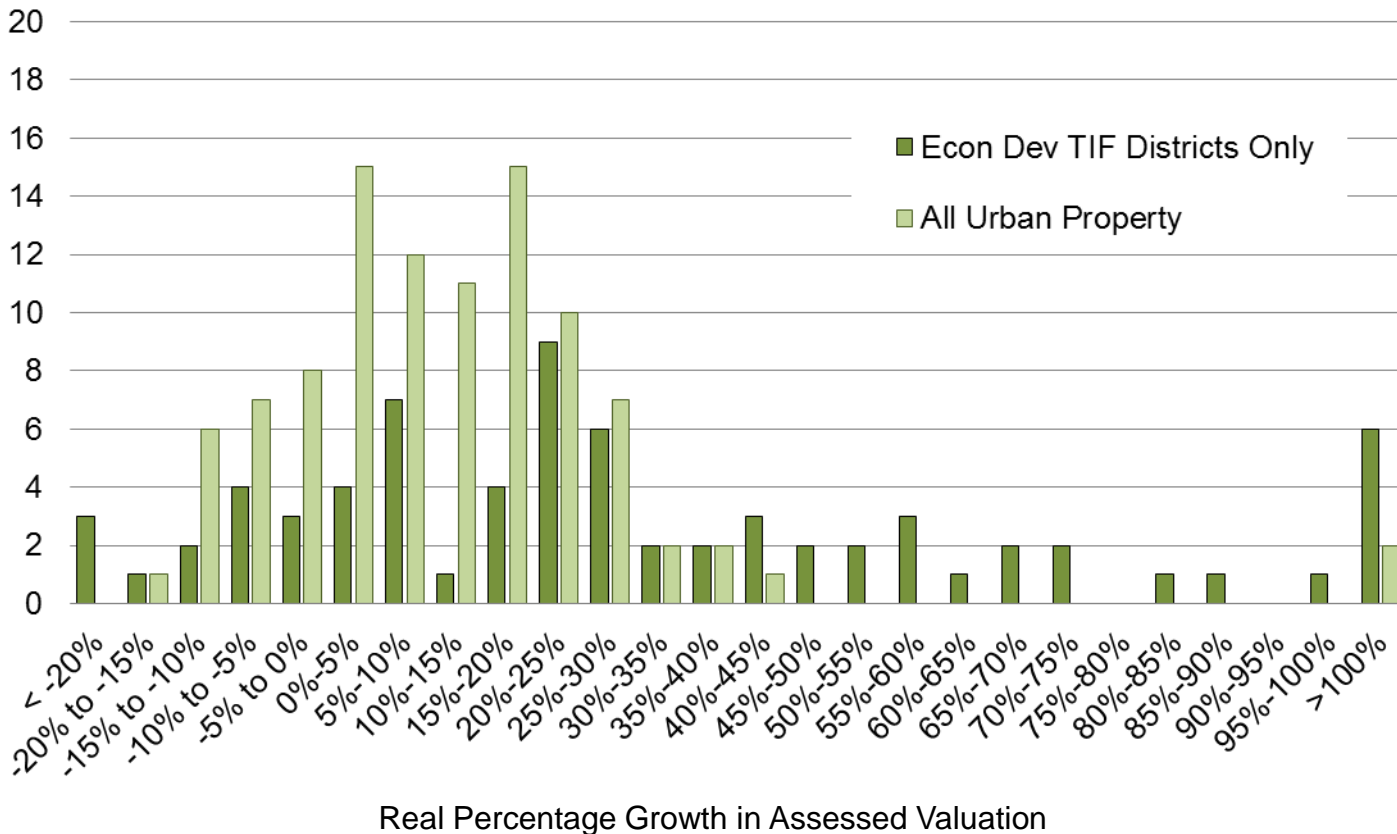
Number of Counties



Source: Iowa Department of Management Property Valuation System

Valuation Growth by County 2000–2012

Number of Counties



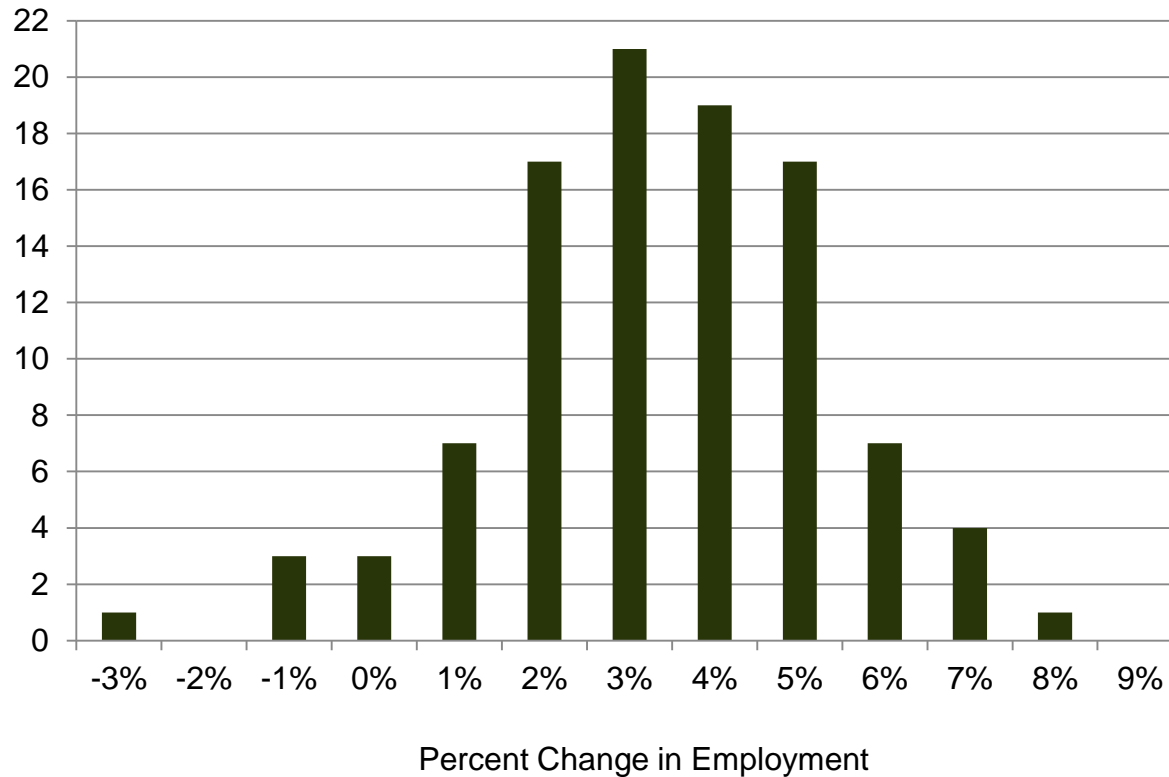
