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A Step Backward in TIF Reform Sales-Tax TIF Defies Idea of ‘Incentives,’ Ignores Wage Issues

IOWA CITY, Iowa (May 21, 2008) — Gov. Culver OK’d a radical departure from Iowa tax policy last week, allowing cities to divert local-option sales-tax money without approval of voters or other jurisdictions currently receiving the funds.

The change, inserted in a larger appropriations bill without debate in the Legislature, was signed into law without comment by the governor.

“We need more accountable tax policy in Iowa. This takes us in the wrong direction, raising even more issues for long-overdue reform of tax-increment financing (TIF) in Iowa and public scrutiny of wasteful tax giveaways,” said David Osterberg, executive director of the nonpartisan Iowa Policy Project (IPP).

A section in the so-called “standings” appropriations bill, HF2700, provides for what is known as a “sales tax TIF” — a diversion of increased sales-tax revenues from their previously specified purpose to a targeted project or projects in an urban renewal area. The governor item-vetoed several parts of HF2700, but not the sales-tax TIF provision.

“The Legislature approved it, and the governor signed it, without any public discussion of its merits — perhaps because there aren’t any,” said Osterberg, who noted a property-tax study committee has not finished its work — a reason that has been given for delays in TIF reform.

“Passage of this idea was, at best, premature. More likely, with what we know about existing abuses of property-tax-increment financing by cities in Iowa, it was a green light to new and wasteful diversions of local revenues.”

IPP analysts believe the new TIF provision has several problems, including:

■ ***Unnecessary incentives for retail development.*** Retail development depends on market factors, not tax incentives.

■ ***Theft of sales-tax revenues by cities from other jurisdictions*** that benefit from voter-approved Local Option Sales Tax (LOST) plans. Under current law, county government and all incorporated places share in LOST revenues collected throughout the county. The new law would allow one city that benefits, say, from a new mall, to capture all the local sales tax from the mall instead of sharing that revenue countywide.

■ ***Disregard of wage impacts.*** Many Iowa economic development programs lack requirements for higher local wages as a result of tax incentives or subsidies. Nothing in HF2700 assures that projects using a sales TIF will actually raise the local median wage. In fact, most retail jobs pay lower wages.

“The most likely result of a sales-tax TIF is to shift retail from one place to another, pitting one Iowa locality against a neighboring one,” IPP Research Director Peter Fisher said. “Developers will be happy to take the public help, but they don’t need it. If they use it to choose one Iowa town over another, it does nothing for the overall Iowa economy.

“This already was a problem with TIFs using property tax revenues for retail projects. Allowing it with sales tax as well amounts to double-dipping by cities for projects that have no real public role to begin with.”

Iowa currently allows TIF — tax-increment financing — for such projects using property tax revenues. However, only one sales-tax TIF currently exists, for the Iowa Speedway in Newton, under legislation specifically passed for that purpose. That law allowed diversion of up to \$12.5 million in state sales-tax revenues to be returned to track operators.

The provision passed this year was not limited to one project, and rather than diverting state revenues, would allow a city to divert local option sales tax (LOST) revenues to a TIF project. There was no debate on that specific provision of the larger “standings” appropriations bill.

“The reason for this law was never publicly justified or debated,” said Osterberg, who noted the Iowa Fiscal Partnership (IFP) — a nonpartisan, joint tax and budget initiative of the IPP and the Child & Family Policy Center in Des Moines — has identified several problems with use of TIF in Iowa. Among those: a lack of assurance that projects funded through TIF will actually raise wages in a given locality.

“Starting a new brand of TIF — with local-option sales-tax money — evokes many of the same issues as our current TIF law, and adds new considerations as well. These types of proposals need thorough review before they become part of state tax policy.”

The Iowa Policy Project is a nonpartisan, nonprofit research and policy analysis organization based in Mount Vernon, with its principal office in Iowa City. IPP reports on job and income trends, budget and tax issues, and energy and environmental policy are available at <http://www.iowapolicyproject.org>.

Iowa Fiscal Partnership reports are at <http://www.iowafiscal.org>.

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