

How Tax Increment Financing (TIF) Works

When you pay property taxes, that tax revenue is given to the city general funds (if it is in an incorporated area), to the county general fund, to school district funds, to the community college, to the agriculture extension service, and a few other smaller jurisdictions/entities that receive property tax revenue.

Once an area is placed in a TIF district, the property taxes for the new development in the district get diverted from their normal distribution to the county, schools, community college, and other taxing jurisdictions.

That diverted tax money is used by the TIF project. The TIF projects vary.

One form, involves giving a tax-increment-financing to a private developer, in the form of a grant or rebate of their property taxes. A second form involves using tax-increment-financing to fund civic projects, such as community centers, city hall, or libraries.



Photo by Lynn Betts, USDA NRCS

The State of Iowa treasury replaces some of the money that was diverted from the school districts when a TIF bond is granted. However they are not always given the full amount to which they would have been entitled without a TIF. The other government jurisdictions are not made whole by the state treasury.

In general, the Chapter does not support TIF with the exception for financing projects in blighted areas. TIF was originally designed to finance projects in blighted areas because no one would invest in them otherwise. It has since been twisted out of proportion and is used for projects that have nothing to do with blighted areas. TIF is even being used for projects built on bare agriculture ground -- sprawl.

Form 1: giving a tax-increment-financing to a private developer

When a city (or county if the Board of Supervisors grants the TIF) grants tax increment financing, the city (or county) borrows money from the bond market, in the form of a TIF bond. That borrowed money is then given to the developer to build housing, a commercial building, or an industrial building. The TIF bond (the loan and interest) are paid with the developer’s property taxes. Once the TIF bond, has been paid, the developer owns the building, even though tax money was used to pay for the loan and interest. This is the equivalent of a gift, a grant, or a welfare payment.

Step	When you pay property taxes:	When a developer with TIF pays property taxes:
1	The entire property is designated as the base	The property is divided into 2 parts – the base and the increment. The increment is the development (such as a new building or an addition to a building) that is covered by tax increment financing. The base is the property before the development. In the case of a new building, the base would be the ground under the building.
2	Property tax is paid to the county treasurer	Property tax is paid to the county treasurer
3	All of the property taxes will be distributed to public entities.	The property taxes are divided into 2 parts – the tax paid on the base and the tax paid on the increment.
4	County treasurer distributes the property taxes to the city, the county, the school district, community college, Agriculture Extension Service, and other public entities	County treasurer distributes the property taxes collected on the base to the city, the county, the school district, community college, Agriculture Extension Service, and other public entities
5		The property taxes on the increment are distributed to the city (or county if the Board of Supervisors issued the TIF).
6		The city (or county) uses the property taxes on the increment to pay for the TIF bond. The public does not receive the tax money to use for schools, police, fire, streets, or any of the public services that are paid for with property taxes.
7		The treasury of the State of Iowa replaces some of the tax money that was diverted from the school district. However that may not completely reimburse the school district.

Form 2: using tax-increment-financing to fund public services

Creative cities and counties have found ways to use the TIF laws to fund public projects in that taxing jurisdiction (city hall buildings, libraries) -- and using TIF to deny the tax money that the other jurisdictions are supposed to receive. In other words, a city may declare TIF in an area which would deny the property tax on the new development from being distributed to the county, school district, agriculture extension, and other public entities. One community that has been aggressive in doing this is LeClaire.

Some counties have been declaring wind turbines to be in a TIF district. They then use the diverted tax money to pay for road projects. The school districts are hurting because they are not being made whole by the state when the money is diverted from their revenues.

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1	The entire property is designated as the base	The property is divided into 2 parts – the base and the increment. The increment is the development (such as a new building or an addition to a building) that is covered by tax increment financing. The base is the property before the development. In the case of a new building, the base would be the ground under the building.
2	Property tax is paid to the county treasurer	Property tax is paid to the county treasurer
3	All of the property taxes will be distributed to public entities.	The property taxes are divided into 2 parts – the tax paid on the base and the tax paid on the increment.
4	County treasurer distributes the property taxes to the city, the county, the school district, community college, Agriculture Extension Service, and other public entities	County treasurer distributes the property taxes collected on the base to the city, the county, the school district, community college, Agriculture Extension Service, and other public entities
5		The property taxes on the increment are distributed to the city (or county).
6		The city (or county) uses the property taxes on the increment to pay for the civic project (such as library, roads, municipal building).
7		The treasury of the State of Iowa replaces some of the tax money that was diverted from the school district. However that may not completely reimburse the school district.