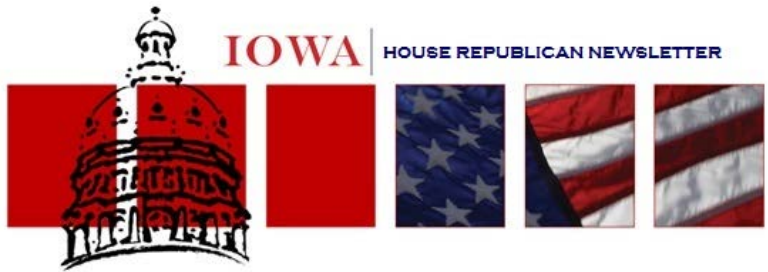


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Skyrocketing Cost of Backfilling Local TIF's with State Dollars

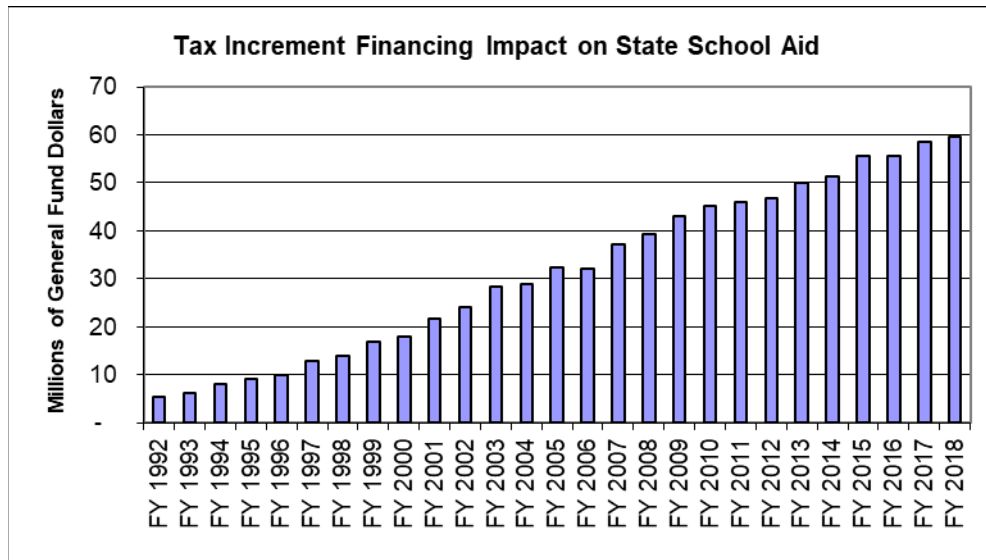
The House Appropriations Committee is beginning to look at a subject not easily understood and rarely discussed in the Iowa Capitol – the cost of the Tax Increment Financing program to the state budget.

The TIF program was established in 1992 as a method to help local communities finance community improvement projects. Under the program, when a municipality (city or county) decides to set up a TIF project - known as an urban renewal area - the property tax from parcels within the project do not go to the levying authorities (school district, county, city, etc) but instead are used by the city or county establishing the TIF district to pay for the improvements made to the urban renewal area. Local officials and economic development professionals are ardent supporters of TIF's and the development fostered by their use.

However, it is important to note that there is little incentive on the part of certain local officials to support or oppose any local TIF project. A school board or county board of supervisors that is not originating the TIF district does not have a vote to approve the use of their property tax revenue for this project. Furthermore, schools are held harmless by the state, which replaces the lost property tax revenue through the school finance formula. This means schools receive their property tax revenue regardless.

The cost of backfilling the schools' lost property taxes is something not easily found, as there is no budget line item for it. The funds needed to backfill the lost revenue are taken out of the General Fund *before* any action is taken on the budget. It is not accounted for in a manner like normal spending or even the oft discussed tax credits. If you don't ask the right questions, one would never know it had any impact on state spending at all. But it does, and that impact is growing every year.

When TIF started in 1992, it had a relatively small impact on the state budget of \$5.2 million in backfill payments. But as the use of TIF has proliferated across the state, the hidden impact on the budget has grown significantly. The chart below shows the growth in backfill payments over the life of TIF:



SOURCE: Legislative Services Agency

In FY 2018, the state will send \$59.5 million to local school districts to replace property tax revenue diverted to TIF projects. Fiscal Year 2018 also was a milestone in the program, as the annual growth rate in the program was in single digits for the first time ever.

As a response to the skyrocketing cost of backfilling local TIF's, House Study Bill 681 makes significant revisions to Iowa's Tax Increment Financing program. In order for a TIF district to retain property tax revenue of a school district or county under House Study Bill 681, the school board or county board of supervisors would have to take a vote to transfer the revenue to city or county organizing the TIF district. Or, in other words, they would have to formally support the project. If a school district agrees to transfer its property tax revenue, that amount would no longer be replaced by the state through the school finance formula. After all, if a project is good for the community, widespread support should be a large hurdle to clear.

The changes implemented by House Study Bill 681 would be applied to TIF districts that are established after July 1, 2019 or to property that is annexed or otherwise included into an existing TIF after July 1, 2019.