League of Women Voters of Iowa
TIF Study

Completed in 2016-2017

TIF Study Committee

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Funding: League of Women Voters Education Fund

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INTRODUCTION

Possible Introductions (from September meeting)

Iowa homeowners could be headed toward jumps in their property tax bills as the increasing number of local business tax incentives could meet to create a perfect storm of falling revenues.

Even though the increase in local incentives is of concern, cuts and changes in statewide policies and programs may create even larger tax bills for the locals.

Possible conclusion (from September meeting – may move this section to the end of the report "Tax Increment Financing (TIF) Concerns*"

Individual homeowners may end up bearing burden.

(Per Kathy's note) – The rollback of personal and commercial property taxes enacted by the Iowa Legislature impacts Iowa cities and towns' revenues.

(Per Kathy's note) The ability of cities to eliminate slum and blighted areas has improved not only the appearance of the community, but also its ability to enhance revenues.

(Per Kathy's note) Using TIF to develop rural agricultural land and describing the development as urban renewal is a contradiction and a misuse of TIF.

(Per Kathy's note) Using TIF to construct public buildings versus using general obligation bonds does not allow the public an opportunity to vote (comment) on the development.

(Per Kathy's note) Although the Iowa Legislature added a sunset period of 20 years in 1994, a 20-year period of time and the ability to renew the timeframe may adversely impact school funding in the TIF area.

PROPOSAL for a LWVIA State Study Program

Presented at LWVIA Convention May 2015

Tax Increment Financing (TIF): A Study of Tax Increment Financing in Iowa including its purpose, uses, benefits, and costs to state and local government.

Tax Increment Financing is used in Iowa both by state and local jurisdictions, usually to help entice new companies or business to locate in Iowa or in a given city or town. It is widely accepted as an effective economic development incentive, and has been for years. However, it does cost the State of Iowa a significant amount of money (how much and for how long?) and likewise, cities / or towns.

Commented [PF1]: I would say this is true among state and local economic development organizations and elected officials. But it is not true among economists or other researchers who have analyzed TIF.

While TIFs are usually considered as positive tools for economic development, has there been recent or adequate evaluation? How important are they to businesses in deciding where to locate? Are they really effective in creating jobs? Do they cause unnecessary friction between jurisdictions in competing for companies to locate? Could public monies be better spent?

Overall, what is known about the successful uses? Benefits and costs to communities? A study by the LWVIA might provide insight into the use of TIFs, not only for the League, but for the Legislature ultimately.

The Iowa League does not now have a position under which to take action regarding Tax Increment Financing, particularly because of the unknowns. This study would involve at least several local Leagues and individuals, and could be completed in a two-year time frame. Most of Iowa's local Leagues are probably in communities that have used TIF's, so interest is high.

League TIF Study Process

The League of Women Voters of Iowa appointed a TIF Study Committee at its June 2015 League Convention held in Des Moines. The committee, composed of League members representing Black Hawk, Johnson, Polk and Story counties, has reviewed city and county use of Tax Incremental Financing (TIF) that funds urban renewal and new economic development projects throughout the state and in local cities and counties.

The group has sifted through dozens of background materials, identified a number of TIF experts, as well as others whose knowledge expands into publicly-funded economic development. In addition, they have identified and interviewed several city and county staff members using TIF, staff members from statewide nonprofit organizations, as well as elected officials and others.

The committee created a questionnaire for city and county officials as well as questions for school personnel (see Appendix A). They also established the following timetable for the study and presentation:

- Summer – Fall 2015 – committee members meet to plan and organize the TIF Study
- January – October 2016 – review materials / conduct interviews
- November – December 2016 – write draft
- January 2017 – Study report
- February 2017 – Publish report
- March 2017 – begin process to be included in May / June 2017 LWVIA state meeting
- April 2017 – Policy Questions (Consensus vs Concurrence)
- June 2017 – Present report to League members

Local Leagues have found TIF use in their own communities and have been invited to help with collection of data representing their areas.

Iowa Leagues are holding public forums and panel discussions to educate and inform members and the public about the use of TIF.

Study ~~Purpose /~~ Background

Tax Increment Financing (TIF) is ~~among the most~~ a popular financing technique~~s~~ that Iowa cities and counties have available. It's also one of the most controversial financing methods among the public and government watchdogs.

Used for decades in Iowa to eliminate slum and blighted areas in the poorest neighborhoods, and to attract economic development projects, TIF is often criticized for funneling money away from other taxing bodies to projects in the authorizing entity.

When applied properly TIF brings added property values to all governing bodies and improves difficult community areas. The problem TIF presents is not the need for an effective tool to repair slum and blighted areas or to attract development. It is the overuse of TIF by some local entities that fuels issues about abuse, competition and funding among governing entities. Typical TIF's long duration, often 20 years or in perpetuity, compounds other taxing entities', such as school districts, revenues for years. And when TIF funds are channeled outside the boundaries of the designated area or to neighborhoods that are not blighted, the lines of equity and fairness are blurred.

Commented [PF2]: you might want to add "or used to finance public facilities that have little to do with economic development"

Application policies vary by community. Most cities and counties take a very conservative approach regarding TIF use, apply accountability measures and communicate TIF purpose with other taxing bodies. Communities that take a liberal position, including too frequent usage, adopting a very long period of application or use of funds in an area other than the designated district, jeopardize their community's indebtedness and credibility, and the future of TIF funding for all.

(Per Kathy's notes) The League IF Study examines how TIF works, the types of TIF used with the goal of learning what TIF use is beneficial and what TIF uses need improvement. The study identifies concerns about TIF usage as well as concerns and recommendations to improve TIF usage.

Add information about differences between urban, suburban and rural areas.

Study Questions

Does TIF cost the State of Iowa a significant amount of money? How much and for how long?

Has there been recent or adequate evaluation of TIF?

How important are they to businesses in deciding where to locate?

