

Do Tax Increment Finance Districts Spur Social and Economic Growth?

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Introduction

Over the past two decades cities and counties have increased their roles in promoting economic growth. While zoning, land use enforcement, and comprehensive planning activities evolved over the last century to manage and promote orderly, safe, and cohesive growth, regional economic development pressures have worked to occasionally undercut these growth management and public welfare maximizing tools. Granted, communities have always been, and behaved as if they were, in head-to-head competition with one another; however, some of the radical regional economic transformations of the last two decades have induced much more aggressive behavior among local governments, along with state governments, in the name of growth. Local governments now engage in a variety of economy-stimulating activities, most of which involve the use of local tax savings. They may grant tax abatements, they may create special economic development districts, and they may, in some cases, make direct cash payments or in-kind contributions to private firms.

One of the methods that local governments across the U.S. currently employ to try to induce growth involves the establishment of tax increment finance districts (TIFs). TIFs are a mechanism for earmarking property taxes to spur desirable growth. It can result in huge tax savings (or other development benefits) for the beneficiaries, but we must ask, of course: at the expense of whom? We must also ask whether the overall general welfare is enhanced by this practice.¹

* The writers are both research scientists. This paper was originally prepared for and presented at the Annual Meeting of the Southern Regional Science Association, Arlington, VA, 11-13 April, 2002.

¹ In our 1998 paper, we investigated tax abatement programs for housing development in Iowa (Swenson and Eathington, 1998). We concluded that there was no statistically sound evidence that the abatement

Iowa expanded its traditional TIF program in 1997 to include housing growth in addition to traditional industrial and commercial development programs. This expansion in the allowable uses of the public purse to entice both commercial and residential growth warrants additional study of the mechanism, we think; hence, this paper.

There has been an incredible proliferation of TIF districts in the state of Iowa over the past decade. There has therefore been very large increases in the amount of taxable valuation that has been shielded from general government use by this statute in our state. We openly wonder: to what end? To find out, we undertook to learn more about our own state's experience with tax increment financing, to investigate other states' experiences, to review some of the recent literature on the practice, and to evaluate the outcomes of Iowa's experiences.

What is Tax Increment Financing?

Tax increment financing (TIF) has been around for decades as an economic development tool, though its potential and popularity didn't truly emerge for local officials until the late 1970s. The practice is conceptually simple: an area that has been blighted or is otherwise in need of an economic boost is designated, usually by a city, to be a tax increment finance district. The taxable value of that district is then frozen to the value it was on the day of the declaration. The frozen value is usually called the *base*. All jurisdictions that had taxing authority over the newly-formed TIF district still have taxing authority over the base. The city then prepares the district for development. As the district develops commercially, the incremental value of taxes *that would have been collected* by all of the taxing authorities is retained by the city to pay off the costs of readying the district for development. This new value is generally called the *increment*. Over time, when all of the public investment costs are paid off, the incremental taxable values are then released back to all of the taxing jurisdictions who are then able to capture the new taxable value increment for their general funds.

We illustrate the concept in Figure 1. Here we see that the value of the average parcel of land in an area of scrutiny is declining, and it is expected to continue to decline. The city decides to act. It declares a TIF district (at year zero). The base assessed values are frozen, thereafter, as represented by the horizontal line. That is the foundation for the

