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# The Iowa Policy Project    Child & Family Policy Center

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## Reforming TIF in Iowa Report Suggests Moratorium, New Limits

DES MOINES, Iowa (April 9, 2003) – A moratorium on tax-increment financing in Iowa would set the stage for TIF reforms that would assure accountability and benefits to residents and taxpayers as originally intended, researchers said today.

“The current system encourages cities to engage in economic warfare with one another,” said Peter S. Fisher, research director of the Iowa Policy Project. “One city’s creativity with TIF causes other cities to respond in kind. The result is the proliferation of this financing method, far beyond its original intent and, in many cases, to the detriment of all local governments affected, as well as their residents.”

“Many of the problems,” Fisher added, “probably could be corrected with changes in the Iowa law – and a better understanding among Iowa policy makers about the intended uses of TIF.”

Tax-increment financing, known as TIF, allows a city to designate an area for development and to claim new tax revenues created to pay for development costs. When the development is paid off, all taxing jurisdictions – cities, counties, local schools and community colleges – then receive property tax revenues on the increased property-tax base.

Fisher and Charles Bruner, executive director of the Child & Family Policy Center in Des Moines, noted the system doesn’t always work as intended, however. They blame a loosely tailored Iowa law for part of the problem, in allowing flexibility that can cause unfunded financial burdens for schools, and reduce accountability to taxpayers. They also said it can encourage urban sprawl instead of attacking blight, for which TIF was originally designed.

“While the logic behind TIFs is straightforward, its implementation has been complicated,” Bruner said. “TIFs must not only increase economic activity that otherwise would not have occurred, but also improve the lives and conditions of people living or working in the neighborhoods they were designed to benefit.

“Where TIFs are simply public investments that would otherwise have been made in the private sector, they are taking valuable public dollars away from public purposes to help schools and communities. It makes government less accountable, and it isn’t fair.”

Fisher added, “We should be asking: What can TIF accomplish that cannot be accomplished by other tools already available to local governments? Where is it necessary, and appropriate, to divert tax revenues from various taxing jurisdictions to a project directed by only one? When that’s done wrong, it pits cities against counties and schools, and that does not foster the regional cooperation many policymakers claim they want to see in Iowa.”

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The Fisher-Bruner report, “Tax Increment Financing in Iowa: What Should Be Done?” makes several recommendations for changes in Iowa’s TIF law, beginning with a moratorium on TIFs and issuance of TIF debt. Among them:

- Require a finding that the investment serves a public purpose and defend the finding on grounds that private redevelopment would not reasonably be expected to occur “but for” the public investment.
- Require a showing of how a TIF in a blighted area will benefit the residents of that area. Any TIF project that will displace residents should be put to a referendum.
- Prohibit use of TIF to finance tax abatements.
- Limit TIF districts to 15 years.
- Require TIF districts to be drawn within the same tax administration district (only one school district can be part of one district, for example).
- Enact protections to assure other limitations on local government – such as referendum requirements – are not circumvented by use of TIF.
- Require approval of other jurisdictions affected to implement economic development TIF projects, and prohibit use of TIF for retail uses, with few exceptions.
- Prohibit use of TIF as an incentive for a firm to relocate from elsewhere within Iowa.
- Establish wage and benefit standards for employees of any private firm to be assisted by an economic development TIF.

The full report and a two-page summary are available on the web at [www.iowapolicyproject.org](http://www.iowapolicyproject.org).

The Iowa Policy Project is a non-profit, non-partisan research organization that engages scholars at Iowa’s public and private colleges and universities to research issues of importance to the citizens of Iowa. IPP reports are on the web at [www.iowapolicyproject.org](http://www.iowapolicyproject.org).

The Child & Family Policy Center was established in 1989 “to better link research and policy on issues vital to children and families.” CFPC publications are on the web at [www.cfpciowa.org](http://www.cfpciowa.org).

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