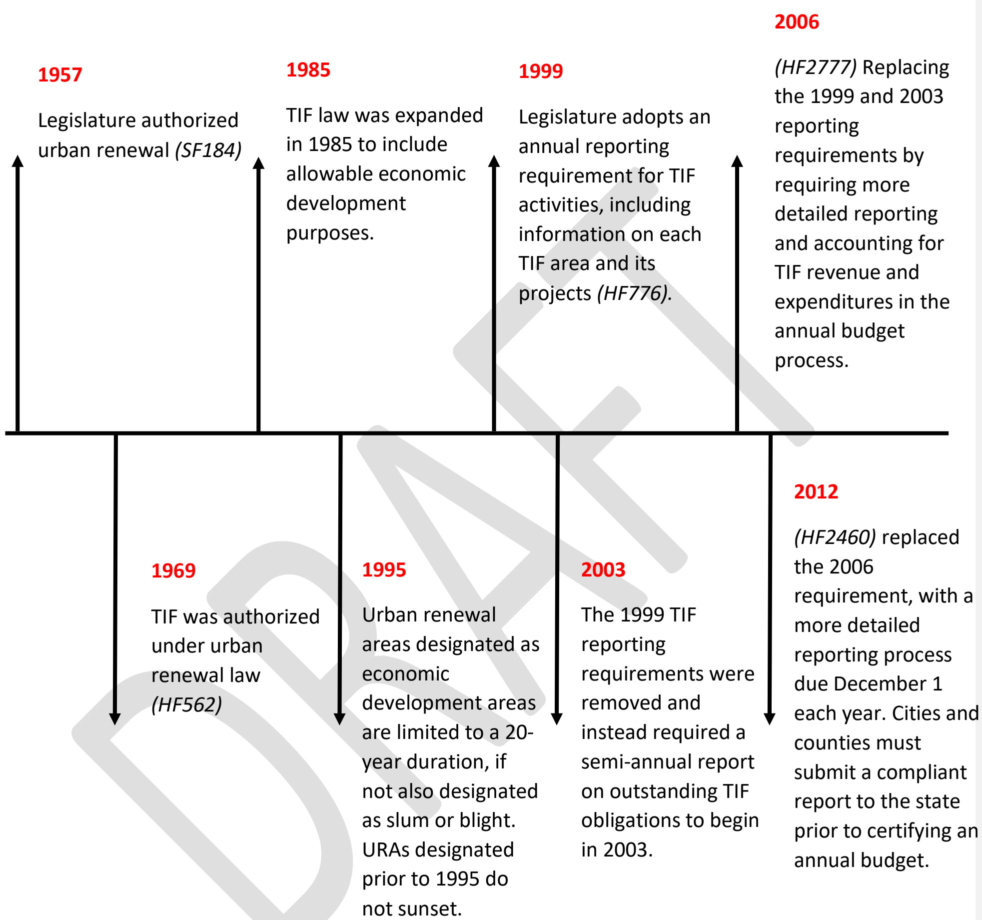
Are they really effective in creating jobs?

Do they cause unnecessary friction between jurisdictions in competing for companies to locate?

Could public monies be better spent?

Overall, what is known about the successful uses, benefits and costs to communities?

TIF Legislative Timeline



TIF Legislative Timetable[1] (chart above)

[1] Iowa League of Cities. Tax Increment Finance: Important Statistics. Des Moines. FY2013.

TIF History

Tax Increment Financing (TIF) is allowed throughout the United States.[2]

- 49 states and the District of Columbia allow TIF use
- 31 states require finding of blight prior to establishing a TIF area
- 19 states require TIF areas meet a "but for" test
- 32 states, including Iowa, allow TIF to be financed through general obligation bonds
- 14 states allow the exclusion of overlapping school districts from TIF areas

Iowa law allows municipalities to establish an urban renewal area to finance public improvements such as streets, sewers, sidewalks and infrastructure related to residential, commercial or industrial development; redevelop slum or blighted areas; fund private economic development; and finance construction of low and moderate income housing using TIF.[3]

Authorization for TIF is found in Iowa Code chapter 403. Enacted in 1957 (SF184) as part of Iowa's Urban Renewal law to address slum and blight conditions, Tax Increment Financing was added as a financing mechanism for Urban Renewal in 1969 (HF562).[4, 5]

TIF is a practice to permit the use of an anticipated increase in property tax revenues to finance infrastructure improvements for the authorizing entity. Cities and counties may establish TIF. Rural Improvement Zones (RIZ), authorized by Iowa Code chapter 357H, is an area designated by a county around a private development lake. TIF funds may be collected and utilized for development projects in a RIZ.

When a TIF is established, a "base" of property tax valuation~~revenue~~ is established as the value of the property prior to the TIF~~created~~. Throughout the duration of the TIF, as property valuations~~tax revenues~~ increase, the tax revenue on~~value of~~ the "incremental" increases are directed to the TIF fund of the city or county that established the TIF. Meanwhile property tax revenues on the ~~are frozen at the~~ base valuation continue to flow to~~rate for~~ the other taxing entities as they would in the absence of TIF. There is an important exception: Property tax levies to replay general obligation debt of cities, counties or school districts cannot be diverted for TIF, nor can the school physical plant and equipment levy.

Commented [PF3]: It is important to be clear about property valuation versus revenues. The revenues to the other taxing entities can increase if their tax rates increase, because the higher rates are applied to the same base valuation.

TIF also enables the establishing entity to incur debt to fund local improvements that are expected to remedy blight or spur economic development. These improvements help increase property tax valuations when the TIF expires. Debt incurred to make the infrastructure improvements is typically paid during the time taxes are diverted to the TIF.[6]

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[2] Girardi, Anthony. Iowa Department of Revenue. Tax Research and Program Analysis Section. Property Tax Increment Financing. Tax Expenditure Committee. Des Moines, IA. December 2013. Pg. 9.
[3] Legislative Guide to Urban Renewal and Tax Increment Financing. Des Moines, IA. December 2007. Pgs. 1-14.
[4] Dickinson, Glen. Legislative Services Agency. FY2015 Annual Urban Renewal Report – Tax Increment Financing (TIF). Des Moines. Pg. 17.
[5] Josten, Robert. What is Tax Increment Financing? Questions and Answers about TIF. Des Moines, IA.
[6] Ibid. Girardi.

