

Tax Increment Financing Growth in Iowa

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April, 2006

Introduction

Tax increment financing (TIF) is a mechanism authorized by Iowa law allowing local governments, primarily cities, to capture the taxes collected on property valuation growth in a specified district. The incremental taxes are intended to be used for one or more of the following: bond payments on borrowing required to prepare the district for development; rebates on taxes to developers meeting specific, albeit locally determined, criteria; direct spending by the local government to develop an area; or outright tax refunds to qualifying developments. The use of TIF authority among Iowa's cities is extremely popular. In fiscal 1991, there were 746 different TIF districts or projects in Iowa. By fiscal 1997 that number had increased to 1,014, and by fiscal 2006, it had increased to 2,358, a 133 percent increase in a nine year period. More cities are using TIF authority, there are many more TIF projects than there were a decade ago, and the amount of statewide property taxable valuation that is sequestered within TIF districts and therefore not available to the general funds of all local governments has also grown strongly over the years.

There are different perspectives on the utility and the propriety of using TIF authority as liberally as it has been applied in Iowa. It is widely considered by researchers studying this topic that Iowa has one of the most lenient and lucrative statutes for TIF usage in the U.S. First, Iowa TIF users are not required to negotiate their use of the increments with other governments – increments are declared and spent unilaterally, mostly by city governments. Second, Iowa is a property tax dependent and, comparatively, property-rich state – the local revenue yield off of TIFs is great. Lastly, there are virtually no effective state or local oversight mechanisms of TIF usage by cities, counties, and other authorities in the state.¹

¹ Many states require that affected local governments be notified and subsequently approve the TIF proposal. In others, TIF proposals are reviewed by an independent state or regional authority as to their appropriateness and to determine whether the funds are, in fact, instrumental in enticing new economic activity. Most states set clear limits on the duration of TIFs, limit the ability of localities to “roll-over” TIFs, and require annual financial reporting. Iowa mandates none of these.

Many city officials view TIF authority as the primary mechanism for leveraging business development in their communities, and as such, it has become the chief economic development tool for many cities. Of late, counties have also begun to use TIF authority for rural housing development and for large rural industries like ethanol plants.

Others might counter that TIF authority is used somewhat indiscriminately among many cities (and now counties) resulting in the distribution of beneficial infrastructure investments and lucrative tax breaks to firms that did not need them. Some contend, too, that TIF authority has been used by cities, in the main, to preemptively capture tax growth that would have occurred otherwise, and has allowed those cities, primarily booming suburban growth centers, to use this largess to further enhance their development prospects vis a vis their regional competition.

During the 2003 Iowa General Assembly, legislators held several meetings on the topic of economic development tools, and specifically addressed questions of TIF use and potential abuse. Revealed during these proceedings was a dearth of information about much of TIF use in Iowa, in particular, the amount of debt associated with TIF districts in the state, the kind of debt, the duration of the debt, and overall, the kinds of projects that benefited from this authority. State secondary data compilations do not allow for an inquiry into the kinds of firms that benefit from TIF authority – those assessments must be done at the local government level and involve research of both city and county government finances.

We can, however, characterize TIF use among all users using data compilations aggregated at the city or county level, by type of property classification, and the regional propensity to use TIF authority. We can also compare TIF outcomes with other demographic or economic outcomes in Iowa. This report will examine the kinds of counties and the kinds of communities that are “winning” and “losing” with regard to their utilization of TIF authority over the fiscal 1997 to 2006 period measured in this report.^{2,3}

² A note on the main comparison period of fiscal 1997 through 2006. There were several amendments to TIF authority during the mid 1990s. TIF authority was allowed for housing construction, at first only for low and moderate income housing, and then later for any kind of housing. As a result, TIF housing projects emerged in many places across Iowa. TIF authority now extends to county governments, as well, as they increase their presence in promoting economic growth. Also during this period there were important changes in how some industrial and commercial properties were subject to property taxation. In particular, the Iowa General Assembly phased out the tax on manufacturing machinery and equipment, the M & E tax, which constituted a significant portion of the “increment” in many TIF districts in Iowa. The benchmark of fiscal 1997 (based on valuations established in January 1995) allows us to capture much of the before and after effects of these changes. Finally, although recent data suggested that the rapid increases in TIF utilization may have reached a plateau as TIF valuations as a percentage of all

The Evolution of TIF Authority in Iowa

TIF authority in Iowa has evolved over time. Early TIF authority focused on remedying urban blight and slums. These programs were designed to address, primarily, inner-metropolitan city issues. Later, in Iowa, TIF authority was extended beyond economic or social necessity into the area of economic development. Urban blight and the attendant economic, social, or cultural maladies that concentrate in those areas was no longer the justification for this extraordinary use of public funds. Later still, the Iowa General Assembly extended TIF authority into the area of housing.

Urban Renewal TIF

Much has been written about TIF origins and their evolution in Iowa.⁴ Tax increment financing emerged conceptually and practically during the late 1950s and 1960s as a mechanism for self-financing urban renewal projects that were “blighted” or, as was the case in Iowa’s urban renewal law,

... constitute a serious and growing menace, injurious to the public health, safety, morals and welfare of the residents of the state; that the existence of such areas ... constitutes an economic and social liability imposing onerous municipal burdens which decrease the tax base and

valuations and real tax collections from TIF leveled off for a couple of years, preliminary data for fiscal 2007 indicate a sharp increase in TIF valuations.

³ A note on all property tax data used in this analysis. Information on city, county, school district, and other property tax collections are collected and compiled annually by the Iowa Department of Management. Historical data were generally only available on computer tape or in hard form and were compiled *ad hoc* by the author. In recent years, a significant and growing amount of property tax information is available on-line at the State of Iowa web site. This includes highly detailed information about TIF property classifications by city for recent fiscal years. Alas, such detail has not been compiled for past years making highly detailed, city specific analyses difficult. Additional information can be found in the annual reports on state and local government finance that are compiled by the Iowa Legislative Services Bureau. Additional information and guidance not generally available on-line were provided by staff members of the Iowa Department of Management and the Legislative Services Bureau. While these agencies provided much of the data, all further processing was done by the authors who are ultimately responsible for their accuracy and the conclusions drawn from the data.

⁴ See, for example, Peter S. Fisher and Charles Bruner, “Tax Increment Financing in Iowa: What Should be Done?”, Iowa Policy Project, April 2003; Dave Swenson and Liesl Eathington, “Do Tax Increment Financing Districts in Iowa Spur Regional Economic Growth?”, Department of Economics, Iowa State University, June 2002; and, in response to the previous paper, Mark Edelman, an extension economics professor and Boone housing developer offered his views in “Appraisal Comments on Tax Increment Financing Effectiveness in the Context of Evaluating Iowa Tax Policy Alternatives,” Community Vitality Center, Iowa State University, February 2003.

reduce tax revenues, [and] substantially impairs or arrests the sound growth of municipalities⁵

TIF originally was a mechanism for infusing a substantial amount of public investment into a region. It allowed the authorizing body, the city, to retain all of the taxes on the property value increments that accumulated to an urban renewal area. In effect it allowed the community to keep all of the increment in property taxes that would have gone to the city, the county, the school district and all of the other governmental authorities that had taxing power and use those tax collections to pay off all of the local-government investment costs (secured through borrowing) incurred to make the area desirable for development. The rationale was that, for a period of time, all local governments would forgo increased tax collections from the development that would not have occurred without the direct intervention of the city. Once the development costs were paid off, all districts would benefit from an enriched tax base.

The normative authorization for this kind of intervention or involvement in the private sector derives from welfare economic principles that demonstrate where governments have an obligation to address market failures. In blighted or otherwise dilapidated areas, there is a valid argument that property owners will systematically under-invest in property because their ability to earn reasonable returns on their investments is eroding. The area is not desirable enough from an economic, social, spatial or other point of view to generate the kind of investment necessary to maintain or improve property values.

When we count all of the public costs of urban renewal efforts and compare them to all of the economic plusses that may accrue over time, we may actually be able to, within this circumscribed territory, isolate both net economic and fiscal benefits accruing to the residents in the targeted area and the sponsoring community at-large. Over a considerable period of time the region may begin to produce tax receipts that represent a net increase over all public finance costs and all increments to public service costs; however, this may not be the case in all urban renewal regions. It is important to point out that such calculations are incredibly difficult to make and in many, if not most, cases highly arbitrary.

Beyond the net economic and fiscal outcomes, renewal efforts in the region may yield sets of social and community advantages that can outweigh raw economic or fiscal gains. Examples might include lower unemployment, new commercial activity, lower crime and other social problems, and neighborhood or community social stability. According to Fisher and Bruner (2003) and our previous work (2001) it is very difficult to get a handle on the overall effectiveness of TIF projects in Iowa as there have been no systematic controlled studies of urban renewal TIFs to date.

⁵ Chapter 403.2(1) Code of Iowa, 2004.

Economic Development TIF

Beginning in the mid 1980s, cities in Iowa were granted the authority to treat economic development as an essential municipal (corporate) purpose.⁶ That meant cities could classify urban renewal economic development activities, *per se*, to be as important as other essential city purpose, just like public safety, maintenance of safe streets and other infrastructure, pollution control, and other essential health and welfare functions of local government. The designation also meant that city officials could by a vote of affirmation create urban renewal areas, enter into debt agreements, and otherwise plan for economic development activities, although the law allows citizens to petition for an election regarding bonding for economic development. These changes greatly changed the use of the authority for TIF in Iowa away from larger urban renewal efforts to smaller, project or firm-specific TIFs.

