

TAX INCREMENT FINANCING

Tax Increment Financing (TIF) is a mechanism under Iowa Code chapter 403 for municipalities (cities and counties) to use to finance public improvement projects or, added later, to fund economic, housing and residential development incentives (section 403.19). TIF is based on the theory that making such improvements or attracting development will result in an increased property tax base for the municipality, and that increase (the increment) can then be used to finance the cost of the improvement or incentive. Tax Increment Financing is also an optional mechanism under chapter 260E to finance new jobs training via the community colleges. This program is to provide trained employees in new job positions.

Urban Renewal Law

The **Urban Renewal Law** (Chapter 403) was enacted in 1958 (Acts of the 57th General Assembly) for the purpose of eliminating slums and blighted areas in municipalities (originally, only included cities but counties were added by the 74th GA in 1991). Subsequent legislation expanded the chapter to include provisions and means for encouraging economic, residential and housing developments.

Slum and Blighted Areas: The Urban Renewal Law allows municipalities to develop workable programs for utilizing appropriate private and public resources to eliminate slums and prevent the development of slums and urban blight and to encourage needed rehabilitation.

Tax Increment Financing: Chapter 403 was amended in May 1969 (63rd GA) creating Tax Increment Financing, which provides a mechanism for financing improvements and developments.

Economic Development: The Urban Renewal Law was expanded (section 403.2.(3)) in May 1985 (71st GA) to provide the means and methods for the encouragement and assistance of industrial and commercial enterprises in locating, purchasing, constructing, reconstructing, modernizing, improving, maintaining, repairing, furnishing, equipping and expanding in Iowa and its municipalities.

If an economic development area contains no slum or blighted conditions, then the division of property taxes under TIF is **limited to twenty years** from the calendar year following the calendar year in which the city or county first certifies debt qualifying for payment from the division of taxes under TIF (section 403.17(10)). The economic development area may not include Ag land or century farms unless the owner of the land is in agreement.

Housing and Residential Development: Chapter 403 (section 403.2(3)) was amended again in 1991 (74th GA) to provide a mechanism for improving or expanding residential development including the construction of housing for low and moderate income families. A housing and residential development is defined (section 403.17(12)) as single or multifamily dwellings constructed in an area where the local governing body of the municipality determines that there is an inadequate supply of affordable, decent, safe and sanitary housing. It also provides that the housing development meet one or more of the following objectives:

1. retaining existing industrial or commercial enterprises
2. attracting and encouraging the location of new industrial or commercial enterprises
3. meeting the needs of special elements of the population
4. providing housing for various income levels of the population that may not be adequately served.

Industrial New Jobs Training Law

New Jobs Training: Chapter 260E, enacted in 1983 (70th GA), provides programs for “Industrial New Jobs Training” by community colleges. Subsection four of this chapter provides that if all, or part, of the program costs are to be paid by property taxes (as opposed to funds from payroll withholding), the incremental taxes are to be divided as provided in section 403.19 (TIF). Section 403.21 provides that no new job training projects can be undertaken after July 1, 1995 unless the municipality and community college have entered into an agreement which provides for a procedure for advance notification to each affected municipality, for exchange of information, for mutual consultation, and for procedural guidelines for such projects. Chapter 260F, “Small Business New Jobs Training”, is similar in purpose but the initiatives are funded through a state appropriation from the Iowa Department of Economic Development.

Utilizing Tax Increment Financing Under an Urban Renewal Plan

Before using tax increment financing to fund urban renewal projects a plan must be developed, the geographic boundaries identified, and assurances established that the project qualifies as an urban renewal project.

Urban Renewal Plan: In order to undertake an urban renewal project, an urban renewal plan must be developed. The plan must conform to the general plan for a municipality. The municipality must determine by resolution that the area is a slum or blighted area, an economic development area or a combination of these areas. The plan must establish the boundaries of the urban renewal area and outline what is to be accomplished within the area. The local planning commission must approve the plan and a public hearing must be held regarding the plan after the appropriate public notice. An urban renewal plan may

be amended at any time under certain conditions. Other requirements for establishing an urban renewal plan are found in Section 403.5 of the Iowa Code.

Urban Renewal Areas: An urban renewal area is defined as "... a slum area, blighted area, economic development area, or a combination of the areas, which the local governing body designates as appropriate for an urban renewal area." The conditions under which an urban renewal area may be created are outlined in the urban renewal plan.

Amending an Urban Renewal Area: Generally, urban renewal plans are amended (authorized in section 403.5(5)) to change the geographic size of an urban renewal area or to reflect a change in the purpose of the area. To change the size of the area, the same process must be followed as that used for creating the original area, including the hearing and consultation session with the other taxing entities. The amended area must be contiguous to the original area (or contiguous to the area amended into the original area). It is important to note that the amended area has a different base than the original area base. The amended base cannot somehow be blended into the original base to form a larger original base.

Urban Renewal Project: An urban renewal project may include initiatives and activities of a municipality in an urban renewal area for the elimination and for the prevention of the spread of slums and blight. A project may also include the designation and development of an economic development area in an urban renewal area, and may involve slum clearance and redevelopment in an urban renewal area, or rehabilitation or conservation in an urban renewal area. Several examples of initiatives or activities of an urban renewal project include:

1. Acquisition of an urban renewal area or a portion of the area
2. Demolition and removal of buildings and improvements
3. Installation, construction, or reconstruction of streets, utilities, parks, playgrounds, and other improvements necessary for carrying out the urban renewal objectives
4. Disposition of any property acquired in the urban renewal area
5. Carrying out plans for a program of voluntary or compulsory repair and rehabilitation of buildings or other improvements in accordance with the urban renewal plan.