Initially communities used short-term tax abatements and tended to limit assistance to industries that served regional or national markets thus bringing new money into their communities:[7]

- Manufacturing
- Power generation
- Corporate headquarters
- Wholesale or distribution

Competition for industry was not intense when laws were initially enacted. However near the end of the 20th century, as the state enjoyed an increase in population and a period of job and manufacturing growth, TIF use grew in scope and popularity.[8]

The most significant change in the TIF law was the expansion in 1985 that allowed TIF to be used for general economic development purposes, rather than just as a tool for redeveloping blighted areas. As TIF usage increased throughout Iowa in the years following this change, the Legislature passed reforms in 1995 limiting economic development projects to a 20-year duration, but did nothing to inhibit urban renewal areas designated as slum or blight. In 1999, the Legislature adopted an annual reporting requirement governing bodies with TIF projects (HF776).

Action in 2006 replaced reporting requirements approved in 1995 and 2003, requiring additional detailed reporting for TIF revenue and expenditures in the annual budget process. In 2012, the Legislature mandated a detailed reporting process be completed on Dec. 1 each year; and required cities and counties to submit a report to the state prior to certifying an annual budget.[9]

Amendments to the code addressing TIF issues have been frequently introduced but seldom make it out of committee allowing the House or Senate to debate the issues.

Cities may choose to use tax incentives to boost community betterment. There are several TIF debt sources:

- Rebates: part of an agreement between the city and property owners that gives more responsibility to the developer to make improvements because the city agrees to return a portion of the incremental revenues attributed to the improvements to the developer.
- Internal Loans: allows city to advance funds to an urban renewal project and pay back the original funding debt with TIF reimbursement. Iowa Code allows for general fund loans with limitations
- General Obligation (GO) Bonds: bonds are issued and backed by the city. Reverse referendum rules apply to GO bonds
- TIF Revenue Bonds: backed by the local government that can only be paid from specific TIF revenue pledged to the bonds. Debt may not be fully repaid if the specific TIF revenue does not fund the debt.
- Other Debt: bank loans and other non-bond debt owed privately may be used as TIF debt. Iowa Code allows, with some restrictions, cities and counties to acquire improvements and property

[7] Swensen, David, Iowa State University Department of Economics. Tax Increment Financing in Iowa: Background, Research and Recommendations. Ames, IA. February 2012.
[8] Ibid. Swensen. Pg. 3.
[9] Iowa League of Cities. Snapshot of Tax Increment Finance. Des Moines, IA. 2015.

through a lease-purchase process. [10]

- Annual appropriation bonds: Debt incurred by a city for a TIF project or for incentives to a developer is repaid from annual appropriations and therefore does not technically count as a general obligation of the city, allowing the city to issue debt in excess of its general obligation debt limit.

Commented [PF4]: This was an innovation of Coralville; it was challenged in court and upheld. Other cities I believe have since used the same device.

The Iowa League of Cities reports the breakdown of TIF project debt:

Debt Type	# of Projects
Rebates	1,043
Internal Loans	880
GO Bonds	1,076
TIF Revenue Bonds / Notes	128
Other	261

Reporting requirements for TIF not covered by Iowa Code include:

Commented [PF5]: I would describe these as other forms of TIF entirely; they are not a version of the property tax TIF. It might make more sense to put this in the introduction explaining that you are not covering these other TIF-like laws, just the urban renewal statute.

- Community College Job Training (Iowa Code chapter 206E – allows a community college, in conjunction with a qualified employer, to utilize income tax withholding to financing job training for the employer.
- Local Option Sales Tax (TIF – Iowa Code section 423B.10) allows cities to capture and utilize local option sales tax revenue for development activities within the URA.
- Targeted Jobs Withholding Tax TIF (Iowa Code section 403.19A) allows cities to utilize income tax withholding from qualified jobs within an URA to finance development activities.

TIF Use Expanding, Debt Levels Rising

Prior to 1985 the use of public funds to support private development was limited. As TIF usage has grown, communities have faced increase competition for capital development leading states and local governments to use more and larger incentives to support growth in their community which results in greater debt for taxpayers.[11]

In the 21st century, TIF use in Iowa has expanded significantly. Between 2000 and 2012, the number of TIF urban renewal areas increased 43 percent, from 1,125 to 1,614 areas; and during the same time period, the taxable TIF value more than doubled, accounting for nearly $300 million in property tax revenues in fiscal year 2014 – rising from 0.1 percent to 5.9 percent of the total property tax revenues in Iowa. [12]

The diversion of tax revenues to TIF directly impacts 263 of the 346 (76 percent) of Iowa school districts (2012 data).[13] Across Iowa, $9.5 billion of total school district valuation was in TIF areas resulting in total

[10] Ibid. Iowa League of Cities. 2015.
[11] Ibid. Swensen. Pg. 4
[12] Ibid. Girardi. Pg. 7.
[13] Ibid. Girardi. Pg. 7

revenue diversions of $123 million, of which $51 million was shifted to state taxpayers through the State Foundation Aid Formula.[14]

While fewer than half of Iowa's 946 cities had a TIF area in their boundaries (2012 data), cities with TIF areas accounted for 96 percent of urban taxable valuation.[15] Between assessment years 2000 and 2012, the assessed value of all urban property in Iowa increased 21 percent. In 2000, TIF urban property increased 35 percent in assessed valuation, and urban property in TIF for the purpose of economic development increased 57 percent.[16]

During the same time period, in 13 Iowa counties, the combined value of city property in economic development TIFs declined. In 59 other counties, the valuation of urban property in economic development TIFs increased. During the same time, more than half of Iowa's counties lost jobs while aggregate wages increased in all Iowa counties.[17]

It is becoming increasingly difficult to know what levels of spending are necessary to secure economic growth associated with TIF projects.[18]

Even when banking institutions are involved scrutinizing projects providing loans and financing to support projects, advancing economic development is known as informationally asymmetric – meaning industry has all of the knowledge and the awarding government entity only knows what businesses tell them.[19] This makes it very difficult for cities and counties to know when incentives are really needed and when they are not.