The authority in economic theory for this use of public resources and local economic development action is much more tenuous than in the urban renewal case. Outwardly, we are not dealing with specific, well-articulated market failures in most of the modern TIF uses. Instead, communities of various sizes, circumstances, and prospects have come to utilize TIF authority as an economic development assistance mechanism irrespective of the original or emerging condition of the community or the needs of the firm or project that is in receipt of TIF investment. Proponents of this practice must look beyond economic principles to justify the practice, to include:

- The use of TIF authority enticed private investment that otherwise would have been indifferent to the community;
- The TIF authority is being used to substantially change or diversify the local economic structure as part of a comprehensive effort to raise area standards of living, stabilize a community, or address important social issues like pervasive unemployment or underemployment; or
- The TIF authority provides local investment “match” funds to be used to leverage state or federal aid.

These reasons may make sense at the local government level, but they are difficult to justify using economic principles on several grounds.

- There is little evidence to support the assertion that local incentives actually determine business locations. In fact there is a growing amount of

⁶ See specifically, Chapter 384.24.3 of the Iowa Code where essential corporate purposes are enumerated and defined and distinguished from general corporate purposes.

research indicating the vast majority of businesses would have otherwise located in the “winning” jurisdiction, nonetheless;

- There is also precious little evidence indicating that local economic development activities substantially alter overall regional economic opportunities – the ability of a community to influence broad economic factors is limited; and
- Communities have many alternative economic development program abilities allowing them to substantially address business needs for infrastructure, to provide targeted and limited tax breaks, and to generate resources that might be used to leverage state or federal funds. These include existing general obligation bonding authority, capital reserve funding, and itemized budgeted amounts for those purposes.
- Finally, principles of intergovernmental fairness would question the legitimacy for taking other governments’ property tax collections in the name of economic development objectives.

Many communities in Iowa have suffered from losses in downtown commercial activity, industrial re-location, and population stagnation or loss. These factors, however, have much to do with long-standing and powerful urbanization forces and less to do with failing markets locally, regionally, or nationally. Still, it is hard to argue to a declining community that their situation is not one of both economic and social necessity and that the use of public funds is not warranted.

In fact, some of the greatest effort in terms of TIF use has been realized in these kinds of declining communities. Unfortunately, and the subsequent research will bear this out, the “yield” on this effort locally is much less than for communities able to use the same authority piggy-backed on the (sub)urbanization effects that are clearly ongoing and evident in Iowa. In short, our research suggests that TIF authority works best by a large margin in the state’s booming suburban and metropolitan communities and that it has had only lack-luster results at best among many of its struggling medium sized cities.

Housing TIF

The use of TIF authority for housing was first granted in 1996, with the allowance of all housing development and promotion specifically categorized in the Iowa code as an essential corporate purpose. This meant that the governing authorities, city or county governments, could authorize housing TIF projects and indebtedness by affirmation instead of submitting the project to the public for approval via a super majority vote, as is required for, for example, general obligation bonds.

This authority was first limited to “the construction of housing for low and moderate income families,” but was, the next legislative session, amended to include all housing.⁷ As a result, the vast majority of TIF housing projects in Iowa to date are not designed to directly address low and moderate income housing needs. The growth in this category has been robust. In fiscal 1997, \$222.5 million in residential taxable valuation was located within the state’s TIF districts. By fiscal 2006, that value had climbed to \$1.577 billion. Not all of that valuation increase is due to TIF housing projects, but a large fraction is, and housing TIF utilization has become quite popular in Iowa.

The use of TIF authority for housing does contain, however, a provision requiring the diversion of TIF revenues to support the housing needs of low and moderate income Iowans.⁸

- For communities with populations of 15,000 or more, TIF housing revenues must be set aside for low and moderate income housing assistance in the amount matching the percentage of low and moderate income in community. This amount is determined by the U.S. Department of Housing and Urban Development (HUD) “section 8” housing guidelines, which qualify families for federal housing assistance. These cities must divert a floor level of at least 10 percent of TIF housing revenues to low and moderate income programs.
- Communities under 15,000 in population must also use HUD guidelines, but they are not required to establish a 10 percent minimum diversion of TIF funds.
- Communities with populations of 5,000 or fewer need not provide any low and moderate income housing assistance provided they have completed a housing needs assessment following rules established by the Iowa Department of Economic Development that show the community does not have a need for low and moderate income housing.
- Communities over 15,000 just limit their housing TIFs to 10 years; communities under 15,000 can extend the projects to 15 years.

There is no statewide compilation of what constitutes percentages of low and medium income households in Iowa, nor is there any compilation documenting the total amounts diverted into housing TIF revenues nor the uses to which those funds may have been put. It is very clear, however, that the vast majority of benefits of TIF housing incentives have accumulated to housing developers and generally middle to upper middle class home purchasers. Housing TIF projects

⁷ Chapter 403.2(3) Iowa Code.

⁸ See, in particular, Chapter 403.22 Iowa Code.

are also gaining popularity in the rural portions of Iowa, and have been used to develop rural, often resort-like, subdivisions by county governments, although the majority of valuation gains in the housing category have accumulated to metropolitan counties with much higher average incomes than rural areas. There is scant evidence that housing TIFs have significantly influenced the availability of low and moderate income housing in the state.

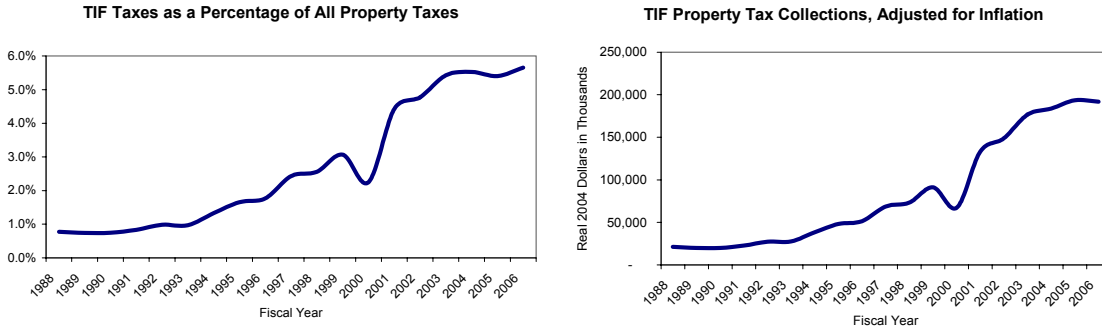
TIF Trends

The evolution of TIF usage in Iowa can be documented with analysis of property tax collections and valuations over time. This section details the growth in number of TIFs, TIF tax collections, and changes in TIF usage by type of property. Most of the detailed information available for analysis of TIFs can only be analyzed cleanly at the county level. The reason for this is that taxes collected within county borders must be certified by County Auditors. Taxing districts of many types cross county boundaries. The budget information is organized to reconcile at the county level, but not at any other level of government without extraordinary effort. However, by analyzing these data over time, aggregated at the county level, we can identify the change in the number of TIF districts in total, the amount and kinds of taxable valuations contained in the districts, and the estimated property taxes that are yielded from those valuations.⁹

There has been a sharp increase in the number and in the amount of incremental revenues captured with TIF districts or projects in recent years. In fiscal 1990, property taxes revenues collected in all TIF projects or districts in Iowa amounted to less than 1 percent of all taxes collected. Using inflation adjusted dollars, those taxes amounted to just under \$20 million (see Figure 1). By fiscal 1997, TIF property tax revenue amounts had risen to 2.4 percent of all property tax collections, or, in real terms \$68.6 million. TIF revenues have increased, generally, since fiscal 1997; although there was a sharp reduction in TIF revenues in fiscal 2000 due to the phasing out of the manufacturing machinery and equipment property tax in Iowa. A huge fraction of the property tax value in many TIF projects was industrial machinery and equipment, and the phase-out eliminated that portion of increment. Cities, primarily, recovered rapidly and sharply increased TIF activity during the early part of the 2000s. TIF revenues are estimated to be 5.7 percent of all property tax collections in fiscal 2006, or, in inflation-adjusted terms, \$191.8 million. As a fraction of property taxes collected, TIF revenues have increased by almost 240 percent since fiscal 1997. The real gain in actual collections has been 280 percent.

⁹ The data set that we analyze identifies only the regular taxes that are collected by Iowa local governments from the regular tax bases and from the TIF districts. The property taxes that are collected from TIF districts are estimated indirectly.

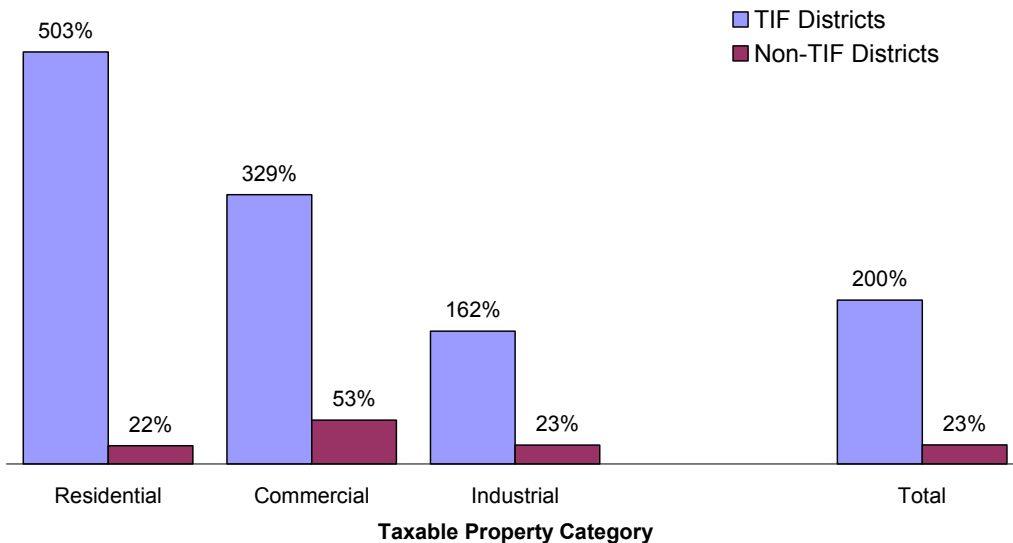
Figure 1



Growth in TIF valuations has been quite robust over the periods measured. Figure 2 demonstrates the difference in real, inflation adjusted growth in property values over the fiscal 1997 to 2006 period for all TIF districts and all other properties. The state’s total non-TIF tax base realized real growth of 23 percent, but the valuation in TIF districts grew by a full 200 percent. The slowest non-TIF district growth was in residential values (due to the effects of residential valuation rollbacks), but over the period measured, residential increments grew by 503 percent, by far the fastest category of growth. The most rapid non-TIF growth occurred in commercial values at 53 percent, but commercial TIF values grew more than 6 times as much, by 329 percent. Real industrial TIF values, the kinds that most TIFs were originally designed to spark, grew the slowest among TIF classifications at 162 percent.

