



**SIERRA
CLUB**

IOWA CHAPTER

Reforming Tax Increment Financing (TIF)

Tax increment financing (TIF) is one of the techniques that cities and counties use to encourage businesses and industries to locate in the community, to expand their operation or to upgrade their facilities. Property taxes on the new development or remodeling are diverted from the general funds for the city, county, schools and other taxing jurisdictions when TIF is issued. Instead the diverted property taxes are used to pay for a TIF bond or for infrastructure projects related to the TIF project.

There is no question that the amount of money diverted to TIF projects has been increasing substantially. At the same time, those same projects benefiting from TIF may be providing jobs and economic advantages to a local community. However the public does not know the real benefits and costs of TIF.

That being said, TIF projects drain revenue from the general fund of cities, which is used to pay for street repair and other infrastructure, snow removal, fire and police protection, schools, county services, and municipal services. This has resulted in a property tax shift to the other residents in a community and county.

And it has resulted in the state being responsible for covering some of the costs of TIF by replacing revenue the school districts lost due to TIF.



Photo credit: Lynn Betts, USDA NRCS

As communities have increased the number of TIF projects, this diversion has resulted in pressure to increase property taxes to fund basic services that would normally have been funded by the property taxes that have been diverted to TIF projects. Unfortunately, voters have no recourse when they do not live within the city that is sweeping tax revenue from their school or county. That is unlike any other way that property taxes are handled in the state – voters select their supervisors or school board members who make decisions on how the tax money is spent.

Furthermore, there is no oversight to determine if a TIF project is beneficial to the state. Yet the state is expected to back-fill the tax revenue diverted from the schools.

TIF originally was a means to encourage new buildings, additions or remodeling in blighted inner city neighborhoods that would not have occurred without the extra cash incentive. However, businesses and

developers have grown to expect TIF for all kinds of building projects outside of blighted neighborhoods. Often, when a business dangles hope to a community for a project, it shops the project to several neighboring communities resulting in intense competition among the communities to increase incentives in order to secure the project.

The Iowa Chapter supports policies to reform Tax Increment Financing as it is currently configured¹. Changes in Iowa law must occur to establish stringent criteria for determining if a project is eligible for tax increment financing. The Iowa Chapter supports laws that provide the following:

- Reserving tax increment financing eligibility only to blighted inner city properties. TIF was designed to encourage new buildings, additions and remodeling in blighted neighborhoods so it is not appropriate to allow TIF to develop undeveloped land.
- Limiting the amount of money that is awarded in tax increment financing to a small percentage of the project.
- Diverting no more than 25 percent of the property in the city or county to tax increment financing at any point in time.
- Prohibiting the use of TIF to remove usable, lower-income housing stock.
- Barring the use of TIF to locate incompatible industrial buildings and operations next to usable, lower-income housing stock.
- Excluding financing of public buildings (civic centers, libraries, city hall) with TIF funds. However, an appropriate use of TIF for public-owned infrastructure would include roads, sewer and water that connect the project with existing infrastructure.
- Forbidding building or remodeling on speculation with no tenant(s) ready to occupy the structure. Speculators cannot provide any indication of how many new jobs will be created by the project; therefore, they do not deserve to receive tax-increment financing.
- Requiring full, public disclosure of the officers and board members of the company requesting TIF funds and the investors of any company that is not publicly traded on a stock exchange. Once a project is presented to a city planning department and the city council for tax-increment financing and once the planning department agrees to forward a TIF request to the city council, some city planning departments actually make the presentations to the council and the requestor never speaks to the council about the project. In some cities, the name of the project is all that is made available to the public. Many developers have several limited liability companies involved in a given project making the ultimate beneficiary of the TIF financing difficult to determine.
- Eliminating the ability of one taxing jurisdiction to divert the taxes of another jurisdiction. At no point should one entity of government be able to divert property taxes from another entity of government,

¹ Chapter 403 of the Iowa Code deals with tax increment financing, Chapter 404 deals with urban revitalization tax exemptions, and Chapter 427B deals with industrial property tax exemptions. These policy recommendations affect all three of these chapters

as is allowed today in the case of tax-increment financing. If a city grants TIF, then only the property tax funds paid to the city should be diverted to pay for the TIF bond, and not the funds allocated to the county, school district, or any other taxing jurisdiction.

- Requiring all TIF areas to have a sunset and not be allowed to perpetually be designated as a TIF area.
- A developer given TIF for a project should not automatically be given the right of eminent domain, which could be used to condemn neighboring properties. Today a project given TIF can also be given the right of eminent domain.
- Stringent criteria should be established for determining if a project is eligible for tax increment financing, including:
 - The proposed or expected development within the urban renewal area would not otherwise occur without approval of the urban renewal plan and without the use of incremental tax revenues if the urban renewal plan provides for a division of revenue.
 - The economic benefits of the urban renewal area, as measured by increased employment, business and personal income, and property value, are sufficient to compensate for the costs and indebtedness to be incurred by the municipality.
 - If the proposed urban renewal plan provides for a division of revenue, the benefits of the proposal outweigh the anticipated reduction in property tax revenues to each taxing district.
 - Other alternative development options and funding for the proposed urban renewal area would be less effective than the proposed urban renewal plan and the division of revenue.
- Prohibiting the use of TIF to fund construction and remodeling of residences, including houses, apartments, and condominiums.
- Prohibiting the use of TIF for a project that demolishes or destroys historically significant buildings and architecture.
- Prohibiting the use of TIF for businesses that directly compete with established businesses that are not enjoying TIF grants.
- Banning the use of TIF on projects built on undeveloped farm land.
- Reducing the number of TIF projects that fund minimum-wage jobs, retail jobs, and service jobs and concentrating TIF grants on projects that bring high-paying jobs.

It is time for significant reform of tax increment financing.