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Johnson County Examples Illustrate Problems with TIF *New Report Recommends Statewide Reforms to Stop Abuses*

IOWA CITY, Iowa (November 21, 2011) — Poorly understood, hotly debated and often abused, tax-increment financing (TIF) has become a tool of choice for cities' economic development strategies, frequently to the detriment of schools and counties, and at great cost to both state and local taxpayers.

A new study delves into examples from Johnson County, where a controversial project in Coralville is only the latest example of how state law does not protect other local or neighboring jurisdictions from an abusive use of TIF.

"Johnson County is a good case study for this report," said Peter Fisher, research director for the nonpartisan Iowa Policy Project in Iowa City and author of the report for the Iowa Fiscal Partnership.

"But it's a statewide issue. TIF has been allowed to degenerate so that many cities view a TIF area as a perpetual cash cow to finance city operations that have nothing to do with economic development.

"That cities have been permitted to do this for decades is an abuse in itself that demands correction by the Legislature."

Corrections, Fisher suggested, could include severe limits on TIF involving residential property or to promote retail activity, and prohibiting the rollover of a TIF from one project to another.

Fisher's case study of Johnson County TIF uses — available at www.iowafiscal.org — finds:

- Four cities in Johnson County have over one-third of their tax base in a TIF "increment" — the portion of property tax base designated for diversion of revenue to the TIF project.
- In three cities — Shueyville, Tiffin and Oxford — TIF revenue accounts for over three-fourths of property tax revenue.
- Coralville accounts for 68.4 percent of the TIF valuation in the county, followed by North Liberty with 14.6 percent. Iowa City accounts for only 3.3 percent of the TIF value but has more than half of the urban value of the county.

What is TIF?

Tax-increment financing, or TIF, is a mechanism to finance projects in an "urban renewal area" established by a city. The city then is permitted to divert taxes on the increased value in that defined area from school districts and counties to the city's TIF fund. The diverted taxes are spent on projects within the so-called "urban renewal area."

What is the problem?

TIF has changed from a tool for redeveloping blighted areas to a means of subsidizing development projects of all kinds, often with little or no public benefit. Only loose guidance from state law has permitted a myriad of uses of TIF as the purpose has strayed. The costs to taxpayers can be substantial.

The report examines impacts of Coralville’s merged TIF district that includes areas along Highway 6 and the Coral Ridge Mall. It holds more than half (54 percent) of the total TIF valuation in the county.

Specifically, Fisher found that the Coralville TIF this year drew \$12.8 million — including \$5 million from the Clear Creek-Amana and Iowa City schools, \$2.7 million from Johnson County, and \$4.7 million from the city’s own general fund.

The school diversion is offset partially by state aid to the schools, which means state taxpayers also are paying for Coralville’s choices. But school property taxes also are higher due to the Coralville TIF, by 56 cents per \$1,000 taxable value in the Iowa City district, and by \$2.83 per \$1,000 in the Clear Creek-Amana district.

“Iowa City residents and businesses need to understand that they are effectively being taxed by Coralville,” Fisher said. “They are paying higher property taxes for Coralville’s projects — and those projects are designed to compete with Iowa City hotels and to lure Iowa City businesses. We’re seeing that with Von Maur’s move from Iowa City to the Iowa River Landing project.

“It’s no better for Clear Creek-Amana school district residents. Their schools are forced to give up property taxes from the Mall area — and those taxes will be used for the Iowa River Landing project, which is in the Iowa City school district.

“As you can see, TIF pits a local community against its neighbors. It’s not healthy either socially or economically.”

Coralville, he noted, is not the only locality using TIF to shift the cost of its decisions to others.

Five small towns — Swisher, Shueyville, Oxford, Tiffin and Lone Tree — use TIF mainly to retire debt for water, sewer and street projects that could be paid for through a city levy or water charges. Shueyville is shifting 62 percent of its property-tax bill to taxpayers outside the town; Tiffin is at 49 percent, Oxford 48 percent, Swisher 42 percent, and Lone Tree 31 percent.

“Without serious reform, we can look forward to a future in which increasing numbers of cities TIF all or most of their city for the primary purpose of shifting taxes to nonresidents,” Fisher said. “More cities will join the incentive wars in retaliation for the piracy of retail and other businesses by their neighbors.

“The result will be a local property tax system that is increasingly unfair, and a serious erosion of revenues. That will threaten the ability of cities and counties to finance important public services, many of which are part of the foundation for future economic growth. It is ironic to think this will all have been done in the name of ‘economic development.’ In most instances it is just ‘economic displacement’ that, among other things, distorts the free market.”

The Iowa Fiscal Partnership — www.iowafiscal.org — is a policy analysis initiative of two nonpartisan groups, the Iowa Policy Project in Iowa City and the Child & Family Policy Center in Des Moines.

What are the costs?

The average residence in Johnson County, with a market value of \$200,000 and a taxable value of about \$94,000, pays an extra \$373 a year because of all TIFs in the county if it is located in a rural portion of Clear Creek Amana. A small business with \$250,000 in taxable real property would pay an extra \$991, and an average 1,000-acre farm would pay an additional \$2,489.

In the rural part of the Iowa City school district, the corresponding effects of TIF are an extra \$140 for the average residence, \$371 for the small business, and \$1,038 for the farm.

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