Figure 2

Real Taxable Valuation Changes by Property Classification, Fiscal 1997 to 2006, by TIF and All Other Districts

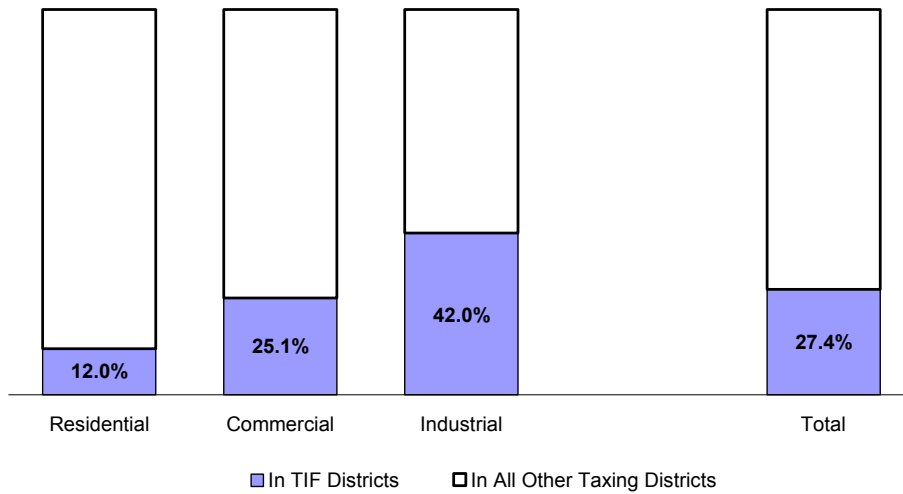


Much of Iowa’s modern property tax base is being channeled into TIF districts. Over a quarter of the new taxable property values in Iowa since fiscal 1997 is in TIF districts, and as Figure 3 demonstrates, the accumulation of TIF district valuation differs considerably across property classifications. These data help us to see what fraction of new growth in the state’s tax base is finding its way into TIF versus all non-TIF valuations.

For the state as a whole, over 27 percent of the real growth in the state’s tax base was in the restricted use TIF territories, although growth in the total state tax base was stemmed considerably by the elimination of the M & E values from the totals. Among all industrial properties, that growth was 42 percent, and among commercial properties that growth was 25 percent. Twelve percent of new residential taxable valuations were contained in TIF districts.¹⁰

Figure 3

Real TIF Taxable Valuation Changes by Property Class as Percentages of Total Valuation Changes, Fiscal 1997 to 2006



TIF districts have been used primarily for promoting commercial property development in recent years, even though the standard justification is that TIF is primarily used to promote industrial growth. Figure 4 illustrates the change in TIF taxable valuation accumulations, total valuations, and non-TIF values that have accrued since fiscal 1997. The figure takes a little explaining. At the outset, we are only comparing residential, industrial, and commercial property values, as these are the primary property classifications subject to TIF. We are excluding

¹⁰ These bars add to more than 100 percent because of the elimination of the M&E properties from the state’s tax base.

agricultural, utility, and machinery and equipment categories as these values are typically not part of TIF districts or have been altered statutorily over the period measured.

The first bar represents the distribution of values among this set of properties in fiscal 1997. We use this as our benchmark. Residential values were nearly 65 percent, commercial values were, 29 percent, and slightly over 6 percent were industrial values. The second bar illustrates the distribution of total property valuation growth among the three classifications. Commercial valuation growth accounted for a greater fraction of the change than might have been suggested given its original share of the tax base in fiscal 1997. Residential growth was a lower share, primarily due to the effects of residential rollback.

Almost 60 percent of TIF growth in this set of properties was commercial, 12 percent industrial, and 29 percent residential. The commercial share of TIF was much higher than would have been expected using fiscal 1997 as the baseline. Another interesting fact is that the commercial share of growth is more than 5 times the share of industrial growth in light of the common justification of TIF as a primary tool for enticing industrial growth.

It is clear that TIF usage is significantly promoting general commercial development, and one must question how much of this development is in fact net new job growth in the Iowa economy. Granted, expansions in, for example, insurance companies or other financial institutions may be considered both good jobs and beneficial to the remainder of the state's economy. Unfortunately it is impossible from this analysis or any other aggregate analysis to sort out commercial TIF growth that benefited a leading national banking operation or a major insurance company versus a Target, a Hy-Vee food store, or a Wal-Mart.¹¹

The amount of Iowa's property tax base that is in TIF districts has grown rapidly over the years and now constitutes a sizable portion of the state's tax base. Considering all rural and urban taxing jurisdictions, TIFs now contain 5.6 percent of the state total tax base. By fiscal 2006, the amount of taxable valuations in TIF districts in Iowa reached \$5.955 billion, as shown in Table 1.¹² The largest fraction of TIF taxable values are commercial at 58.3 percent, followed, perhaps to the surprise of some, by residential at 26.5 percent and then industrial at merely 15 percent, even though TIFs are primarily justified locally as industrial job development tools. Looking at the fraction of each category's total valuation in TIF, we see that 18.6 percent of statewide industrial valuation is in a TIF district, followed by 13 percent of commercial values. Just 3.4 percent of residential values are in a TIF district.

¹¹ A separate question remains as to whether any of these major corporations were in need of public subsidy.

¹² Tentative data release by the Iowa Department of Management in March, 2006, sets Fiscal 2007 TIF values at \$6.9 billion, more than a 15 percent increase over the Fiscal 2006 amount.

Figure 4

Comparing the Composition of Tax Base Change, Fiscal 1997 to 2006, with Tax Base Characteristics in Fiscal 1997

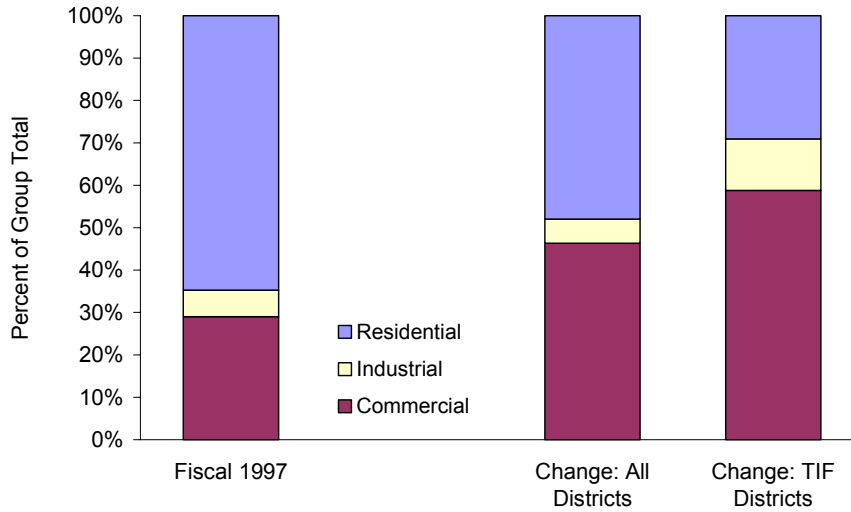


Table 1
Total Taxable Valuations by Property Classification for Fiscal 2006

Category	Total Valuation	TIF Valuation	Percentage of total valuation in TIF	Category share of all TIF valuation
Residential	46,852,676,935	1,576,898,029	3.4%	26.5%
Agricultural	20,722,572,967	19,761,345	0.1%	0.3%
Commercial	26,666,268,746	3,469,568,172	13.0%	58.3%
Industrial	4,767,607,189	888,369,414	18.6%	14.9%
All Other	8,091,852,511	100	0.0%	0.0%
Total	107,100,978,348	5,954,597,060	5.6%	100.0%

Where TIF Change is Occurring

Table 2 allows us to differentiate many important changes in taxable valuation, TIF, and other social and economic indicators by type of county. The data have been organized to control for metropolitan counties as defined by the Census, large urban counties – those with a central city under 50,000 but over 10,000 in population, and small urban and rural counties – those without a central city of 10,000 or more. This table highlights the range of outcomes that are evident over the years regarding TIF, population, and job growth.

Iowa's metropolitan counties accounted for 29 percent of the TIF district or project growth over the period measured, yet yielded 60 percent of real TIF taxable valuation growth. Over that period, they also realized 112 percent of population growth and 72 percent of jobs.

In very sharp contrast, Iowa's smaller counties accounted for 60 percent of TIF district or project growth, but 30 percent of statewide growth in real TIF district incremental values. Though they realized 21 percent of the state's job growth over this period, they found that they suffered a negative 8 percentage share of population growth. Stuck in the middle, the large urban cities added 10 percent of the districts, received 10 percent of the real increment, 7 percent of the jobs, and a -4 percent of the total population growth.