The Iowa Legislative Service Agency's (LSA) report, dated February 2016, notes 482 cities, counties and Rural Improvement Zones had a total of 1,044 Urban Renewal Areas on file with the Department of Management.[20] The same LSA report notes 388 local governments reported a total of 3,123 outstanding debts totaling $3,041.4 million. Some entities report debt repayments extend beyond 30 years and more than 50 percent of the debt repayment relates to debt schedules that extend past fiscal year 2026 – 10 years from now.[21]

TIF debt is reported in six categories: General Obligation Bonds (GO), Internal Loans, Other Debt (such as bank loans), Rebates, TIF Revenue Bonds, Low and Moderate Income (LMI) Housing.

Carrie Johnson in Iowa Department of Management reports the TIF debt structure is important. The Code of Iowa language states TIF does not count against a constitutional debt limit, though the Iowa Supreme Court ruled in 1975 that tax increment debt must be counted. However if there is an "annual appropriation" clause in the debt issuance, only the annual payment amounts must be counted against a constitutional debt limit.

[14] Ibid. Girardi. Pg. 7
[15] Ibid. Girardi. Pg. 7
[16] Ibid. Girardi. Pg. 7
[17] Ibid. Girardi. Pg. 7
[18] Ibid. Swensen. Pg. 4
[19] Ibid. Swensen. Pg. 5
[20] Dickinson, Glen. Legislative Services Agency. FY2015 Annual Urban Renewal Report – Tax Increment Financing. Des Moines. Pg. 2.
[21] Ibid. Pg. 4.

LSA Table 3 Reported Debt by Debt Type[22]

Table 3
Reported Debt by Debt Type
Dollars in Millions

Debt Type	Principal	Interest	Debt	% of Total
General Obligation Bonds	$ 1,418.9	$ 343.8	$ 1,762.7	58.0%
Internal Loans	160.8	3.0	163.8	5.4%
Other Debt	161.5	27.3	188.8	6.2%
Rebates	611.7	3.3	615.0	20.2%
TIF Revenue Bonds	164.9	128.7	293.6	9.7%
Low and Mod. Income Housing	17.3	0.2	17.5	0.6%
Total	$ 2,535.1	$ 506.3	$ 3,041.4	100.0%

Ten local governments represent 49 percent of all TIF reported.
(LSA Table 5 TIF Debt Reported FY2015)[23]

Table 5
TIF Debt Reported - FY 2015
Dollars in Millions

Local Government	Conventional Debt	Annual Appropriation Debt	Total Debt	Latest Repayment Date Reported	Total FY 15 Taxable Value of City/County
Coralville	$ 124.0	$ 234.1	$ 358.1	FY 2047	$ 1,558.9
Des Moines	123.2	154.0	277.2	FY 2037	7,214.7
Cedar Rapids	204.2	0.0	204.2	FY 2043	6,291.3
Dubuque	156.9	17.7	174.6	FY 2045	2,600.1
Altoona	36.2	124.2	160.4	FY 2043	825.0
Sioux City	112.8	0.0	112.8	FY 2033	2,661.0
Ankeny	64.6	6.7	71.3	FY 2030	2,445.1
Mitchell County	0.0	44.5	44.5	FY 2033	747.8
West Des Moines	43.6	0.0	43.6	FY 2029	4,379.0
LeClaire	8.5	34.5	43.0	FY 2030	206.7

Roads, bridges and Utilities represent 46.1 percent of the number of projects and 48.2 percent of project expenditures for the year. The second most common TIF expenditure category is public buildings, representing 6.9 percent of projects and 9.7 percent of expenditures.[24]

LSA Table 8 Number of Projects reported by Project Category.[25]

[22] Ibid. Pg. 5.
[23] Ibid. Pg. 6.
[24] Ibid. Pg. 9
[25] Ibid. Pg. 10.

Table 8
Number of Projects Reported by Project Category
Dollars in Millions

Number of TIF Projects by Type	Ongoing	Complete	Total	FY 2015 Expended Amount	% of $ Total
Roads, Bridges & Utilities	217	838	1,055	$ 123.6	48.2%
Municipal/Public-Owned Buildings	20	137	157	24.9	9.7%
Commercial - Office Properties	16	51	67	16.3	6.4%
Recreational Facilities	28	87	115	11.0	4.3%
Water/Waste Treatment Plants	7	75	82	10.5	4.1%
Industrial/Manufacturing	21	99	120	8.4	3.3%
Administrative Expenses	87	132	219	11.6	4.5%
Commercial - Retail	24	67	91	13.8	5.4%
Acquisition of Property	13	84	97	7.4	2.9%
Commercial - Hotels/Conference Centers	2	24	26	13.2	5.1%
Commercial - Warehouses & Distribution	2	17	19	4.2	1.6%
Residential	16	74	90	2.4	0.9%
Mixed Use Property	13	16	29	2.9	1.1%
Lake & Related Improvements (RIZ)	7	2	9	0.4	0.2%
Low & Moderate Income Housing	26	36	62	2.3	0.9%
Commercial - Apartments/Condos/Residential	3	18	21	1.4	0.5%
Agribusiness	0	8	8	0.7	0.3%
Commercial - Medical	0	9	9	0.8	0.3%
Main Street Iowa Program	6	6	12	0.7	0.3%
Total	**508**	**1,780**	**2,288**	**$ 256.5**	**100.0%**

Shifting Tax Burdens

When cities grant TIF that directly benefits a developer as the beneficiary, other homeowners and businesses within the municipal boundaries must cover at least some or all of the property taxes the beneficiary is not paying which results in an increase in property taxes and a shift in who pays taxes. The shift also impacts people who live outside the city limits in the county. Property taxes that would have been paid to the county and schools are diverted to pay for TIF projects, which means taxpayers outside the community are paying more in taxes to cover the loss of tax revenues. A TIF project can ultimately shift the burden of tax payments to other property owners who see higher property taxes, resulting in a system that is unfair to all but the beneficiaries of TIF projects. [26]

Prior to an expanded TIF usage, voters would have been asked to approve General Obligation Bonds for public projects. ~~Property taxes that would have been paid to the county and schools are diverted to pay for projects, which means taxpayers outside the community are paying more in taxes to cover the loss of tax revenues.~~ Too often taxpayers do not get to vote on TIF projects – the same people who must bear additional taxes do not have a say by voting. [27]