Tax Increment Financing

Taxing Districts are commonly defined as a geographic area with a common consolidated levy rate. Some taxing districts are also TIF districts. However, for tax purposes the TIF district is divided into two districts, one containing the base valuation and the other the increment valuation. The reason for the split is that all taxing authorities receive their portion of taxes that are generated on the base value. Only the city or county that established the TIF area will receive taxes that are generated on the incremental value. For example, if the city established a TIF district, the school district, Ag Extension, Community College, County, Assessor and the State would not have the use of those tax dollars.

Base and Increment. As stated earlier, TIF is based on the premise that certain improvements under chapters 403 and 260E may be funded with the property taxes generated on the increase in the value of the property. Prior to the improvements, the value of the property is determined and this is called the base value. The value of improvements over the base value is called the incremental value. It is the property tax generated on the incremental value that may be used to finance the improvements. An exception to this is the taxes generated on incremental value for Debt Service and School PPEL (Physical Plant and Equipment Levy); these taxes will continue to go to the appropriate levying authority.

Note: the following series of examples assumes no rollback. Also, URA means urban renewal area.

Base Value (Section 403.19(1)). The base value is defined as the sum of the assessed value of the taxable property in an urban renewal area as of January 1 of the calendar year proceeding the first calendar year in which the city or county certified indebtedness payable from the division of property tax revenue. However, in March 1972 the Code was amended to provide that if an urban renewal plan was adopted prior to July 1, 1972, the base value is the value on the assessment roll last equalized prior to that date.

Base value is recognized under two different circumstances. The frozen base is the total assessed value of the taxable property in the urban renewal area as of the dates outlined in the preceding paragraph. There is also a budget base value, which is the value of the base for a particular budget year. The budget base value and the frozen base value can vary for a variety of reasons. It could vary because any unused value in the increment reverts to the budget base, thereby increasing the value of the budget base. It could also vary because of rollbacks, etc.

Example:

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| Base value of property in an Urban Renewal Area | \$30.0 M |
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Incremental Value (Section 403.19(2)). The incremental value of urban renewal property is the value of the property as of the most recent tax roll less the amount of the base value.

Example:

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| Value of URA property for most recent tax roll | \$80.0 M |
| (Less) base value of property | <u>\$30.0 M</u> |
| Incremental value of URA | \$50.0 M |

Unused Incremental Taxes: By December 1 of each year a municipality must certify to the county auditor the amount of loans, advances, indebtedness, etc., that qualify for payment from the incremental taxes and the auditor must provide for the division of the taxes in each subsequent year until they are paid. Generally, the debt is retired in installments. If, in any year, the municipality does not request the full amount of incremental taxes that could be collected, the county auditor must increase the amount of

taxes allocated under the base in order to reduce the amount to be allocated to the municipality's special incremental tax fund during the following fiscal year.

Taxes on the Base Value: The tax levy rate applied to the base value is the consolidated tax rate (includes all local taxing authorities). The resulting taxes levied against the base value must be allocated and paid into the tax fund of each taxing authority into which all other property taxes are paid. In other words, the taxes levied against the base are spread to all taxing authorities in the same manner, as they would be if there were no TIF.

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| Base Value of URA property | \$30.0 M |
| Consolidated levy rate per thousand dollars | <u>35</u> |
| Taxes on base value spread to all taxing authorities | \$1.05 M |

Taxes on the Incremental Value: The total property taxes levied in the urban renewal area that are in excess of the taxes levied against the base of that area, are the taxes attributable to the increment.

Example:

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| Value of URA property for most recent tax roll | \$80.0 M |
| Consolidated levy rate per thousand dollars | <u>35</u> |
| Taxes on total property in URA | \$2.80 M |
| (Less) taxes on base value in URA | <u>1.05 M</u> |
| Taxes on incremental value | \$1.75 M |

Debt Service Exception for all Taxing Authorities: Section 403.19(2) makes an exception to the TIF levy for servicing debt on bonds (defined as “any bonds, including refunding bonds, notes, interim certificates, certificates of indebtedness, debentures, or other obligations) issued by any of the taxing authorities. For example, if a county issued bonds to build a new jail, the county would receive a portion of the incremental taxes to service that debt on the new jail. That portion would be calculated by multiplying the county’s debt levy rate by the incremental valuation. The product is then subtracted from the total amount of the incremental taxes, with the remainder going to fund debt for the TIF project.

Additional Exception for School Physical Plant and Equipment Levy (PPEL): Senate File 2089 passed in May 2000, provides that the PPEL rate be applied to both the net taxable valuation and the TIF valuation to service debt for the voted and regular PPEL.

TIF Revenues and Expenditures in City and County Budgets:

Effective fiscal year 2008-2009, the Iowa Code was changed by including a requirement that cities and counties file a TIF budget. Section 384.16 City Budget and section 331.434 County Budget now included the following wording, “For each city and for each county that has established an urban renewal area, the budget shall include estimated and

actual tax increment financing revenues and all estimated and actual expenditures of the revenues, proceeds from debt and all estimated and actual expenditures of the debt proceeds, and identification of any entity receiving a direct payment of taxes funded by tax increment financing revenues and shall include the total amount of loans, advances, indebtedness, or bonds outstanding at the close of the most recently ended fiscal year, which qualify for payment from the special fund created in section 403.19, including interest negotiated on such loans, advances, indebtedness, or bonds.”

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