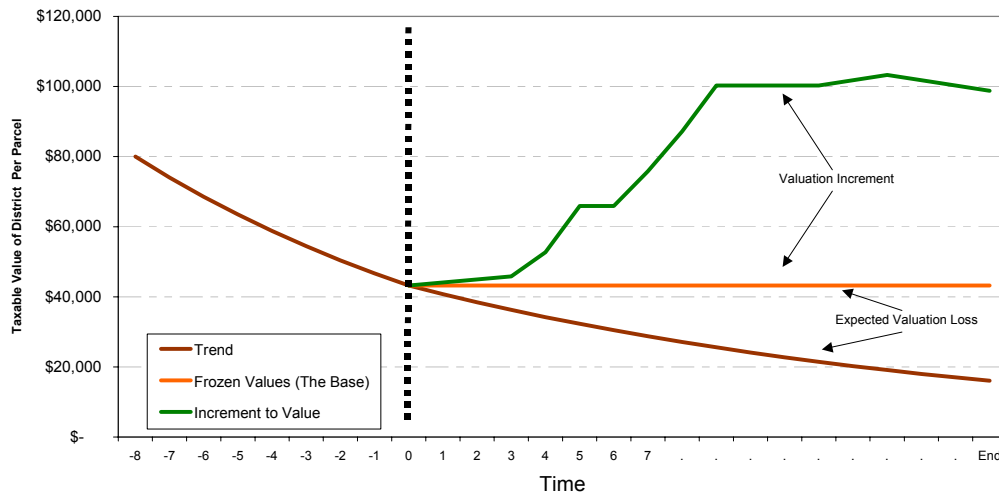
programs employed by cities in Iowa were producing levels of housing growth measurably distinct from areas that had no abatements, nor were there significant differences in the value of the new homes built in abatement cities versus those built in non-abatement cities. We questioned the fiscal efficacy of the projects – that the public benefits, i.e., the increment to all local taxes over a reasonable time period, exceeded the public costs as measured by the value of taxes forgiven, plus we questioned whether this was resulting in unintended and burdensome shifting of tax liability to all non-abated properties in the affected communities.

tax base available to the city and all of the other taxing jurisdictions (county, school, community college, special districts, etc) for use in their general funds. The valuation increment (the rising line) ostensibly grows over time—perhaps slowly at first, but then more rapidly as the site is more fully developed and more industry, commerce, and residential investment are attracted. This generates the increment to tax revenues to pay off public indebtedness associated with the project, as represented by the distance from the base, horizontal line and the increment line over time. At the end point, all of the increment is released to all taxing jurisdictions, and all taxing jurisdictions get to capture the new taxable wealth. The supposition is that after taking the initial risk, all of the districts will now be better off than they would have been had no action been taken.

The process looks good on paper. The city declares an unproductive area a TIF district. It assumes the risk. Everyone else is held harmless, and if the trend is to be believed, the city is actually acting in all of their collective interests by taking action. Through their (the city’s) concerted and focused efforts new growth is spurred and the public realm as well as the private are enhanced.

Figure 1

Tax Increment Financing: The Concept



Variations in TIF Statutes

There are, however, foundation and practice issues that arise as we investigate TIFs in practice in the U.S. First we need to distinguish among the different statutes. There are three major underlying reasons to the employment of TIFs in the 48 states that

now allow them for cities.² There was an original supposition, as Huddleston (1982) indicated, that these programs were designed to initiate development that simply otherwise would not have happened in a community. This first dimension to TIF authority was derived primarily from state and federal urban renewal law, which required the area that was the candidate for a TIF designation be considered blighted or a slum. Most early ordinances used very specific language spelling out the meaning of blight, and Figure 1 was constructed with an “urban renewal” scenario in mind. The second dimension to TIF authority called for a “but for” consideration. In effect it required that a TIF district could only be declared to entice development that would otherwise not have occurred in the region “but for” the district’s existence. A third dimension has emerged, especially in the last decade. This version does not require the more restrictive blight or but for designations, and simply allows a city to allocate TIF authority for whatever basic economic development or community enhancement purpose that it deems appropriate. In the Midwest, Minnesota is an example of a state requiring blight (MOLA, 1996),³ as also is Missouri (Hubbell and Eaton, 1997). Illinois on the surface requires a but for designation, though Dye and Merriman (2000) openly question the rigorousness of the requirement,⁴ and Iowa and Indiana, as examples, now allow the use of a TIF for all basic economic development uses including housing, retail trade, and even speculation.⁵

Funding also varies by state. Most states simply allow TIF incremental values to apply to local property taxes. Some states have either implemented or tried to allocate increments in sales and use taxes along with earnings taxes. Missouri allocates 50 percent of what it terms “economic activity taxes” attributable to the new development back to the TIF cities to help pay for infrastructure and capital improvements.⁶ Illinois attempted this in the early 1990s, but has since abandoned the practice. In the main,

² We must not exclude counties. According to a National Association of Counties January, 2000, *Issue Brief*, “Tax Increment Financing” at least 33 states now allow counties to use TIF authority to promote economic development.