School Aid Funding – Impact of Tax Increment Financing

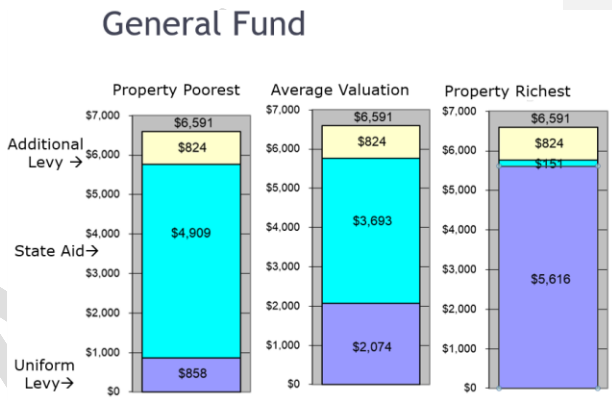
Iowa's rapid TIF growth has placed a burden on the state's K-12 funding. Many emphasize the state makes up the bulk of funding for TIF areas held at the "base" rate when tax increments are diverted from schools. While the state makes up the loss associated with the School Foundation Levy, it does not

Commented [PF6]: I don't think this is accurate; in Johnson County the state made up a little less than half. The word "bulk" implies a substantial majority. I don't know what the state average is, but I think folks at the Iowa Assoc of School Boards could provide that.

[26] Sierra Club Iowa Chapter. A Primer on Tax Increment Financing (TIF). Des Moines.
[27] Ibid. Sierra Club. Pg. 7

reimburse the total amount. In growing districts it affects a schools ability to keep up with demand; in schools with declining populations it further hinders financially struggling districts.[28]

In fiscal year 2015, of the 338 school districts, 262 (77.5 percent) had TIF increment valuation, while 76 districts (22.5 percent) had none. The Iowa School Aid Formula provides $6,591 per pupil ($5.40 per $1,000 of assessed value) and state aid up to the foundation level (85.5 percent for the regular program per pupil amount), plus an additional level that provides the remaining portion of the per pupil amount (see chart right).

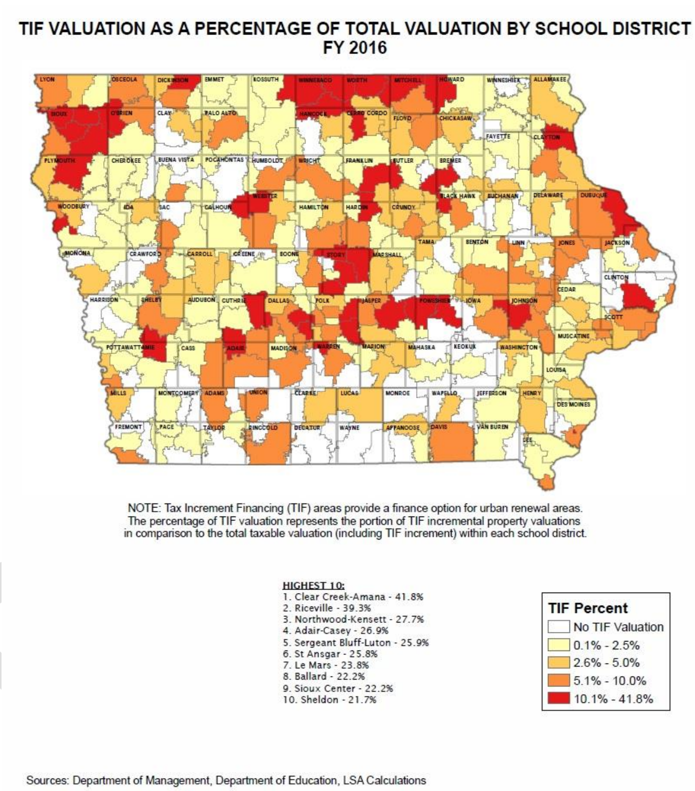


Because school districts do not receive the uniform levy amount generated from TIF incremental valuation, state aid makes up the difference in f~~o~~unding the foundation level. Large districts with a higher valuation per pupil will generate more funding from the uniform levy and less in state aid than districts with a lower valuation per pupil.[29] To make up the rest of the allowed per pupil spending, the district must raise the additional property tax levy.

In 2001, the Iowa Code was amended to provide property taxes for the regular and voter-approved Physical Plant and Equipment Levy and Instructional Support Levy must be collected and paid exclusively to the district.[30] In other words, this tax levy cannot be diverted to TIF.

[28] Ibid. Swensen. Pg. 15
[29] Ibid. Legislative Services Agency. Fiscal Update. August 2014.
[30] Ibid. Legislative Services Agency. Legislative Guide to Urban Renewal and TIF. Pg. 9

TIF Valuation as Percentage of Total Evaluation by School District (chart below)[31]



[31] Iowa Legislature Government Publications. FY2016. Internet: https://www.legis.iowa.gov/docs/publications/MOW/698820.pdf

New TIF Use – Windfarms[32]

Today, counties are emerging as utilizers of TIF incentives. Wind energy TIFs can help counties provide improvements to secondary roads, though they have been used for other purposes as well, including incentives to unrelated businesses.[33] However identifying ag land as urban renewal is misleading because the land is neither a slum or blighted, and should not be designated as such forever, which the Iowa code allows.

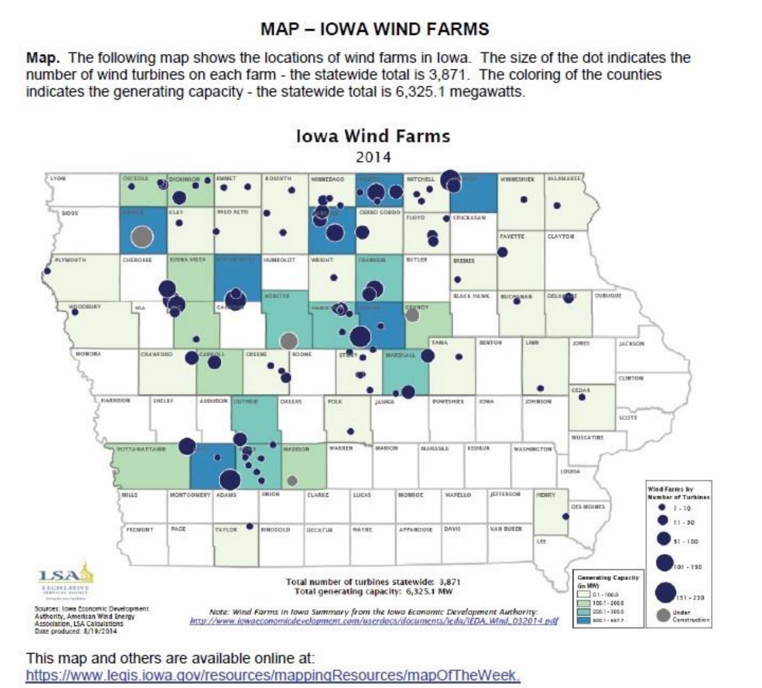
With a capital investment of more than $9.8 billion in Iowa's wind farms, ranking the state first in energy production and third in the nation in employment related to the wind energy industry, Iowa counties are turning to TIF to attract this new industry to their location.