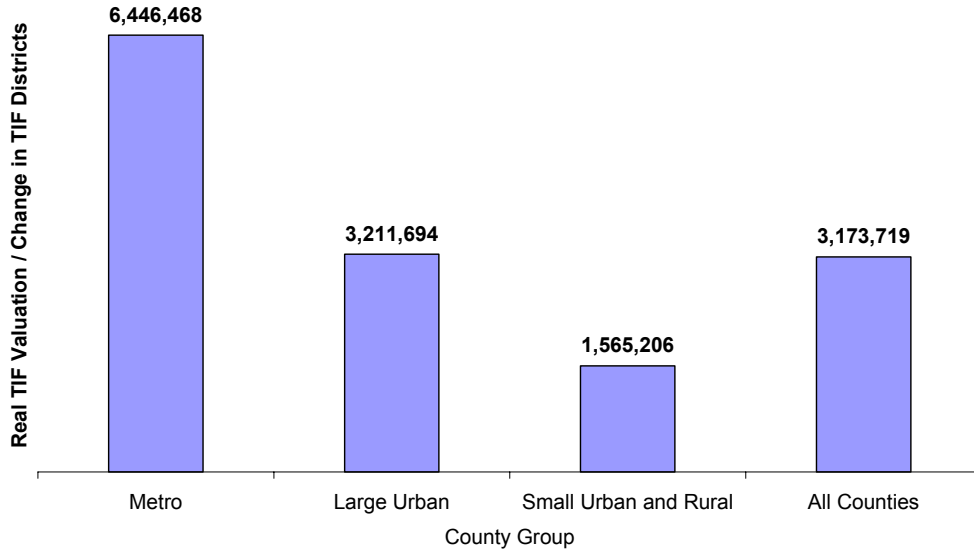
Table 2
Summary of Shares of Changes of Selected Tax and Non-Tax Related Indicators, Fiscal 1997 to 2006

	Metro	Large Urban	Small Urban and Rural
TIF Districts / Projects	29%	10%	60%
TIF Taxable Valuations			
Residential	50%	11%	39%
Commercial	70%	7%	24%
Industrial	36%	26%	39%
Total	60%	10%	30%
Population Growth, 1995 to 2004	112%	-4%	-8%
Total Jobs	72%	7%	21%

Another contrast is displayed in Figure 5. Here we look at the comparative yield received by our different county groups on new TIF projects or districts. The values were arrived at by dividing the total real accumulation in TIF values by the number of new districts that emerged in the different county groups. Statewide, each new TIF district or project between fiscal 1997 and 2006 yielded an average of \$3.17 million in incremental taxable value per project or district. For metro areas, the average amount per new project or new district was \$6.5 million in new base. For the small urban and rural counties, the amount was \$1.565 million per district, half the state average and less than a quarter of the value realized by the metropolitan districts. The large urban districts yielded at the state average. The gains per district or project are disproportionately concentrated in the metropolitan areas.

Figure 5

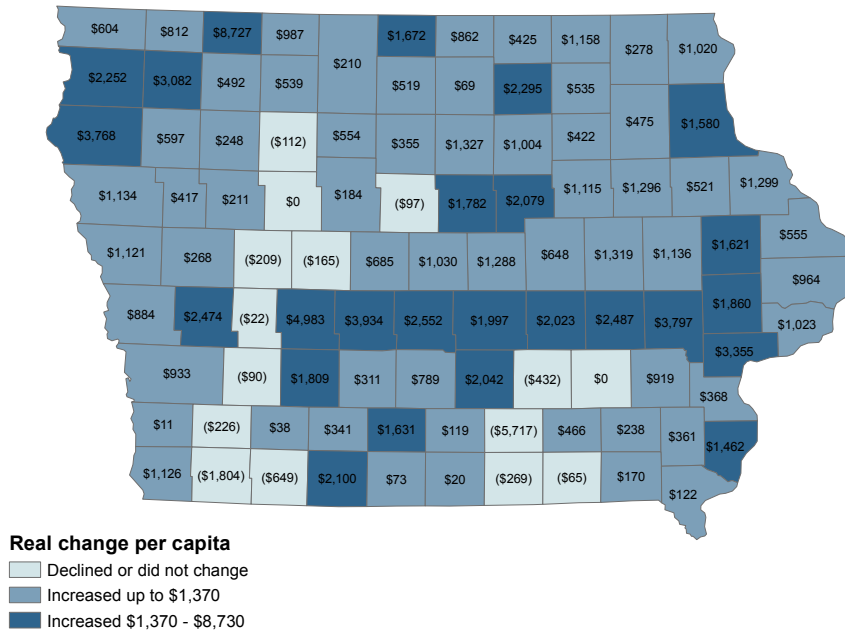
**Real Change in Valuation Per New TIF District/Project,
Fiscal 1997 to 2006**



TIF district property values grew by \$1,370 per capita between fiscal 1997 and 2006. There are, however, very distinct areas of Iowa in which TIF valuation gains were greater than others. These differences are displayed in Map 1. Only 26 counties grew at the statewide average or more, and the strongest growth was found along Interstate 80. There were other pockets of strong growth, namely in northwest Iowa, but large and distinct segments of the state either posted real declines in their total TIF valuations or much smaller growth than the state average. Dickinson County had the greatest real increase at \$8,727 per capita, and Monroe County suffered a real loss of \$5,717, primarily from the elimination of manufacturing and machinery and equipment from the tax base in the late 1990s.

Map 1

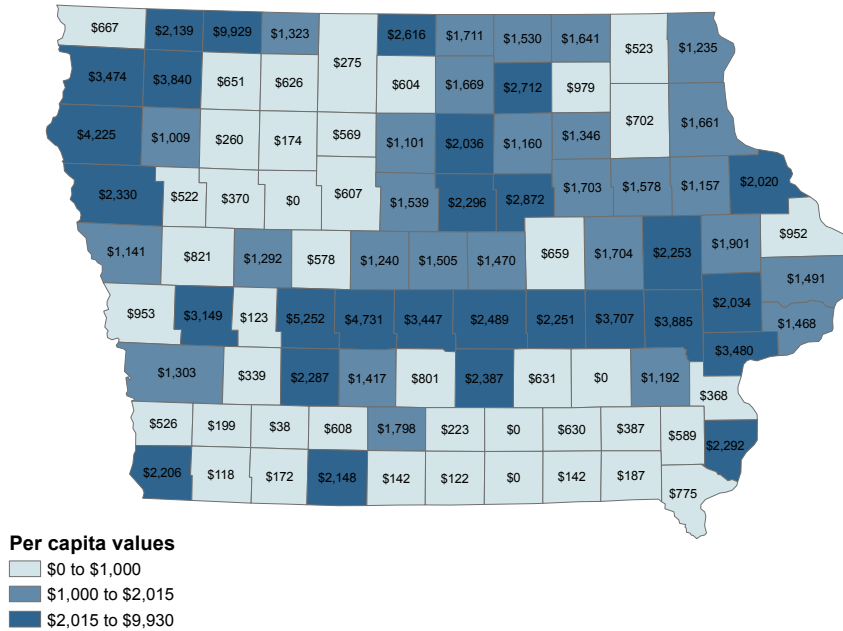
Real Change in TIF Property Valuations Per Capita, Fiscal 1997 to 2006



The fiscal and the economic development benefits of TIF utilization are highly localized in and around some of the state’s wealthiest and fastest growing counties. Map 2 shows that TIF valuation is not equally distributed across Iowa. In particular, except for very high values in the resort and retirement area of Dickinson County, the counties with the highest amount of incremental valuation, a measure of economic success, are primarily clustered around the state’s major metropolitan cities. In marked contrast, 43 of Iowa’s counties have TIF taxable values per capita that are less than half of the statewide average of \$2,017.

Map 2

TIF Property Valuations Per Capita, Fiscal 2006



Which Governments Receive TIF Revenues?

Historically, cities were the main users of TIF authority and the main recipients of TIF receipts, as described in Chapter 403 of the Iowa Code. Iowa's community colleges were also major recipients of TIF receipts under authority found in Chapter 260E of the Iowa Code to provide job training and education services; their use of this authority has waned extensively in recent years in favor of other incentives provided under Iowa law. Lately, county governments have begun to utilize TIF authority as have Rural Improvement Zones.¹³

¹³ Authority for rural improvement zones is contained in Chapter 357H of the Iowa Code. As originally passed, this section allowed for the creation of these zones in counties that had a private lake development whose populations were between 10,500 and 11,500 in 1990. Only four counties fit those extremely narrow limits, although it is apparent that the law was written with just one county in mind: Guthrie County which houses the Lake Panorama development. Since, the Code has been changed to allow any county with a population of less than 18,500 to qualify.

Table 3 gives us several perspectives on which kinds of governments collect TIF revenues, how much revenues they are foregoing for their respective general funds, and the distributions of collections and losses.

In fiscal 2006, \$191.8 million in property tax revenues were accumulated under TIF authority. City governments with TIF authority accounted for \$181.64 million of those collections, or nearly 95 percent. County government claimed \$8.01 million, or 4.2 percent, with rural improvement districts and community colleges, collectively, accounting for just 1.1 percent.

Table 3
Fiscal 2006 TIF Revenue Collections by Recipient

Dollar Value of TIF Revenue Collections by TIF Authority and Taxing Jurisdiction

		TIF Authority				Total
		Cities	Community Colleges	Counties	Rural Improvement Districts	
Taxing jurisdiction	Cities	62,005,720	302,709	717,338	-	63,025,767
	Counties	33,862,684	159,612	2,620,695	453,683	37,096,674
	Community Colleges	3,754,368	19,436	202,386	34,911	4,011,101
	School Districts	74,008,358	344,405	4,000,651	567,690	78,921,104
	All Others	8,009,431	15,662	467,123	287,583	8,779,799
	Total	181,640,561	841,824	8,008,193	1,343,867	191,834,445

Percentage of TIF Revenue Collections by TIF Authority and Taxing Jurisdiction

		TIF Authority				Total
		Cities	Community Colleges	Counties	Rural Improvement Districts	
Taxing jurisdiction	Cities	32.3	0.2	0.4	-	32.9
	Counties	17.7	0.1	1.4	0.2	19.3
	Community Colleges	2.0	0.0	0.1	0.0	2.1
	School Districts	38.6	0.2	2.1	0.3	41.1
	All Others	4.2	0.0	0.2	0.1	4.6
	Total	94.7	0.4	4.2	0.7	100.0

Source: All data from Iowa Department of Management property tax files. Subsequent analysis by Iowa Legislative Services Bureau staff.