³ Due to rampant abuse and perceived abuse of the TIF statute in Minnesota, the state legislature severely tightened the restrictions on TIF usage among Minnesota cities after 1990, especially concerning the definition of “blight.” As a consequence, since 1990, the districts that evolved in that state have been smaller, contiguous, planned, and much more likely to be focused on specific projects.

⁴ They note that the “but for” requirement is “often criticized as a mere pro forma assertion made in the self-interest of the municipal government without reasonable standards of proof (p. 310).”

⁵ A recent, perhaps cynical, innovation in Iowa involves converting agricultural land within a municipality to a TIF district. As this is all land that has not been improved, the TIF designation assures that all of the improved values will be captured preemptively by the city and systematically, for a time, excluded from the remaining affected taxing jurisdictions.

⁶ Hubbell and Eaton opine, however, that “much of what is being called incremental sales tax is really only a substitution of sales tax generated by a TIF grocery store for sales tax that was being generated by a non-TIF grocery store (p. 3).” This is a common lament among critics of all tax based incentives: Peter is made to underwrite Paul’s profits in the name of the public good.

however, the property tax authority is the draw of a TIF district. It is attractive to a sponsoring city because it can capture and re-allocate a specific increment of tax receipts specifically for community enhancement, and it is attractive to developing industry in that *its* property taxes are being used specifically to benefit *it* or industries like it.

Some states only allow certain classes of cities to use their TIF authority. Some states require that all affected taxing jurisdictions be informed and approve of the TIF process. This prevents a city from unilaterally consuming incremental property tax values. Other states, like Iowa, do not require other taxing jurisdiction approval but many do either allow for or require that all affected jurisdictions be informed of the planned action. Some require a time-table for dividing the incremental revenues or an outright sunset of the district. Others do not. Finally, there are provisions that allow for affected jurisdictions to re-visit and evaluate a TIF district to hold both the development and the TIF-creating community to standards of performance and general public oversight.

The Iowa TIF Law

Like many states, Iowa's enabling legislation for a TIF district is rooted in urban renewal law. On paper and procedurally, cities were first required to go through an urban renewal process. The statute originally, clearly, and solely applied to blighted areas, which were, according to Iowa statute, areas that

... constitute a serious and growing menace, injurious to the public health, safety, morals and welfare of the residents of the state; that the existence of such areas ... constitutes an economic and social liability imposing onerous municipal burdens which decrease the tax base and reduce tax revenues, [and] substantially impairs or arrests the sound growth of municipalities⁷

Changes to state law, however, in 1985 made economic development a general purpose activity and effectively eliminated the aforementioned grave language requiring a finding of blight, although the language has not been amended in the TIF statute; consequently, the preponderance of TIFs as evolved during the 1990s were for non-blighted, non-urban renewal types of developments. It is fair to assume that nearly all of the TIF districts in existence up to the end of the 1980s were of the original, urban renewal variety, as they were aligned with the aforementioned statutory language. It is equally reasonable to assume that nearly all of the TIF districts that have been added in the state during the 1990s have been established for economic development purposes or, perhaps, simply for the purpose of capturing new tax revenues.

⁷ Chapter 403.2(1) Code of Iowa, 1999.

The state of Iowa has also expanded the allowable uses for TIF districts. A law was passed in 1996 that was designed to apply TIF incentives to the development of moderate and low income housing. That law was amended, however, the next year so that all value of housing be allowed in a TIF district, and the sponsoring city was required only to dedicate a portion of the TIF increment to promoting, enhancing, or otherwise stimulating low to moderate income housing anywhere in the community.⁸ These districts can only last 10 years, after which all of the increment reverts to all governments.

Iowa law allows for cities to borrow against the increment to fund improvements. In principle, once the TIF bonds are retired there is no reason for the district to remain in effect. Over the years there have been many TIF districts started, bonds let, improvements conducted, and districts released back to the tax base. The city of Des Moines, however, which was one of the first cities to form a TIF development district, has yet to release all of the increment valuation of any of its original districts (first started in 1978) back to the tax base.⁹ This is not an isolated problem. Evaluators and representatives of non-city local governments decry the broad misuse of TIF revenue increments for other purposes. In Iowa, TIF revenues from one district might be redirected into improving or enhancing other districts; in essence, there has been a pooling of the resources. In the state of Minnesota, their Office of the Legislative Auditor found that “cities do not terminate districts before their expiration dates and frequently use tax increments as a general purpose funding source. (MOLA, 1996).” Behaviorally, Iowa is not alone in this practice.