- Iowa produced nearly 25 percent of all the electricity generated in the state from wind turbines in 2012.
- Iowa was also the first state in the nation to exceed 20 percent of total generation coming from wind energy.[34]

The state provides incentives to wind farms independent of TIF by requiring that they be assessed at lower than actual value for the first five years. This feature of state law has allowed counties to establish a TIF area around a wind farm after the wind farm has been constructed, because the assessed valuation increases mandated by state law, as full valuation is phased in, will count as an "increment" in valuation for TIF. In such a case, the county TIF clearly cannot be described as an incentive for development since it occurs after the fact.

Add information about wind farm taxation – 5 percent the first year up to 30 percent.

[32] Ibid. Legislative Services Agency. Fiscal Update. Aug. 19, 2014.
[33] Ibid. Swensen. Pg. 15
[34] Iowa Wind Energy Association (from webiste http://www.iowawindenergy.org/whywind.php)



Urban Renewal Reporting Requirements

The Ahlers & Cooney report "ABCs of Iowa Urban Renewal: A Practical Guide for Cities and Counties (2013) identifies 21 Steps to a detailed Urban Renewal Report, and urges governing entities to keep good records throughout the duration of the project and to begin drafting the report early due to the amount of research needed to complete each report.

The 21 paragraphs of required information are summarized as follows:[35]

1. Each **Urban Renewal Area** type (designation) and the date such determination was made;
2. A map of the area;
3. A copy of all TIF ordinances;
4. Copies of the original **Urban Renewal Plan**, each amendment to the plan, and the dates of such amendments;

[35] Cory, Mark and Patricia J. Martin. Ahlers & Cooney, P.C. ABCs of Iowa Urban Renewal: A Practical Guide for Cities and Counties. Des Moines, IA. 2013.

5. A list and description of all **Urban Renewal Projects** within the area either in process or completed during the fiscal year;
6. A description of each TIF expenditure;
7. The amount of loans, advances, indebtedness, or bonds, which qualify for payment from TIF moneys and were incurred or issued during the fiscal year;
8. The amount of loans, advances, indebtedness, or bonds, which qualify for payment from TIF moneys and remain unpaid at the end of the fiscal year;
9. The total amount of property taxes rebated (or otherwise expended) during the fiscal year, and amounts agreed to for future years;
10. A list of all properties and the owners of those properties who received property tax rebates (or other expenditures) and amount of property tax rebates in the past fiscal year, as well as future obligations;
11. The balance of the municipality's TIF fund;
12. Aggregate assessed value of all taxable property within the **Urban Renewal Area**;
13. The aggregate assessed value of each taxable property class in the **Urban Renewal Area**;
14. The portion of the assessed value of all taxable property within the **Urban Renewal Area** that was used to calculate the amount of excess taxes under Iowa Code '403.19(2);
15. The amount of taxes under '403.19(2) in excess of the amount required to pay applicable loans, advances, indebtedness, and bonds that was paid as property tax for the respective taxing districts;
16. Any interest earned on the TIF fund and deposited into the TIF fund and net proceeds from the sale of assets purchased with TIF moneys;
17. The amount of taxes that each taxing entity contributed to the TIF fund that fiscal year;
18. The amount of expenditures by the municipality for public improvements related to housing and residential development;
19. The amount of assistance to **LMI Housing** provided by the municipality;
20. Pursuant to any applicable **Development Agreement**, the number of jobs to be created, the wages of those jobs, the total private capital investment, and the total cost of public infrastructure constructed; and
21. Any other related information deemed relevant by the Department of Management.

Iowa Business Taxes Vary

Iowa's low business tax rates calls to question the need for additional incentives such as Tax Increment Financing, as well as the cost and benefit of these incentives.

The Corridor Business Journal, headquartered in North Liberty, reported Aug. 26, 2015, a study by the Tax Foundation in cooperation with KMPG LLC that revealed Iowa's business tax rates vary among the state's different industries – from 3.9 percent (capital-intensive manufacture) to 38.1 percent for a distribution center. The report, "Location Matters: The State Tax Costs of Doing Business" identifies how tax codes treat new and established firms differently within each state. Rankings and ratings for Iowa:[36]

- Lowest rate for capital-intensive manufacturer at 3.9 percent
- 13th lowest rate for research and development facility at 8.2 percent
- 16th lowest rate on a labor-intensive manufacturer at 7.1 percent
- 22nd lowest rate on a call center at 18.8 percent
- 41st lowest rate on a distribution center at 38.1 percent
- 46th lowest rate for independent retail store at 21.8 percent
- 47th lowest rate for corporate headquarters at 20.4 percent

Commented [PF7]: This finding is corroborated in other studies. See http://www.cost.org/page.aspx?id=69654 table 4.