Table 3 is also instructive because it gives us an idea of the value of potential general fund property taxes that are diverted into TIF districts receipts. Of the \$191.8 million in total TIF collections, \$74.01 million, or 41.1 percent, are based on school district levies, \$62.01 million, nearly 33 percent, are attributable to the

city portion of consolidated levies applied to TIF districts and projects, and \$33.9 million, 19.3 percent, come from county levies.

On a net exchange basis, that is, the amount received via TIF versus the amount foregone, cities are the only entities with a positive amount. For every dollar in general fund revenues paid by cities into TIF authorities in Iowa, they receive two dollars in property taxes from all other taxing authorities – or 200 percent more than they contribute.

How Are TIF Revenues Used?

Originally, urban development TIF districts borrowed money against future tax collections (the increment) to fund improvements. The property tax increment paid the debt service. Many used a mix of short-term and long-term borrowing against future increments as development often occurred in stages. Over the years, city officials developed different and creative uses of TIF receipts. Rather than obligating the city to debt payments, many cities have used TIF receipts on a project by project basis as a reimbursement to businesses or developers who put in necessary infrastructure or to compensate them for other development-related costs. That reimbursement pledge is considered a debt obligation for the TIF city even though it is not the traditional government bonding or borrowing type of obligation. Other strategies include using TIF receipts as reimbursements to a firm for meeting certain hiring targets within specified time periods. Finally, for many new TIF projects typically involving a single firm, the incremental TIF property taxes are paid by the new firm but then promptly returned as a *de facto* property tax rebate. In all of these more creative uses of TIF revenues, the obligation to the firm, either for infrastructure, job creation, or as a tax abatement is treated as a contractual obligation to the firm; hence, for legal purposes we are assured by cities and by bond counsel that they are also considered debt within the meaning of the original legislation.

A recent study by the Legislative Services Agency of the State of Iowa reports a host of statistics about TIF activity among the cities and counties in Iowa. One important table lists the outstanding obligations associated with TIF activity among the many cities and the counties using this authority. These values are contained in Table 4. The cities and the counties reported \$1.6 billion in cumulative outstanding debt obligations associated with the TIF districts that were in existence in fiscal 2005. Of that total, slightly more than 2/3rds were pledged for bond payments, 21 percent for tax rebates, and the remainder for other project obligations.

There are questions as to whether these filings by the cities and the counties represent their current and future debt obligations accurately or whether there are differing definitions of debt. As the next small section will demonstrate,

however, it is probably not wise to assume that the property taxes that are collected in Iowa are used in the manners and proportions suggested in Table 4.

Table 4
Reported Outstanding TIF Obligations, Fiscal 2005

	Amount in Millions	Percent of Total
Bond Payments	1082.2	67.5%
Non-Bond Loans	43.7	2.7%
Self-Financed Activity	123.8	7.7%
Tax Rebates	338.4	21.1%
Other Project Obligations	15.4	1.0%
Total	1603.5	100.0%

Source: Legislative Services Bureau, Tax Increment Financing Outstanding Obligations Report - 2005

A Profile of Two TIF Cities

An illustration is in order. We will describe the TIF characteristics of two Iowa cities: City A, a medium sized Iowa city, and City B, a much larger place. In fiscal 1997, 2.4 percent of the tax base in City A was contained in an active TIF district. By fiscal 2006, that fraction had grown to 6.8 percent. In City B, TIF accounted for 3.6 percent of the total tax base in fiscal 1997 and 8.5 percent in fiscal 2006. Both cities obviously had very sharp increases in TIF district valuations.

Figure 6 demonstrates the inflation adjusted growth in their respective tax bases. In City A, real TIF valuations grew by 183 percent, total valuations including TIF grew by just 1 percent, and the valuation available for local government general fund taxation declined by 1 percent. In City B, real total valuation increased by 9 percent, TIF valuation by 156 percent, and the general fund tax base by 4 percent.

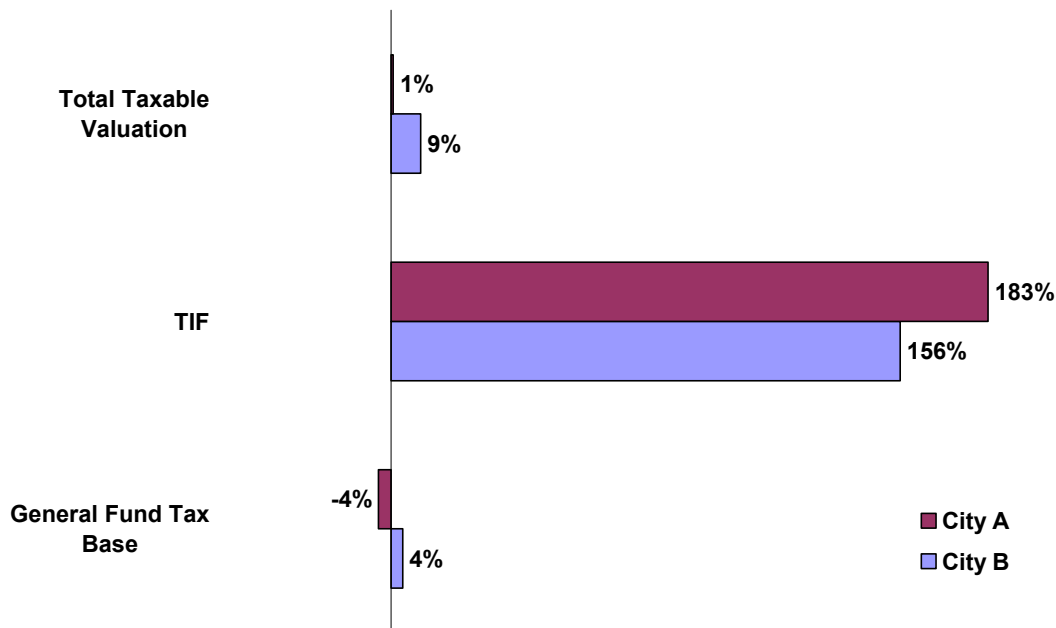
It is clear that the net accumulation in the communities' property tax bases have been highly concentrated in their TIF areas and that their remaining tax bases, those available for the general fund of all other municipal services, have not demonstrated such robust growth.

The net real positive gains in total taxable valuations in both cities, meager as they are, would indicate that the cities and all affected local governments should be in better shape as a consequence of the recent growth. A second closer look, however, would inform the reader that the tax base upon which City A must rely to pay for ongoing general city government operations has declined, while City B values did grow, but by just 4 percent. As the valuation in the TIF district is intended to be used solely to satisfy economic development-related debt

obligations and other economic development activities, that robust largess is not available to the cities general funds, at least within the spirit of the legislation that created and amended TIF authority in Iowa. So, the taxpayers in the non-TIF territories of the cities may either pay higher tax rates or receive lower city services as a result of the shrinking or slowly growing general fund tax bases. In addition, that real general fund tax base erosion or slow growth also affected all other taxing authorities relying upon it, most notably county government and the local school districts. The property taxes collected on the rapidly growing increments in the TIF areas are retained exclusively by City A and by City B to pay for economic development indebtedness and related economic development activity within the district.

Figure 6

**Real Change in Taxable Values by Taxing District,
Fiscal 1997 to 2006**



The next question in this demonstration is basic: how were TIF revenues used in City A and City B?

The Iowa code explicitly tells us how they are supposed to be used:

[The taxes collected on the increment] ... shall be allocated to and when collected be paid into a special fund of the municipality to pay the

principal of and interest on loans, moneys advanced to, or indebtedness, whether funded, refunded, assumed, or otherwise ... incurred by the municipality to finance or refinance, in whole or in part, an urban renewal project within the area

When such loans, advances, indebtedness, and bonds, if any, and interest thereon, have been paid, all moneys thereafter received from taxes upon the taxable property in such urban renewal areas shall be paid into the funds for the respective taxing districts in the same manner as taxes on all other property. Chapter 403.19(2) of the Code of Iowa.

The code contains two specific and seemingly unambiguous statements regarding the collection and use of TIF revenues: (1) the property taxes collected in TIF districts are to be used to “pay off loans, moneys advanced to, or indebtedness” associated with the TIF district; and (2) the amounts not needed to pay debt costs are to be released back to “the respective taxing districts in the same manner as taxes on all other property.” A literal reading of that would mean that the amount of valuation not needed to pay for indebtedness in the year for which the debt is due must be released for use by all affected taxing districts’ general funds.

We can track some of this spending by looking at the communities’ Fiscal 2005 Comprehensive Financial Reports. These accounts are displayed in Table 5 and are presented as spending per \$1,000,000 of TIF revenues collected so that the cities’ identities remain anonymous. From those reports, we find that City A said it made debt principle and interest payments totaling \$450,000 per million of TIF collections. City B made \$581,000 in debt payments per million in TIF revenues. That leaves large fractions of their collections for non-debt uses in both cities. In percentage terms, City A still had 55 percent of its collections available after debt payments, and City B had 42 percent.

City B used 44 percent of its total TIF collections for non-debt uses that were unspecified – a value slightly higher than its actual collections in Fiscal 2005 – thus exhausting all of its TIF receipts in the year that they were collected. City A specified the use of 7.6 percent of the total, and spent another 29 percent for unspecified uses. Carrying forward TIF receipts from a previous year, plus the unspent collections from Fiscal 2005, City A ended up with \$268,900 in unspent collections per original \$1,000,000 collected in TIF property taxes. This money, according to a city officer, was placed in a capital reserve fund for future uses.

In the case of these cities, several questions emerge. First, precisely how do the cities spend, in this case the 29 percent to 44 percent of their TIF revenues that are characterized as unspecified transfers out? Are they spent for roads, buildings, infrastructure, or amenities? Are they deposited into general fund type accounts where their uses are fungible and difficult to track? Are they allocated

to activities that are clearly or not clearly identified as economic development related projects?