Iowa law also allows the collecting city to simply rebate the taxes paid to the developer, homeowners, or the new industry *with or without* specific performance guarantees. For example, a housing developer can be rebated all of the incremental taxes provided all infrastructure is installed in a timely and correct manner. Instead of the city bonding to ready the land for development, the city simply provides an incentive to get

⁸ The reader certainly must understand what happened. Booming, upscale, suburban developments, which would hardly be classified as “low to moderate income,” were effectively excluded from the new allowance. These were the areas where nearly all housing growth in the state was occurring. Developers lobbied hard to gain access to these tax breaks, and the booming suburban cities, who simply wanted to capture the increments as an added incentive were willing to go along. That left the smaller cities, whose concerted efforts had originally enabled the new legislation, with no real inducement to generate low to moderate income housing. While thousands of houses have been constructed with this legislation, only a very small fraction were obtainable by low and moderate income citizens. There as of yet is no study assessing the amount of new or renovated subsidized and moderate income housing enabled by this trickle down approach.

the developer to make necessary improvements and enhancements as part of the whole development process. In most states, developers automatically capitalize infrastructure costs into the costs of their homes. In Iowa, now, they can offset those costs with current and future tax savings for themselves or the new homeowners.

In the case of a new industry, the city can require that, as promised, the structure be erected and some set number of new jobs added. These can also be even more open-ended, more along the line of “if you build it ...” without minimum capital investment or job growth specifications.¹⁰ Although open-ended, the advantage of this kind of approach is that it normally is very short in duration (say, from 5 to 10 years) and it is industry and site specific. Another advantage for local decision makers is that it is a short, sweet, and cut-and-dry arrangement that does not entail municipal investment, capital improvement, and municipal oversight. The disadvantage of course is that local democracy notwithstanding there is very little local let alone state oversight over this process.

There is another, more subtle evaluative disadvantage, as well: there is the presumption of policy efficacy and area economic development efficiency because these agreements are nearly always attached to a “bird-in-the-hand” industry – one that’s new or expanding. There is, however, little to no assessment let alone rhetorical acknowledgement of the net effects locally or regionally as a result of the development, directly, or the TIF allowances, indirectly.¹¹ This problem is nicely described by Dye and Sundberg (1998) where they note that policy makers that are “unused to the concept of opportunity cost might be susceptible to making a poor decision if financial viability is confused with efficiency (p.96).”

⁹ To be fair to the city, however, it has over the years released roughly half of the increment to all local governments. It retains the remaining taxes on the increment to continue to develop the district and use as a development incentive to new firms.

¹⁰ As an example of mixed conditions, the City of Walcott, Iowa, advertises, as part of the Quad-City Development Group, “Tax Increment Financing (TIF) Rebates” if (1) the new construction increases the taxable value of the property, (2) construction begins within a year of entering into the agreement, and (3) there is a sunset period (October, 2002) for this eligibility. In this case, the builders are given a graded, decreasing tax rebate ranging from 60 percent in the first year to 20 percent in the last year (year 5). Other cities provide full rebates for a fixed number of years.

¹¹ One of the more volatile cases to arise in Iowa has to do with the city of West Des Moines using its TIF authority to help underwrite the development costs of a mega-mall complex on its undeveloped western fringe over the next few years. This mall will undoubtedly attract a modicum of new trade to the region, but it will also shift the locus of trade from some of that city’s existing retail establishments and the metropolitan region as a whole. Though challenged in the courts (by existing mall owners) regarding a strict interpretation of urban renewal requirements, the courts dismissed the case and found for the defendants. In effect, they ruled that Iowa law as written and implemented allowed only the designation of an urban renewal district, but that a finding of blight was specifically not required. The issue of pecuniary shifts did not interest the court, either, as state law did not prevent nor express any concern over it.

Some cities take credit for their direct investment in new commercial and industrial establishments. For example, a city councilor recently touted his community's "10 percent TIF grant" to a new hotel in promoting the city's willingness to get its "hands dirty" in making economic development happen.¹² As we review other state's economic development policies and programs, we see that the TIF option is actively advertised as not just a possibility, but more probably an entitlement for new or expanding business, industry, or housing development.

