

## TIF-Top Shape: Tax Increment Financing<sup>1</sup>

This IPRO report presents an overview of tax increment financing in Iowa and across the United States.

### Definitions

*Tax increment financing (TIF):* A public financing method that allows municipalities to use property tax revenue from increases in assessed values within a designated TIF area for redevelopment projects.<sup>2</sup>

*Blighted area:* Any region of a city or town that has fallen into disrepair or otherwise has become undesirable.<sup>3</sup>

*Base:* The taxable value of a tax increment finance area on the day of TIF declaration.<sup>4</sup>

*Increment:* The new value of taxes that result as TIF district develops commercially. These funds are retained by the city to cover the costs of redeveloping the district.<sup>5</sup>

### Background

Tax increment financing (TIF) is a method of reallocating property tax revenues produced as a result of an increase in taxable valuation above a base figure within a tax increment area.<sup>6</sup> An area that has been blighted and is in need of economic support can be designated to be a tax increment finance area. The taxable value of that area is then frozen to the value it was on the day of declaration. As the area develops commercially, the incremental value of taxes that would have been collected by all taxing authorities (city, county, school district) is retained by the city to pay off the costs of redeveloping the TIF district.

Over time, the incremental taxable values are released back to the taxing jurisdictions that are then able to capture the new taxable value increment for general funds. TIF policies first appeared in 1952 when California invented the financing method. Every state, except Arizona and Wyoming, has enabled legislation for TIF.<sup>7</sup> Changes to Iowa state law in 1985 marked a departure from using TIF to renovate blighted areas to promoting economic development.<sup>8</sup>

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<sup>2</sup> Josten, Robert E. "What is Tax Increment Financing?" *Marion Economic Development Company*. Web. 27 Oct. 2011. <<http://www.medcoiowa.org>>.

<sup>3</sup> Ibid.

<sup>4</sup> Swenson, David, Liesl Eathington. "Do Tax Increment Finance Districts in Iowa Spur Regional Economic and Demographic Growth?" *Iowa State University Department of Economics*. Web. 28 Oct. 2011. <<http://www.econ.iastate.edu>>.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Redfield, Kent D. "Trickle Down from the Rising Tide- TIFs and Urban Development Policy in Illinois." *Policy Research Action Group Loyola University Chicago*. 2002. Web. 27 Oct. 2011. <[www.luc.edu/curl/prag/](http://www.luc.edu/curl/prag/)>.

<sup>8</sup> Ibid.

## Costs and Benefits of TIF

### *Costs*

#### *Misuse of TIF*

Use of TIF has changed from its original intent. TIF is now more widely used and used mostly for economic development rather than redeveloping blighted areas.

#### *Shifting Tax Base*

TIF developments shift taxes from business to residential taxpayers or from residents of one city to rural residents or those of nearby towns.<sup>9</sup> When the tax base is frozen, county governments and school districts that would normally share the increased tax revenue do not receive any funds. These governments then increase their taxes to make up for the lost revenue.

#### *Commercialization*

TIF incentivizes retail development, as retailers are attracted to locate in districts with tax incentives.<sup>10</sup> New retailers often compete with existing unsubsidized businesses. Additionally, buildings and infrastructure sometimes become preferable investments compared to services such as mental health, recreation, and libraries.<sup>11</sup>

### *Benefits*

#### *Reformed blighted areas*

Public improvement projects redevelop undesirable and neglected areas of town to improve the overall city image. By redeveloping former blighted areas and brown fields, TIF projects provide environmental and aesthetic enhancements.

#### *Economic development*

The projects that result in a growth of the tax base for country governments and school districts would not occur in the first place without TIF. TIF ultimately increases and enriches the tax base through job growth, population retention or growth, earnings gains, and trade enhancement.<sup>12</sup>

## Case Studies

### *Coralville, Iowa*

In October 2011, the Coralville City Council approved the use of TIF to redevelop the Iowa River Landing and bring in the retail store Von Maur. The Iowa River Landing, a city-owned 180-acre site off Interstate 80, is a formerly blighted area that once included a strip club, an adult bookstore, and underground diesel storage tanks. The city of Coralville will give Von Maur nearly \$9.5 million for construction costs to build an 80,000-square foot store that will relocate the retailer from Iowa City's

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<sup>9</sup> Ibid.

<sup>10</sup> "A Step Backwards in TIF Reform." Iowa Policy Center. 21 May 2008. Web. 27 Oct. 2011. <<http://www.iowapolicyproject.org/TIF.html>>.

<sup>11</sup> Fisher, Peter S. "Tax Increment Financing: A Case Study of Johnson County." *Iowa Fiscal Partnership*, November 2011. Web. 4 Dec. 2011. <<http://www.iowafiscal.org>>.

<sup>12</sup> Swenson, David and Liesl Eathington. "Do Tax Increment Finance Districts in Iowa Spur Regional Economic and Demographic Growth?" *Iowa State University Department of Economics*. Web. 28 Oct. 2011. <<http://www.econ.iastate.edu>>.

Sycamore Mall.<sup>13</sup> The Iowa River Landing project is part of Coralville's First Avenue Highway 6 TIF district, which includes the Coral Ridge Mall; the city was able to use property tax revenues collected from the mall to fund the project. Coralville's Mall/6 Urban Renewal Area yielded in \$12.8 million in new property taxes for the TIF fund, diverting \$5 million from Clear Creek Amana and Iowa City community school districts, \$2.7 million from Johnson County, and \$4.7 million from Coralville's general fund.<sup>14</sup> Nearly 40 percent of Coralville's \$1.3 billion in taxable property is in TIF districts, compared with 0.89 percent for nearby Iowa City.<sup>15</sup> The use of TIF to relocate Von Maur has drawn criticism from Iowa City and discussion of reforming TIF laws when the Iowa General Assembly resumes in January 2012.

### *Chicago, Illinois*

By the late 1990s, TIF was the most widely used economic development tool under Chicago Mayor Daley. The increased utilization of TIF was accompanied by widespread debate, as almost two-thirds of Chicago's 121 TIF districts have been created since 1998. More than 13 percent of Chicago's property tax base is tied up in TIF districts.<sup>16</sup> Many argue that this is cutting off taxing bodies, such as school districts, from sources of revenue growth and shifting the tax burden to taxpayers.

This report was prepared in December 2011 by the Iowa Policy Research Organization (IPRO), a non-partisan public policy undergraduate group at the University of Iowa. For additional research on this or other issues, please visit our website at <http://www.uiowa.edu/~ipro/> or contact [rene-rocha@uiowa.edu](mailto:rene-rocha@uiowa.edu).

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<sup>13</sup> Hennigan, Greg. "Research: Von Maur's Coralville Deal worth \$16 million." *Cedar Rapids Gazette*. 5 Oct. 2011. Web. 29 Oct. 2011. < <http://thegazette.com/2011/10/05/researcher-von-maurs-coralville-deal-worth-16-million/>>.

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> Nolan, Patricia and Helen Berlin. "NCBG's TIF Study Shows that TIF is Nost Cost-Free." *Policy Research Action Group Loyola University Chicago*. 2002. Web. 27 Oct. 2011. <[www.luc.edu/curl/prag/](http://www.luc.edu/curl/prag/)>.