Source: Iowa Department of Management Property Valuation System

Assessing the Economic Effects of TIF: Preliminary Statistics

- ▶ 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

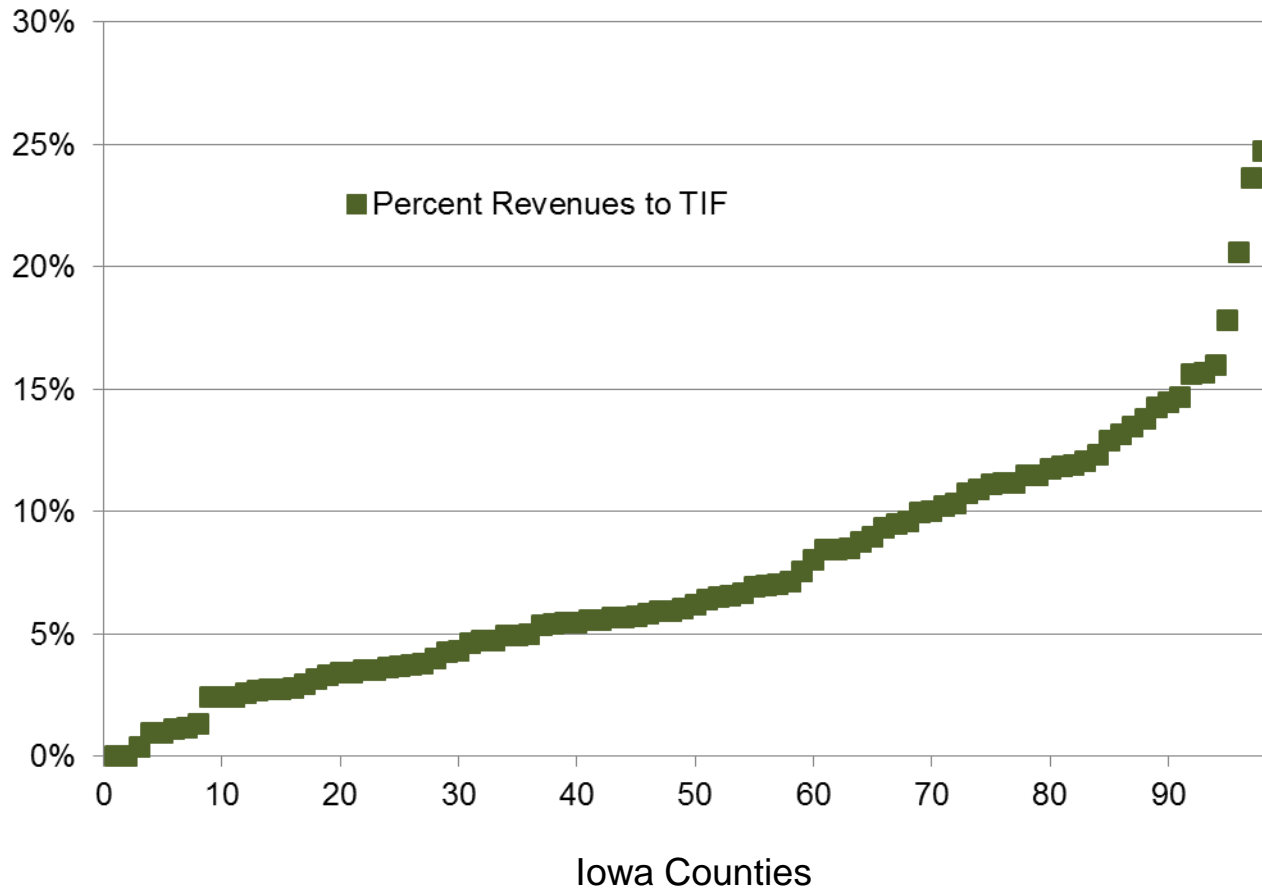
Number of Counties by Percent Change in Employment 2002 – 2012