[36] Corridor Business Journal. PM Update. Study: Iowa Business Taxes Vary Widely by Business Model. North Liberty. Aug. 26, 2015

Sunsetting TIF Debt

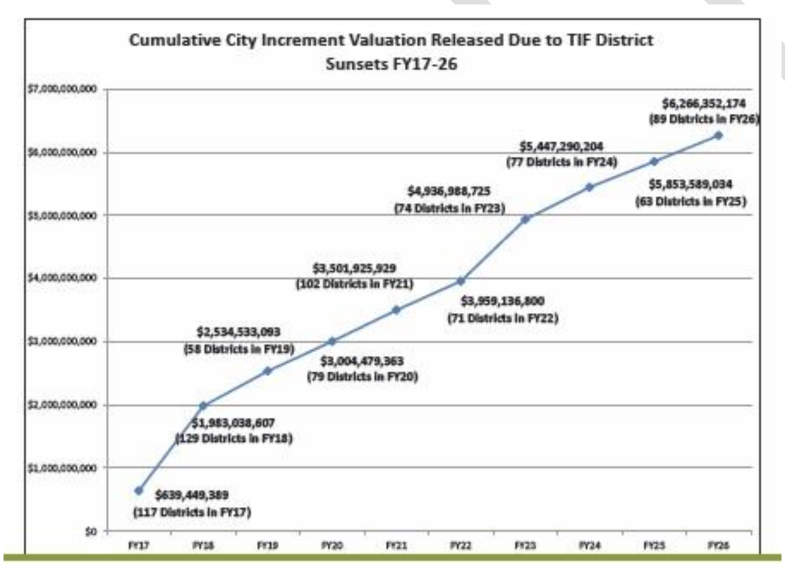
Throughout Iowa numerous successful TIF projects can be found. Much of downtown Des Moines and other communities can attribute their renewal results to TIF. Given the 20-year sunset for economic development projects, many TIF districts will expire in the coming years, and valuations will return to all taxing authorities.[37]

Of the districts established after 1995, 69 percent report an end date. In fiscal years 2017-2026, $6.3 billion in increment valuation could return to all taxing authorities (based on a maximum increment and some communities return a percentage of the increment annually).[38]

However TIF areas are not decertified, but remain intact allowing communities to amend and continue projects in perpetuity.

Commented [PF8]: There are two things here. First, blighted area TIFs and economic development TIFs have no sunset, as you have explained. More recent economic development TIFs must sunset after 20 years. It is true that they can continue, but this would require the city re-establish the TIF with a new base year. This is very significant. When a TIF is extended with the same base year, the increment just continues to grow and grow, whereas having to start over with a new base equal to the current valuation means very little in the new increment, and the other jurisdictions will get a lot of revenue.

Iowa League of Cities Sunsetting TIF Districts[39]



[37] Interview with Robert Josten, Dorsey & Whitney, Des Moines, IA. June 14, 2016.
[38] Ibid. Iowa League of Cities. 2015. Pg 6
[39] Ibid. Iowa League of Cities. 2015. Pg. 6

Tax Increment Financing (TIF) Concerns*

A better definition of slum / blight is needed

Communication to affected parties must be made publically

Create a new category specific to windmill construction

Debt: Although TIF is debt, it is not categorized as such, and therefore TIF is outside Iowa's constitutional debt limit

Decertify areas upon project completion

Evaluation / Oversight is needed in addition to annual reporting requirements

Public buildings with TIF vs GO Bonds - voters should be allowed an opportunity to vote on public projects

School Foundation Formula – funding impact for schools is real and significant

Sunset all projects including urban renewal – economic development 20 years (the equivalent of two generations) is too long of a period of time and detrimental to schools;

Transparency vs. prohibition – keep the public informed

*alphabetical order

Appendix A

City / County Questions

TIF Interview Questions Cities / Counties

1. How many urban renewal areas do you have?
    a. How many projects have been completed in each area?
    b. How many are in progress?
    c. How many areas have a sunset or expiration date for collection of TIF revenues?
    d. What percentage of the total available TIF value are you utilizing?
2. How many projects have involved a financial incentive to a third party?
    a. Provide specific examples of financial incentives.
    b. What type of nonperformance criteria is included in agreements?
    c. Have agreements ever been enforced? How? What were the results?
3. What are other examples of your TIF projects, e.g. infrastructure, public buildings, other?
    a. Short-term benefits?
    b. Long-term benefits?
    c. Number of jobs created?
    d. New taxable value added to the tax base after the TIF was paid?
4. When you have a new urban renewal project did your community receive input from county and school district officials?
    a. What was the reaction of the government officials and the general public to the project?
5. Should the state law require TIF projects that provide financial incentive to private individuals include a requirement that a developer document that without the assistance they would not undertake the project – commonly called a "but for" clause?

Appendix A continued

TIF Interview Questions – School Districts

Follow-up School / TIF Questions: (redrafted 061516)

1. Do you know what cities / counties are doing related to TIF projects that impact your districts?
    - Do you know what the impact is to your school budget?
    - What is your opinion about the use of TIF in your community?
    - How do cities / counties officials communicate this information to you?
    - Should use of TIF require officials from school to acknowledge or sign-off on TIF projects?
2. Because the state does not fully reimburse your district for TIF revenues have you increased your levies to account for the shortfall?
3. Has your school district increased property taxes to account for TIF projects / districts?
    - How much?
    - What was the public's reaction?
    - Were school board members blamed for property tax increases (related to TIF)?

Appendix B

Glossary of Terms[40]

Affected Taxing Entity - all cities, counties and school districts that levy taxes in a proposed Urban Renewal Area.

Agricultural property / agricultural land - a tract of 10 acres or more, not platted into lots of less than 10 acres or divided by streets and alleys into parcels of less than 10 acres, which has been used for the production of agricultural products in three of the last five years.

Base Year - calendar year before the calendar year in which a city or county first certifies an Urban Renewal Project.

Blight - an area where any number of specifically described conditions impair the growth, health, safety or welfare of the community. Blight does not include agricultural property.

Debt capacity or Constitutional Debt Limit – the amount of debt that can be incurred by a city or county. Most borrowings or obligations count against this limit except certain bonds or notes. The limit is calculated by taking a 100 percent valuation for the city or county before rollback, but after military exemptions, and multiplying it times .05. NOTE: TIF does not count toward a debt capacity.

Development Agreement - The agreement a city or county that has an Urban Renewal Area has with other parties, usually a private developer. Generally, the Development Agreement describes a set of promises spelling out what the governmental entity will do for the private developer in return for the private development and economic development or the slum / blight removal.