What Do We Know About Their Performance?

There have been several studies of TIFs over the past decade or so, but we will just highlight a select few. Anderson (1990) found that TIFs in Michigan corresponded with increased property growth, but the direction of correspondence was not reported. He could not tell whether the TIF caused the increase or that the areas that were increasing in economic activity were candidates for a TIF district designation (which would imply that they were used pre-emptively to capture tax revenue). Mann (1999) did not find a positive relationship between a city's prior growth and the adoption of a TIF. She did find that TIF adopters did so because their neighbors were adopting them – that they did so to remain regionally, spatially competitive – that they were, in effect, engaging in copy-cat behavior. Mann and Rosentraub (1998) also looked at the effects of TIFs on property wealth and concluded in their study that in the state of Indiana the housing values in TIF-adopting places were much greater than in those without TIFs, though they wonder whether the growth is sufficient to offset the public costs of the TIFs. Still, they note that, at least regarding their state and the cities they studied, "the TIF mechanism is an important tool for economic development, with the potential to benefit a wide range of people and income classes in a community (p. 543)."

Dye and Merriman (1999) in a study of northern Illinois cities found that cities that adopted TIF districts grew more slowly after adoption than those that did not and that the growth that did occur in the TIF districts appeared to come at the expense of growth elsewhere – that the TIF had a regional pecuniary effect both within the sponsoring city and the region.

Lawrence and Stephenson (1995) assessed the localized outcomes of TIF districts in the city of Des Moines, Iowa. They found in that one case, a case grounded on a

¹² Doug McReynolds. "Town gets hands dirty securing its future." Letter to the editor of the Des Moines Register, 26 March 2002. In that letter, the city leader boasted of \$250,000 of dedicated development incentives to a new hotel. In short, the advertising pitch is of a public-private partnership where, it is implied, new business can count on this city to underwrite up to 10 percent of their investment costs through redirected taxes via the TIF process (p. 10A).

traditional blighted central city scenario – a scenario where the city literally had no where to go but up – that non-TIF property owners initially subsidized the TIF region, but over a reasonable period of time the TIF began to generate returns to the entire property tax paying region.

What these studies seem to tell us is that there are no definitive, generalizable findings regarding TIF adoption and the identified sets of either benefits or detriments that they may cause locally or regionally. Due to the variations in enabling authority, these districts must be assessed within specific states and interpreted solely or nearly solely within the context of that state’s enabling statutes, interpretations, implementation, and broad economic experiences.

Dye and Merriman (1999) give us a useful summary of the economic foundations that justify the offering of these types of development incentives. The first would be a *market failure* where it is highly desirable for local (or state) officials to try to manipulate their industrial mix.¹³ The second, to *ameliorate blight*, is accomplished through the redistribution of income and resources to areas and certain groups of people that need it the most. It reflects a direct subsidy to people and places that may very well come at the expense of growth elsewhere, but which may otherwise be efficient and highly desirable (Bartik, 1991). The third would represent an opportunity to *shift revenue* responsibilities. Most state education systems equalize local capacity and effort. TIF development incentives remove property tax base from intergovernmental calculations. For schools, in this example, the designation of a special tax abatement district simply shifts a portion of local revenue responsibility and capacity to the state. The last reason they called the *bidding war*. This is the one which we believe behaviorally makes the most sense in much of modern economic development policy. Whether the policies represent outright inter-community bidding or simply copy-cat behavior (Mann) really doesn’t matter. What does matter is that many cities are willy-nilly adopting economic development policy packets that may or may not fit with their needs or their region’s needs.

Where Does this Lead Us?

It is evident that there are no generalizable policy guides emanating from the findings of the research that has been conducted to date. There are several limitations to

¹³ Now in vogue are targeted industry recruitment strategies and the variously named cluster development strategies of state and local governments. All are attempting to diversify their economies to help either bolster growth or offset cyclical vulnerabilities. Others are attempting to capitalize on actual or perceived strengths by investigating and exploiting potential up-stream and down-stream production linkages. All of

the research: First, every local government in every state is enabled differently – they are “creatures of the state.”¹⁴ It is hard to generalize local government authority, fiscal capacity, and fiscal opportunities across state lines; consequently, findings, whether for Minnesota, Illinois, Wisconsin, Iowa, Indiana, or Michigan, are localized and highly state-specific. Courant (1994) gets at this nicely where he notes that such imprecision is to be expected and derives from a “geographic heterogeneity that is extremely difficult to correct for statistically (866).”

