Professional Developers of Iowa
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HSB 194

Summary

Economic Developers across the state of Iowa are concerned that HSB194 will have a devastating impact on a community's ability to utilize perpetual TIF districts in building and growing Iowa. Emphasized in rural Iowa, Tax Increment Financing is the only tool communities have for making many projects possible. Small, large, rural, and urban cities and counties work together to ensure tax increment financing is used in a responsible manner. In many instances, HSB194 would almost immediately prevent your constituents across Iowa from investing in their communities and limit their ability to attract and retain residents and workforce alike.

As with all legislative issues, we encourage our elected leaders to examine the broader picture and consider the unintended consequences of this legislation.

Background

It is important to understand the significance of allowing communities the ability to build up increment in a TIF district over time. Whether a district encompasses the downtown of Maquoketa or a brownfield in Ottumwa, it can often take decades for those districts to build enough increment (new tax base) to financially support reinvestment or other strategic initiatives.

Having access to that new increment is key for communities when they need it most. That unused increment allows for investment in infrastructure and on other large capital projects...projects that often are needed to attract industry or even critical workforce housing initiatives. That increment also serves as required local match for projects applying for assistance at the state and federal level. Banks in particular look at the unused increment and know a city or county has financial capacity to continue making payments on a TIF backed bond in the event of a natural disaster (derecho or floods) or an unforeseen circumstance that impacts property values. The majority of economic growth projects across Iowa leverage TIF as an essential tool and likely would not have happened without it.

An unintended consequence of this bill is that as communities hit a point of having no unused capacity in their TIF districts, financing for economic development projects will become difficult or impossible without GO (General Obligation) bonding. Small cities and counties with low GO limits do not have enough bonding capacity for larger projects, so they will get eliminated from being able to back the multitude of projects that the tool has always supported.

Remember these important points:

- When a community is not leveraging unused increment in a district, these tax revenues are treated as any other property tax revenue and split normally to all taxing bodies. This benefits our school districts and other local stakeholders.
- When TIF increment is used to support a project, schools immediately recognize new revenue. This is because PPEL & DS levies are exempt from TIF, creating an immediate win to those community partners.
- The perception that the state backfill to school districts "costs the state money," is an inaccurate and only partial view of the value of TIF to Iowa. Looking at the backfill only as an expense without considering new state revenue generated by TIF backed projects is like purchasing inventory without considering the

money you will make when selling that inventory. A quick analysis of projects in many Iowa communities would illustrate that new sales tax, income tax, and other revenues benefit the state at a far greater rate than the standalone backfill to school districts.
- Hundreds of rural and urban economic development TIF districts will continue to expire on their own without legislative action. According to the Department of Management, more than a thousand TIF districts will naturally expire over the next 10 years. Today within those districts there is already $2.3B of new unused increment that is benefitting all taxing entities. Assuming no additional growth within the districts, an additional $2.7B of new increment will benefit schools, cities, and counties as they naturally expire. Communities plan around these known expirations and TIF continues to yield strong returns as originally designed.

In short, this proposal would hamper large capital investment projects. Small, large, rural, and urban cities and counties, who are using tax incremental financing in a responsible manner, would be prevented from investing in their communities and limited in their ability to attract and retain residents and workforce alike. TIF is a critical economic development tool, and the proposed restrictions will make it difficult for Iowa to compete with other states. Ongoing and future economic development projects will be placed at risk of being cancelled or delayed, negatively impacting tax base growth and job creation efforts.

The Important Details of HSB194

The bill would limit the lifetime of all new Urban Renewal Areas (URAs) to 20 years or less, (except market residential, which is limited to ten years), regardless of blight conditions.

The bill would reduce the lifetime of existing URAs that do not currently have a statutory limitation. For URAs with a base assessment year of over 20 years (essentially most of the “blight-designated” URAs and “grandfathered” URAs created in Iowa before 1995), it creates a mechanism that will force these URAS to be phased-out and terminated *within ten years or less*. It would do so in the following manner:

- *It requires each TIF area to raise its base assessed value by 10% of its current assessed value each year, beginning in 2022.*
- *Each subsequent assessment year it requires an additional 10% increase, so that the base assessed value continues to rise (and the amount of tax increment to diminish) over time.*
- *Once the base assessed value has been increased so much that it matches/exceeds the current assessed value, or in any event within ten years, then the URA plan, all projects and ordinances are terminated.*
- *The actual impact of the ongoing 10% increase in the base value is cumulative and dramatic. It is also important to note that some agreements start out with lower payments that get stepped up over time (think bonds with payments tied to anticipated increment). Under this law that increment disappears-so then projects would have to be backed by general obligation bonds.*

The practical effect of HSB 194 will be to interfere with hundreds of existing contracts and millions of dollars of debt that already are counting on TIF from URAs/TIF Districts that aren’t currently subject to a statutory limitation beyond FY 2022 (when these reductions would start), as well as counting on TIF from URAs/TIF beyond the forced termination of UR Plans.

Existing development agreements, for example with commitments to infrastructure or tax rebates, will be in jeopardy if URAs are forced to end prematurely.

To meet obligations for existing TIF indebtedness cities may be forced to levy under the debt service levy, with an adverse effect on taxpayers. Almost 10% of all existing TIF debt is not paid off until 20 years down the road*. The bill as drafted would also run afoul of the Iowa Constitution which prohibits laws that interfere with existing contract obligations**.

Additionally, the bill does not address how cities would treat URAs that are expanded (have had land added to the URA), or have several TIF districts created over time, some of which have different sunsets. The bill also oversimplifies UR Plans as only a TIF mechanism and overlooks the other reasons for a city to have a UR Plan in place.

The bill will also make the use of these URAs for new TIF projects largely impractical.

Finally, the fiscal impact of TIF on the State budget from the school back fill is a relatively small contribution to state-wide economic growth ***.

*Based on the most recent Legislative Services Report, almost 10% of all existing TIF debt is not paid off until more than 20 years down the road. Some entities have debt extending more than 30 years. https://www.legis.iowa.gov/tif/pdf/TIF_ANNUAL_REPORT_FY2019.pdf

**Article I, Section 21 of the Iowa Constitution provides: “No bill of attainder, ex post facto law, or law impairing the obligation of contracts, shall ever be passed.”

*** As set out on page 23 of the report linked above, with respect to the school back fill, the report provides: “For FY 2019, the statewide total State General Fund backfill of the $5.40 levy totaled $61.6 million, a $2.0 million increase from the FY 2018 level.”