Economic Development - The creation of new jobs and income or the retention of existing jobs and income in in an Urban Renewal Area. An urban renewal project can generate direct economic development, such as the development of a new business or industry, or indirect economic development, such as the provision of housing for employee retention and recruitment, daycare services or training for workers.

Essential Purpose - The Iowa Code lists essential purposes for both cities and counties. The lists are not the same. Generally speaking, a city or county can undertake a loan for an essential purpose without holding an election or a "reverse referendum." The only exception is for a general obligation bond to fund an urban renewal project. In that case, the borrowing must be authorized under a reverse referendum procedure.

General Purpose - Like essential purposes, general purposes are listed in the Iowa Code for cities and counties. A general purpose is any legitimate purpose not include in the essential purpose list.

Incremental Taxes or Tax Increments - Property taxes generated by all increases in assessed value occurring in the TIF area after the base year. Incremental taxes do not include any taxing entities' deb

[40] Cory, Mark and Patricia J Martin, Ahlers & Cooney, P.C. ABCs of Iowa Urban Renewal: A Practical Guide for Cities and Counties. Des Moines, 2013.

service levy or a school physical plant and equipment levy (PPEL) and instructional support program (ISPL) levies and join county-city building taxes.

Joint agreement - An agreement between a city and county or two cities allowing one to form an urban renewal area in their respective "no-man's land."

LMI Housing - Housing that is affordable to LMI persons.

LMI Match - The amount of money you must spend on housing for LMI person when you undertake an urban renewal project for non-LMI housing infrastructure in an economic development area. The LMI Match equals the percentage of LMI persons in your county multiplied by the TIF Reimbursement you will receive for the non-LMI housing infrastructure urban renewal project. The LMI match can be spent inside or outside the urban renewal area. The LMI percentage is available from a city or county planner or the Iowa Department of Economic Development.

Low and Moderate Income (LMI) - Persons in your county who have incomes at or below 80 percent of the median county income.

Minimum Assessment Agreement - An agreement where the governmental body, the developer and the assessor all agree that a proposed urban renewal project will be assessed at a specific value upon project completion.

No-Man's Land - The area within two miles of a city's boundaries. In the case of a county urban renewal plan, it also means the area within the city limits.

Public Improvements - Water lines, sanitary sewer, storm sewer, streets, sidewalks, traffic controls, signs or other improvements to be owned by the city or county and available for public use.

Rebate Agreement - An agreement to return a portion of incremental taxes related to a specific urban renewal project to the developer or owner of that project. This is a "pay as you go" approach and does not require a borrowing by the city or county. *A rebate agreement can count against a body's debt capacity.*

Reverse Referendum - A process to authorize city or county borrowing for a small general purpose or for an urban renewal general obligation bond. A reverse referendum involves publication of a notice at least 10 days before a public hearing. Unless a petition, signed by a number of citizens who equal at least 10 percent of those who voted in the last general election, is received a governing body may authorize borrowing without an election. If a petition signed by enough residents is received, the entity must either hold an election or drop the proposal to incur debt. A reverse referendum does not apply to essential purpose borrowings other than urban renewal projects and disaster response bonds greater than $2,999,999 and does not apply to revenue borrowings. An urban renewal revenue bond is a type of revenue borrowing.

Slum - Deteriorated or obsolete structures that endanger people and property. Agricultural land is not a slum.

TIF Area - A specific geographic area, usually described by its boundaries. The incremental taxes paid in this area can be captured by the city or county that formed the area as a TIF reimbursement for urban renewal projects.

TIF Reimbursement - The money a city or county receives from tax increments based on a TIF certification to the county where the TIF area exists.

Urban Renewal Area - A specific geographic area, usually defined by a boundary description that has been designated as an appropriate area for urban renewal projects.

Urban Renewal General Obligation Bond - A bond or note sold to finance an urban renewal project that will be repaid from a debt service levy, which can sometimes be abated with TIF reimbursement.

Urban Renewal Plan - The document that outlines the activities the city our county intends to undertake for the urban renewal area it is forming. The urban renewal area must meet certain requirements in Chapter 403 of the Iowa Code, and must be consistent with the city or county's general plan for development and zoning.

Urban Renewal Project - An undertaking by a city or county inside an urban renewal area. The Urban renewal project must meet the requirements of state law and the specific urban renewal plan for the urban renewal area it is in. the urban renewal plan must include authority for the urban renewal project before the project may be approved.

Urban Renewal Report - A detailed report about an urban renewal plan and area, including information such as TIF expenditures, submitted electronically to the Iowa Department of Management by Dec. 1 following the close of each fiscal year.

Urban Renewal Revenue Bond - A bond or note sold to finance an urban renewal project that will be repaid solely and only from the incremental taxes generated by the urban renewal area containing the urban renewal project.

Appendix C

Resources:

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Appendix D

Interviewees:

Buckton, Margaret and Larry Sigel, **Iowa School Finance Information Services**, June 22, 2016

Fisher, Peter, **Iowa Policy Project**, May 25, 2016

Wendy Ford, **Iowa City**, written response to questions dated June 9, 2016

Stephen Graham, CFO **Cedar Rapids Community School District**, April 5, 2016

Kelly Hayworth, **Coralville City Administrator**, June 16, 2016

Jenkins, Greg, **Muscatine Chamber of Commerce and Muscatine LWV**, March 29, 2012

Robert Josten, **Dorsey & Whitney** law partner in Des Moines, June 14, 2016

Kenkel, Steve, **Shelby County Board of Supervisors** and **former Harlan School Board member**, July 19, 2016

Nielsen, Amy , **Mayor North Liberty**, May 9, 2016 and June 6, 2016

Nolte, Mark, **Iowa City Area Development**, May 9, 2012

Ryan Heiar, **North Liberty City Administrator**, notes June 6, 2016

Robinson, Jeff, Sr. Legislative Analyst, **State of Iowa Legislative Service Agency**, June 2, 2012

Sands, Representative Tom, **District 88,** June 30, 2016

Schwab, Dick, **Solon Community School Board** President / entrepreneur, May 20, 2016

Tegeler, Gretchen, **Taxpayers Association of Central Iowa**, July 6, 2016

Weipert, Travis, **Johnson County Auditor**, and Mark Kistler, Deputy Auditor, May 9, 2016