Number of Counties



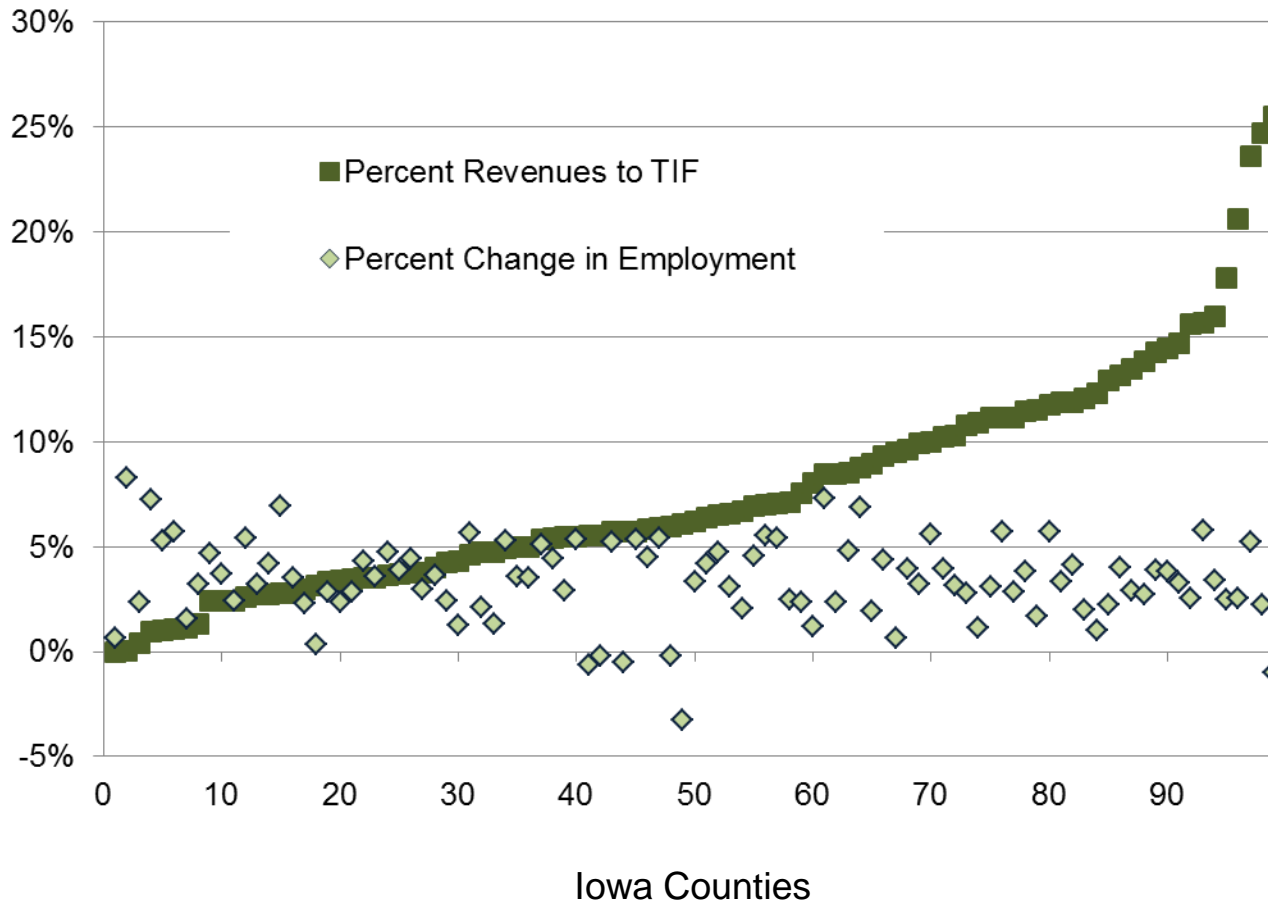
Source: Bureau of Labor Statistics

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.

Assessing the Economic Effects of TIF: Next Steps

- ▶ Conduct an economic analysis:
 - Address the question, “Does TIF lead to economic growth?”
- ▶ Outcome measure:
 - Changes in employment and wages over time
- ▶ Possible predictors:
 - TIF Revenues
 - Other factors that contribute to economic growth

Questions?