Table 5
TIF Uses Per \$1,000,000 in Receipts, Fiscal 2005

	City A	City B
Expenditure Per \$1,000,000 of TIF Revenues		
All Debt	449,764	580,829
Debt principle	341,329	317,781
Debt interest	108,435	263,048
<i>Debt as a percent of revenues</i>	45%	58%
Other spending (specified)	76,730	-
Transfer out (unspecified non debt service uses)	293,115	440,673
<i>Unspecified transfers out as a percent of revenues</i>	29%	44%
Remainder	180,391	(21,502)
Beginning fund balance	88,481	6,803
Ending balance	268,872	(14,699)
<i>Ending balance as a percent of revenues</i>	27%	-1%

Source: Each city's Fiscal 2005 Comprehensive Financial Report

City A officials, when pressed for examples, indicated that some of the TIF money, which was, curiously, categorized in their annual report as a “health and human services” expenditure, in fact went to shore up some infrastructure that was threatening some firms due to recent flooding. Still, in the case of City A, why were 27 percent of the current year TIF tax collections (plus beginning balance) carried forward (ostensibly as future year debt service payments) instead of certifying that need in the next fiscal year when the debt would be due? The city, by its own admission, is banking those TIF funds in anticipation of higher debt service costs in future years rather than levy those costs in the years that they are to be incurred.

This short section was not designed to impugn either city, just to demonstrate that tracking down TIF spending from secondary sources is difficult and raises questions. Analysts can choose any mix of Iowa cities and find peculiarities in their debt filing statements with the county auditors,¹⁴ the amount of TIF debts that they claim in their own financial statements, and the actual uses for which

¹⁴ While not portrayed here, the gap between what City A officials certified as debt to the county auditor was roughly a third of the debt payments that were listed in their annual report. In addition, the amount of TIF increment received by City A from the county auditor and subsequently declared by the city in its annual report differed markedly.

TIF funds were put. This section is intended to demonstrate the potential for uncertainty in several areas, to include: (1) the amount of TIF collections that might be reported by a community in light of actual collections, (2) the amounts spent in the name of economic development, (3) the specific uses to which funds were put, and (4) the reconciliation of those uses to the public. If TIF revenues top \$191,000,000 in Iowa, then the amount of money involved in these areas of uncertainty is immense.

These are important issues that are properly addressed by legislators, auditors, the media, and others with an interest in the proper and appropriate uses of public resources in support of the economy and in support of government services in general. There is a rapidly growing gap between the spirit of urban renewal legislation, written to enable and encourage TIF activity in specific and urban renewal in general, and the actual implementation of that legislation currently in Iowa in the name of economic development.

Convention dictates the increment in TIF districts should be used for debt service, other kinds of payments to businesses and developers (usually in the form of tax rebates), or direct spending on infrastructure within the district. TIF increments are generally thought improperly used when applied to, for example, general public buildings, fire stations, libraries, parks and other recreational spending, general community roadway or other basic community infrastructure, or broad general city government services. Yet, there are many examples of TIF revenues in Iowa's cities used for general fund, not economic development, purposes.

There is a sentiment expressed by some city officials, however, that TIF revenues are considered acceptable funding sources for a broad range of city government activities, almost, it would seem, in defiance of the Iowa Code. As a consequence, there are significant evolutions in language and actions that are, incrementally, being adopted among cities with TIF districts in Iowa. These *incremental* changes appear to be considered more and more settled practice over time in that state and private auditors have not raised any red flags concerning them, to our knowledge, nor have state legislators addressed them head on.

There very well may be an emerging TIF common law or convention that sequentially increases the application of TIF resources to a wider and wider variety of city government economic development and, arguably, non-economic development activities. Remembering the earlier discussion where economic development is now defined as an essential municipal purpose, it is perhaps increasingly easy for communities to argue with all sincerity that nearly everything that they do has an economic development foundation. One is left to wonder whether the restrictive language in the original and amended authority for TIFs in Iowa has become void because it is currently and widely clearly ignored by many cities.

TIF Usage in Iowa at the City Level

Table 3 demonstrated that almost 95 percent of TIF revenues are collected by city governments in Iowa. Not all cities exercise TIF authority, but nearly all cities of certain sizes or circumstances do. The information in this section has been organized to highlight TIF usage by size and circumstances of Iowa cities. The data are organized to characterize

- Metropolitan cities – those with core populations of 50,000 or more persons
- Metropolitan suburbs – cities in counties designated as metropolitan statistical areas (MSA) regardless of their size
- Medium cities – cities not in MSA counties with populations ranging from 2,500 to 49,999
- Small cities – Iowa cities not in MSA counties with populations under 2,500. Nearly all of these communities are classified as rural communities by the U.S. Census.

Properly classifying cities is important for any kind of analysis of change in Iowa. Over the years, metropolitan cities and their suburbs have realized population and commercial growth in excess of or, in many cases, to the exclusion of other cities in Iowa. A very large number of the state's smaller cities have experienced sharp population losses. Identifying the average experiences over time among different sizes of cities helps us to understand how economic, fiscal, and population changes are occurring. It also helps us to isolate the prevalence of TIF ordinance dependence in Iowa.

Table 6 reveals some of the basic characteristics of Iowa's cities in light of TIF ordinance use. According to the data that we analyzed, there were 375 communities utilizing TIF authority in fiscal 2006, or 40 percent of all communities. One-hundred percent of the nine metropolitan cities employ TIF authority, followed by 97 percent of all medium sized cities. The metropolitan suburban cities are next at 55 percent, followed by 26 percent of small cities. We can see that TIF ordinance usage is much less prevalent for Iowa's smaller cities, those under 2,500 in population. Three-quarters forgo this economic development option, as do 45 percent of cities that are in MSA counties – mostly because they are very small communities or they are distant from the growing metropolitan core areas.¹⁵ Overall, TIF authority is used by 40 percent of Iowa communities. In fiscal 1991, about 15 percent of cities utilized TIFs, so the rate of usage has nearly tripled over the intervening years.

¹⁵ Redefinition of metropolitan-influence counties in Iowa in the 2000 census expanded the number of the state's metropolitan counties from 10 to 20 and extended the metro's functional reach out into more rural areas.

Table 6
Prevalence of TIF Usage by City Size, Fiscal 2006

	Cities with TIF		Cities without TIF	
	Number	Percent of Cities	Number	Percent of Cities
Metropolitan cities	9	100%	0	0%
Metropolitan suburbs	127	55%	106	45%
Medium cities	76	97%	2	3%
Small cities	163	26%	465	74%
All Sizes	375	40%	573	60%

Our primary comparison period for this study is fiscal 1997 to fiscal 2006 – a period where the dependence on TIFs increased and the dominant uses of TIF authority began to change. Figure 7 demonstrates the change in dependence over that measurement period by identifying the percentage of city taxable valuation that is in TIF districts by city grouping. In fiscal 2007, just over 5 percent of city tax bases were in TIF districts. By fiscal 2006, that percentage had grown to nearly 9 percent. While all city groups realized gains, the largest are found in the metropolitan suburbs and in the small cities. In both cases their percentages of tax base in TIF districts more than doubled to about 12.5 percent. This percentage represents the amount of city valuation that is available only for TIF uses and is excluded from use by the general funds of all local governments that otherwise would have taxing authority over those bases.¹⁶

¹⁶ It is often stated among city officials that “not all of that valuation is used by the city.” The TIF valuation declared by the cities on their certified property tax collection forms, the amount reported in this study, is the amount of TIF valuation retained by the community not the amount that may have been released or is otherwise not utilized. Portions of TIF districts that are released for general fund levies are reported as general fund taxable property values for that year. If they’ve released it, it isn’t TIF.

Figure 7

**TIF Valuation as a Percentage of Total Valuation in TIF Cities,
Fiscal Year 1997 and 2006**

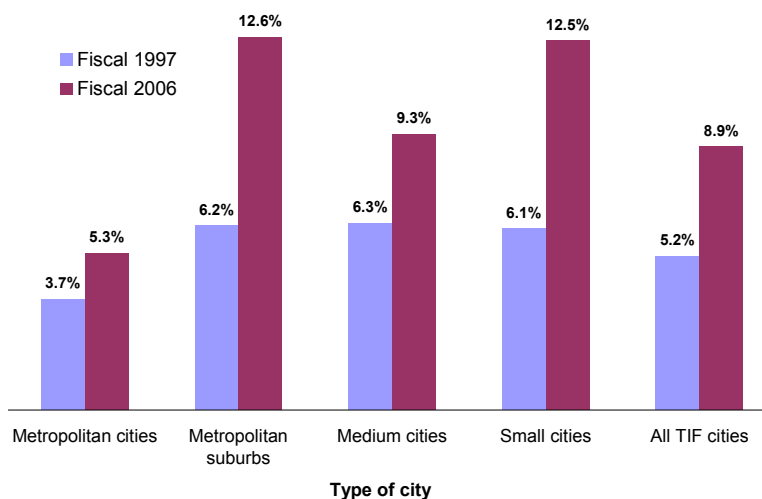


Table 7 compares the experiences of cities using three different measures of change over time, including TIF taxable valuation change. For the period measured we have identified population change, TIF taxable valuation change, and total taxable valuation change by city category. Right off, it is apparent that population growth has disproportionately accumulated to Iowa’s metropolitan suburbs. We estimate those communities realized 88 percent of the population change occurring in the state between fiscal 1997 and 2006 (calendar years 1995 through 2004).¹⁷ Iowa’s metropolitan cities realized 20 percent of population growth. Together, the metropolitan core and suburb cities accounted for 108 percent of all population change. Iowa’s medium cities declined by 8 percent and its small cities did not grow.