Second, TIF statutes, as has already been mentioned, vary by state. Some require rigid standards; others do not. Some require negotiation among all affected governments; others do not. Some require state approval and oversight; others do not. Just as we cannot generalize political structure and capacity across state lines, we also cannot generalize development policies without carefully detailing allowances and prohibitions.

Third, we are faced with time considerations concerning the evolution of these kinds of districts, the particular kinds of uses to which they have been and are currently being put, and the accurate tallying of public benefits and public costs. In short, the *raison d’etre* for this kind of development policy has evolved and is evolving. Uses have changed, for the most part they have been liberalized tremendously, though, in the Minnesota example, we know they have been further restricted. Over the years, local and global economies have changed tremendously, as well. In consequence, it is very difficult to gauge the net present values of all costs (as measured by direct public investment via tax breaks) and all benefits (as measured by net new tax receipts after incremental public costs have been accounted).

In this study we are interested in compiling sets of direct outcome measures that help us to categorize the overall efficacy of TIF adoption in the state of Iowa. We are much more interested in discerning both the extent of the phenomenon, the costs as measured by direct public investment in business growth, and the possible outcomes that can be attributed to these investments. We are disappointed that the many studies that we reviewed omitted any significant discussion of the actual extent, magnitude, and characteristics of TIF adoption among the states. Though we suspect that we might be a tad odd in Iowa, the literature does not give us much to compare ourselves to.

these strategies pre-suppose a high level of inter-industrial economic understanding and sound grounding in the theories and processes of urbanization.

¹⁴ Phrasing often attributed to the interpretation of John Forest Dillon’s findings in *Clark v. Des Moines, 1865*, where he indicated that local governments have only those powers (1) expressly granted them by the state, (2) those incidental to their expressed powers, and (3) those essential to the declared purpose of the [municipal] corporation. This is called Dillon’s Law.

Two particular approaches to measuring TIF districts' worth have been (1) differential growth rates among TIF versus non-TIF areas (either within a city on a district by district basis, or across cities by virtue of the simple presence of a TIF district), as measured by either specific taxable valuation changes or overall broad economic conditions (e.g., rates of economic growth, firms, jobs, etc.), and (2) a comparison of tax rates over time in TIF cities and in non-TIF cities.

In the case of our study state, however, neither of these indicators is very satisfying. Iowa state law, via property equalization orders, taxable valuation growth limits and outright state legislated tax exemptions, manipulates local tax bases.¹⁵ The state also maintains general and categorical tax rate limits.¹⁶ Due to constraints on taxable property growth (mostly in residential properties) and the elimination of some previously taxable categories, mean tax rates have crept upward over the years – despite overall economic growth in the state, the tax base did not keep pace with inflation during much of the previous decade. It would be ideal, however, if we could obtain reliable assessed (market) valuations for all classes of property and for all communities in the state. This would eliminate the need for relying on the more-reported taxable valuation statistics versus the more market-reliable assessed valuations. State sources cannot make the data available in such a format for cities without extraordinary effort. As a consequence, our city by city conclusions are constrained *a priori*.

Because of the manner in which property tax data are collected in Iowa we have to rely on partially (un)satisfying sets of data to get at our questions and at our answers regarding the employment of TIF incentives across the state. We have some data at the community level, though, which in and of itself is enlightening about the prevalence and comparative size of these districts in the state. In specific, in the first section, we will control for those communities that had TIFs in place before 1989 (the traditional urban renewal TIF configuration) versus those that added TIFs after 1989. We will also look to see if there are discernible differences when we control for communities in metropolitan counties versus those that are not.