When we look at the categorical relationship between TIF change and population change, no clear pattern emerges. The suburbs accumulated 56 percent of all TIF valuation growth and 88 percent of population growth in TIF cities. Their percentage change in people far exceeded their percentage change in TIF. In the medium cities, their accumulation of 16 percent of TIF valuation growth failed to coincide with population gains – they experienced population loss instead. Metro cities accumulated of 18 percent of TIF growth, compared to 20 percent of the population growth. Lastly, we need to look at how total taxable valuation is growing. Among the metropolitan cities and suburbs, their shares of total

¹⁷ Taxable valuations in Iowa are determined as of January 1 or an assessment year. Those assessments are then applied to the next fiscal year. For example, calendar year 2000 taxable valuations are applied to the fiscal 2002 period, the next fiscal year after which the assessments were made.

valuation growth exceeded their shares of TIF growth. Conversely, among the medium and small cities, their shares of TIF valuation growth far exceeded their shares of total valuation growth.

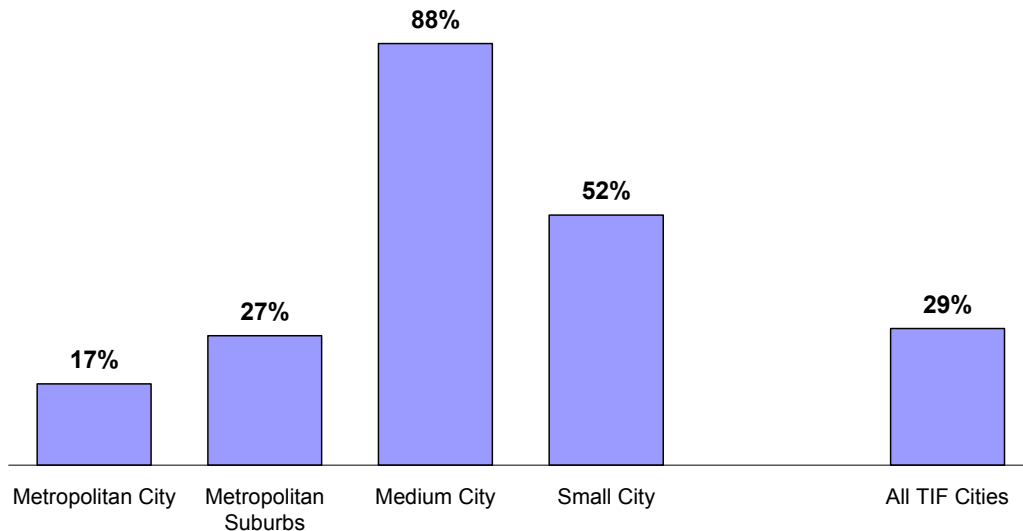
Table 7
Shares of Total Changes by City Group for
Cities with TIF Ordinances

Shares of Total Change	Cities With TIF		Total Valuation Change
	Population Change	TIF Change	
Metropolitan City	20%	18%	30%
Metropolitan Suburbs	88%	56%	59%
Medium City	-8%	16%	5%
Small City	0%	9%	5%
All TIF Cities	100%	100%	100%

Another way to portray the change in TIF valuation as it relates to the total change in urban valuation is found in Figure 8. For all cities with TIF ordinances, TIF valuations were 29 percent of total urban taxable valuation growth. By city size, the lowest fractions are found in the metropolitan core and suburban cities where TIF accumulations were 17 percent and 27 percent, respectively, of total growth. A much different picture is demonstrated for the medium and the smaller cities. For the medium cities, 88 percent of their taxable valuation growth occurred in TIF districts, and is therefore not available to contribute to other local governments' general fund in those communities. In the small cities, the TIF portion was 52 percent. If we conclude that total taxable valuation change and total population gains are related to growth in TIF amounts and TIF efforts, the evidence is very clear that TIF accumulations are much more beneficial to metropolitan cities and suburbs: they are realizing all net population growth and their TIF growth is a much lower percentage of total valuation than smaller cities.

Figure 8

TIF Values as Percentages of Total Taxable Value Growth for Cities, Fiscal 1997 to 2006

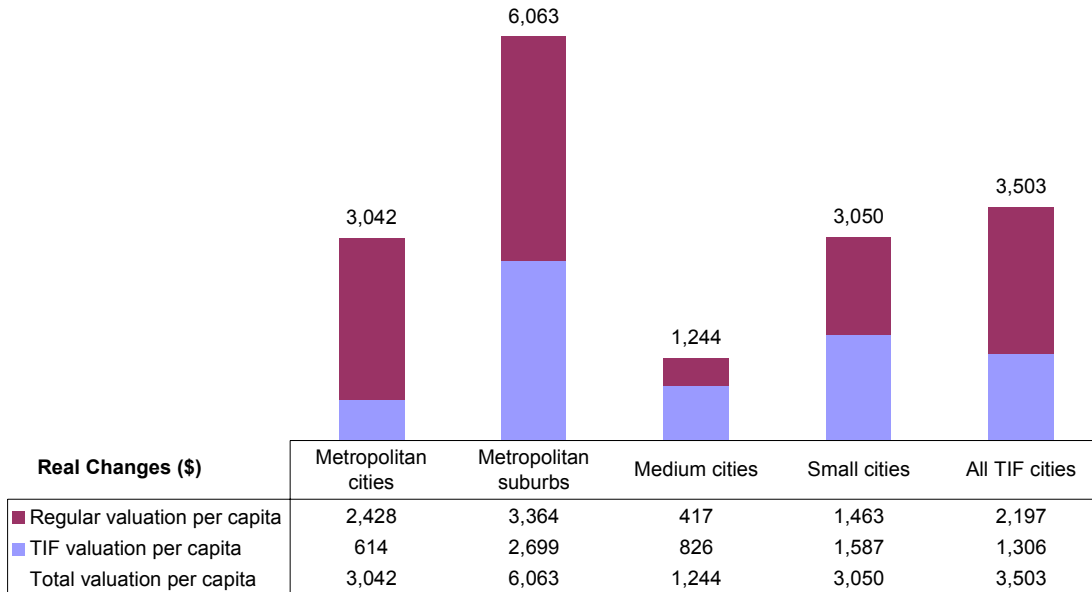


Another perhaps more telling comparison is found in Figure 9. Here we standardize the accumulations of regular and TIF valuation by the total population of each city group. Among all TIF cities, the average growth in real (adjusted for inflation) valuation per person was \$3,503, with \$1,306 of this growth occurring in TIF districts.

- On average, Iowa's metropolitan core cities added \$3,042 in real total valuation per capita. TIF valuation growth accounted for \$614 of this total.
- Iowa's suburban cities experienced \$6,063 in total valuation growth per capita, including \$2,700 per person in TIF growth. The per person "yield" in TIF growth was more than four times that for the metro core cities and more than twice the average, statewide per person rate.
- The real change for the medium cities was \$1,244 in total valuation per capita. Their TIF valuation growth of \$826 per capita was a third less than the state average and a full 70 percent less than the suburban cities.
- On a per capita basis, the small cities did better than the medium cities, with growth of \$3,050 in total valuation and \$1,587 in TIF accumulations per capita. Their real per capita TIF growth was 20 percent higher than the state average and roughly 40 percent below the suburban city rate.

Figure 9

Real Change in City Valuations Per Capita, Fiscal 1997-2006



The question of causality inevitably enters the discussion at this stage. TIF proponents argue that TIF effort is highly instrumental in producing desirable community-wide outcomes at the municipal level, both economically and demographically – that without TIF ordinances, the total accumulations that are listed would not have otherwise occurred. This is what is called the “but-for” criterion. Others might counter that it is very hard to sort out the effects of TIF as a tool of development from overall and over-riding urbanization influences that have been slowly transforming demography, capital investment, and the economy of the state, irrespective of development incentives at the local or state levels.

Traditional urban economics would conclude that much of the growth accumulating to metropolitan areas would very likely have occurred with or without incentives. Others might counter that much of the vaunted insurance and finance company growth, for example, in the Des Moines downtown area would not have happened without aggressive tax and development incentives despite the fact that the area is known nationally for its concentration of insurance and financial firms. And, it is quite evident that the very aggressive use of TIF authority among the state’s medium and small cities is not resulting in population growth. If, indeed, the vitality of rural areas is the maintenance of

their population bases, then there is no systematic evidence that TIF ordinances are effective in overcoming their losses.¹⁸

These issues cannot be resolved given the gradual evolution of TIF uses in Iowa and the paucity of specific data necessary to compare different types of growth in Iowa considering the different TIF uses over time. Still, TIF proponents, Iowa's city officials and economic development specialists, primarily, are often quick to note that TIF is the primary tool of economic development in the state. The problem with that claim, however, is that TIFs are relegated to be both the cause and the effect: had we not offered TIF incentives the firm wouldn't have located in our community; now that the firm located in our community, the TIF increment demonstrates our success. But as our data suggest, the outcomes are quite different among different kinds of communities, and we can go back and use Figure 9 to ascertain some nominal efficiencies in the existing system and the changes that have accumulated over the past nine fiscal periods.

On the average, the metropolitan core cities were able to realize \$2,428 in regular valuation from roughly a quarter as much TIF effort. In contrast, the suburban cities, while yielding much more in total valuation change realized a dollar's worth of regular valuation for every \$.80 of TIF valuation. If we measure TIF success broadly as the ratio of TIF to real regular valuation growth, metropolitan uses are much more efficient on a taxable valuation basis than suburban. For the medium cities, nearly \$2 of TIF valuation accumulation was needed before a dollar's worth of regular valuation was gained and available for local governments' general funds. For the smallest cities, \$1.08 of TIF gain compared to \$1.00 of gain in the regular tax base. By these comparisons, the best regular valuation outcome compared to TIF outcomes occurs at the metropolitan level and by far the worse at the medium city (10,000 to 49,000) level.

On a net real receipts per capita basis, no matter the efficiency considerations, metropolitan area gains far outstrip gains in non-metropolitan regions. If we measure success simply by the accumulation of population, then, by far, the suburban cities performed the best as they accumulated 88 percent of the population changes accruing in Iowa, compared to their 56 percent share of TIF valuation change. Their population yield exceeded the metro core cities strongly; the population yield in the medium cities was negative, and in the small cities zero.