¹⁵ The state limits residential and agricultural taxable values to 4 percent growth per annum. There are also limits on other classes of property. If the assessed value of residential properties, for example, grows by more than 4 percent, the taxable value is then *rolled back* to reflect just 4 percent growth. Consequently, during a robust economy, the fraction of residential assessed value that is taxed goes down. Current housing taxable values are roughly 52 percent of assessed values. In addition to the roll backs, the state recently eliminated manufacturing machinery and equipment from the tax base. This unilateral move systematically eliminated much of the commercial and industrial tax increments that many cities had hoped to capture.

¹⁶ Cities, counties, and school districts account for about 94 percent of all property tax collections. All have general fund and categorical fund property tax rate limits.

The remaining data and analysis, however, are organized at the county level with no specificity at the city level. These data differentiate between all municipal and all non-municipal taxing districts in each county in the state. As all property taxes, taxable valuations, and assessed valuations have to be compiled and certified at the county level, there is a high degree of accuracy and uniformity across counties and across time in these data sets. These sets will allow us to estimate the weighted average municipal tax rates across our counties and to calculate the taxes collected from the TIF districts in the counties over time from all of the taxing jurisdictions. These sets also allow us to count the actual number of TIF districts (not just TIF ordinance cities) as they have accumulated over time as each, for tax district purposes, must be separately accounted and certified. Much of our analysis, therefore, will depend on the county-level summaries.

By relying on the county level TIF and valuation statistics we will be able to isolate sets of possible direct county outcomes associated with the multiplicity of TIF usage in the state, including changes in

- assessed residential valuation,
- taxable commercial and industrial valuation,
- jobs,
- population,
- earnings, and
- trade shares

The question we are trying to get at is basic: are these districts spurring growth or are we actually, wittingly or unwittingly, squandering public resources?

Iowa TIF Outcomes

We will present two sets of findings about TIFs in Iowa. The first looks just at characteristics of cities with TIF ordinances over time. It allows us to gauge the growth in TIF cities and valuations, but it does not allow us to compile any meaningful measures about the amount of TIF related revenues that may be collected by these cities. State data sets simply do not allow us to determine these values at the city level from this data set – this data set only allows us to identify the city portion of the consolidated levy.

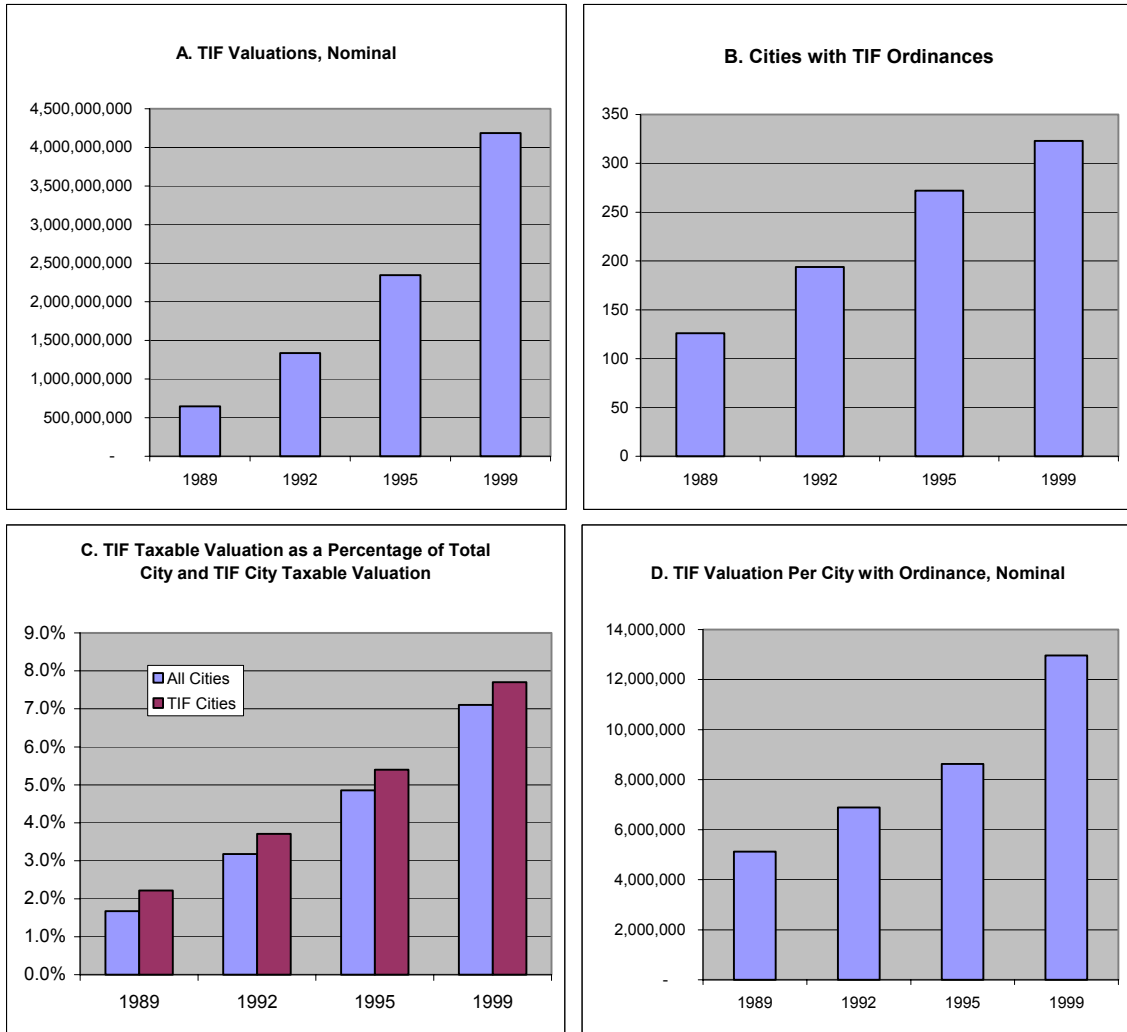
We further sub-divide our cities to determine whether they were an original TIF city, those enacting the statute in 1989 or before, a newer TIF city, those enacting the statute, after 1989, or those that have never used a TIF. This assessment simply allows us to generalize about our cities and the locus of this activity. We also distinguish among cities that are located in a metropolitan county versus those that are not to investigate whether there are noticeable metropolitan influences. The second set of findings looks at county level conclusions.