¹⁸ There is also the often claimed response: "but we would have declined much more had it not been for our economic development efforts." That is a response that, obviously, cannot be measured because we do not conduct systematic controlled experiments on community change over time given community characteristics and the presence of TIF ordinances. Of the cities without TIF ordinances, 75 percent are very small and, by virtue of their circumstances and historical change, have ruled the ordinance out as a potential effective tool for local growth.

Individual City Comparisons

Table 8 identifies the top cities in Iowa realizing gains in real (adjusted for inflation) TIF valuations between fiscal 1997 and 2006. The cities listed in the table account for 75 percent of the cumulative gains statewide in TIF valuation among all cities with the ordinance. These cities are ranked from highest to lowest by real TIF valuation gains. The table also shows the cities' regular taxable valuations and total valuations. Last, we compare these top 31 cities to all other TIF cities and non-TIF cities in terms of real TIF growth.

Over the nine fiscal years assessed, the city of Des Moines posted \$297.4 million in real TIF valuation growth, followed by Coralville, a city less than a 10th the size of Des Moines, with \$296 million in real TIF valuation growth, and West Des Moines with \$197.4 million. Collectively the top 31 cities account for \$2.237 billion (75 percent) in real TIF valuation growth; the remaining 344 cities with TIF authority shared the remaining \$727.1 million in statewide TIF valuation growth. Half of the TIF valuation growth in Iowa was found in just the top 11 cities.

When we compare real TIF valuation change with all taxable valuation change we can see wide variations. TIF accounted for 62 percent of all real valuation growth in Des Moines over the measurement period, and 69 percent of the growth in Coralville, compared to 26 percent for West Des Moines.¹⁹ The average for the top 31 cities was 38 percent. For the remaining 344 cities, the average amount of total valuation change in TIF was 17 percent, less than half the fraction realized by the top 31 cities. The statistically beneficial outcomes associated with TIF valuation accumulations are highly concentrated in only a few Iowa cities.

We also see that nine of these top 31 cities, while posting the stronger gains in TIF valuations over this period also realized inflation adjusted declines in the value of all regular taxable valuation, the valuation that is available for use by the general funds of all local governments in those jurisdictions. The real decline in this category was most pronounced in Burlington at \$56.3 million and then in Marshalltown at \$24.9 million. For all TIF cities in Iowa, 120 had positive TIF valuation gains yet reductions in regular taxable valuations. An additional 13 TIF cities had both real reductions in TIF valuations and real reductions to regular valuations.

¹⁹ That comparatively higher amount of TIF growth as a percentage of all valuation growth for the city of Des Moines stands out in stark contrast to the average statistics demonstrated in Figure 3 where the metropolitan average was 17 percent.

Table 8
Real Changes in Property Valuations,
Fiscal 1997 to 2006, Ranked by TIF

	Regular Taxable Valuation	TIF Valuation	Cumulative Percent of All TIF	All Taxable Valuation
Des Moines	181,415,723	297,471,094	10%	478,886,817
Coralville	132,784,003	296,026,484	21%	428,810,488
West Des Moines	559,856,628	197,337,027	28%	757,193,654
Cedar Falls	260,597,598	116,677,939	32%	377,275,537
Altoona	132,489,855	112,304,586	36%	244,794,441
Cedar Rapids	218,354,167	91,181,515	39%	309,535,682
Urbandale	488,026,075	84,488,168	42%	572,514,243
Dubuque	118,597,246	83,105,504	45%	201,702,750
Clive	211,928,870	67,005,233	47%	278,934,103
Johnston	318,716,683	62,005,381	49%	380,722,064
Spirit Lake	(2,187,367)	60,536,509	51%	58,349,141
Pleasant Hill	57,594,917	59,377,329	53%	116,972,247
Bettendorf	169,355,934	54,567,341	55%	223,923,275
Pella	6,761,252	52,221,559	57%	58,982,811
Le Mars	(4,304,664)	48,032,321	59%	43,727,657
Ankeny	477,492,698	44,756,103	60%	522,248,801
Waterloo	195,103,378	40,957,981	62%	236,061,358
Waukee	127,431,391	36,716,545	63%	164,147,936
West Burlington	(5,827,454)	35,496,364	64%	29,668,911
Iowa Falls	(16,225,385)	30,308,024	65%	14,082,640
Le Claire	9,736,366	28,806,211	66%	38,542,577
Marshalltown	(24,857,927)	28,759,446	67%	3,901,519
Burlington	(56,252,466)	27,127,734	68%	(29,124,732)
Asbury	13,230,250	26,730,158	69%	39,960,408
Norwalk	38,069,019	23,563,145	70%	61,632,164
Sheldon	(16,747,360)	23,045,831	71%	6,298,471
Tiffin	3,511,387	22,125,117	72%	25,636,504
Nevada	(6,656,441)	21,951,224	72%	15,294,783
Windsor Heights	651,578	21,743,432	73%	22,395,010
Harlan	(8,458,383)	21,735,315	74%	13,276,932
Muscatine	(20,784,455)	21,148,475	75%	364,020
<hr/>				
<i>Subtotal Top 31 Cities</i>	<i>3,559,403,118</i>	<i>2,137,309,094</i>	<i>75%</i>	<i>5,696,712,212</i>
<i>All Other TIF Cities: N = 344</i>	<i>3,602,122,536</i>	<i>727,088,907</i>	<i>25%</i>	<i>4,329,211,444</i>
<i>Total TIF Cities</i>	<i>7,161,525,655</i>	<i>2,864,398,001</i>	<i>100%</i>	<i>10,025,923,656</i>
<i>All non-TIF Cities: N=573</i>	<i>117,785,909</i>	<i>N/A</i>	<i>N/A</i>	<i>117,785,909</i>
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All Cities: N = 948	7,279,311,563	2,864,398,001	100%	10,143,709,565

Twelve of the communities in the top 31 of real TIF accumulations are located in the Polk, Warren, and Dallas County metropolitan region. Combined, these 10 communities account for 35 percent of statewide real TIF growth. This underscores the fact that TIF valuation gains are highly concentrated geographically, in this case in central Iowa. They are also highly concentrated among metropolitan counties. Combined, all metropolitan county communities (central cities and suburbs) accumulated 74 percent of all real TIF growth over the period measured.

Last, there are 573 communities, 60 percent, in Iowa that do not or cannot use TIF authority. These communities' total real taxable valuation gains were \$117.8 million. Stated differently, 60 percent of Iowa's communities realized only 1.2 percent of the real, statewide growth in total taxable valuation.

Conclusion

Tax Increment Finance districts are a large and rapidly growing component of Iowa's economic development infrastructure and its property tax base. This report shows that the amount of valuation contained within TIF districts is, in the current fiscal year, nearly \$6 billion dollars and yielded over \$191 million in property taxes that were used in the name of promoting economic growth and redevelopment among Iowa's cities and counties.

More than a quarter of the state's recent real tax base growth has been sequestered in TIF districts. Of that TIF growth, three-quarters have accumulated to the state's metropolitan counties, with the remaining 25 percent of TIF value growth shared among the 79 other counties. TIF success, as in realizing robust gains in area increments, is highly localized in and around the state's metropolitan counties, with much more meager, and in some cases negative, outcomes posted among most of Iowa's more rural and remote areas.

It is very hard to demonstrate that TIF usage has, on the whole, benefited the state of Iowa in any uniform manner. Our data show that three-quarters of all of the valuation gains in TIF districts in Iowa are concentrated in just 31 cities (and half of the growth in a mere 11 cities). Among those top 31 cities, some are enjoying booming job and population growth, but some are not. Some of are expanding their total tax bases, and some of them are contracting despite their aggressive use of TIFs. For some it is enhancing fortunes, and in others it is not reversing long and pervasive patterns of business and population decline. None of our data can sort out what growth would have occurred in growing areas regardless of the use of TIF incentives, nor can it tell us what growth would have left had TIF resources not been utilized.

Many of Iowa's small to medium sized cities and, lately, counties have aggressively deployed TIF authority, yet the return on their effort is small compared to the much more lucrative use of TIF authority in metropolitan areas.

Here is a common scenario about TIF usage in Iowa's smaller cities: Usually, TIF authority is applied to areas of communities that are near the edge of town or aligned with other growth areas of the community, say along a major state highway – their economic development zones or districts. Frequently, much if not all of the incremental growth in these communities is a relocation of growth from deteriorating main-street areas out to the benefited zones. As a consequence, the TIF district gains, the general tax base shrinks, and the re-locating firm gets a tax break. The cities claim they retained the businesses and count this as an economic development success, but city, school, and county general fund tax rates go up to cover costs no longer borne by the re-located firm. Regionally there has been no job or income growth as a result.

From conversations with county auditors and others privy to city and county government activities regarding TIF usage, there are also increasing reports that TIF revenues in Iowa are a lucrative revenue stream for cities that they are loathe to cede back to other local governments. There are also reports that TIF revenues, according to the Iowa Code, supposed to be collected and used specifically for economic development or urban renewal debt payments and infrastructure enhancements are being used to pay for fire stations, libraries, parks and recreation facilities, general road repair and maintenance, and hosts of other general or traditional government uses.

Whether these uses are abuses or the legitimate exercise of TIF authority is the province of the Iowa General Assembly and the state auditors who monitor local government spending. It is also the province of citizens. But as the profile of our two cities demonstrated, it is not easy to figure out from a city's annual report precisely how much TIF revenue they may have collected, how they were used, and whether those uses, in and of themselves, were proper uses.

In the next fiscal year more than \$200 million will be collected in Iowa TIF districts. According to our tables, the average Iowa city using TIF revenues for economic development purposes will give up \$1 in potential general fund receipts for every \$2 in TIF receipts that it gets from other local governments as a result. And that, our research suggests, is the only consistent return on investment most of Iowa's cities are realizing from TIF. The net returns to the economy, to the state's taxpayers, and to good government are yet to be determined.

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