TIF Cities

Figure 2 displays much of the basic statistical information on TIF adoption by Iowa cities over the previous decade. TIF nominal valuation in our cities increased from just under \$650 million in 1989 to \$4.2 billion in 1999 (Figure 2A), an increase of nearly 550 percent. All taxable valuation in our cities over this period increased by 53 percent, so the accumulation of TIF valuation by our cities was at a rate of more than 10 times greater than the overall growth in municipal taxable valuation. The number of cities with TIF ordinances also increased markedly over this period. In 1989 there were 126 cities (13 percent of the total number of cities) with TIF ordinances, by 1999, there were 323 (Figure 2B), an increase of 156 percent.

Figure 2C shows us the value of TIF valuation as a percentage of total taxable valuation in cities in the state and the total taxable valuation of cities that had TIF ordinances. In 1989, just 1.7 percent of the state's total city tax base and 2.2 percent of TIF city tax bases were in TIF districts. Those values steadily rose over the decade. In 1999, 7.1 percent of the state's city tax base and 7.7 percent of TIF city tax bases were in TIF districts

Figure 2. Indicators of Tax Increment Finance District Adoption in Iowa, 1989 to 1999



This figure also underscores another factor: the 15 percent of cities that had TIF ordinances in 1989 accounted for 75 percent of the total taxable valuation available for cities. In other words, most of the 1989 TIF cities were quite large. By 1999, 34 percent of the state’s cities have ordinances and the TIF cities accounted for 92 percent of the state’s urban valuation. Stated differently, the 626 cities in Iowa that still did not have a TIF ordinance in 1999 accounted for only 8 percent of the state’s urban tax base.

Figure 2D shows us the taxable value growth in our TIF districts over time. In 1989 the average taxable valuation (the increment) in TIF cities was \$5.12 million. By 1999, that value had climbed to just under \$13 million per city.

TIF Cities by Adoption Period and Metropolitan County

We reclassified the data in Figure 3 to help us to discern more about our communities that are using TIF ordinances. As we already discussed, nearly all of the communities that had TIF ordinances in effect in 1989 did so under the more strict, urban renewal and blight considerations.¹⁷ Nearly all of TIF adoptions after 1989 did so without utilizing the urban blight criterion, as it was no longer a necessity in the law. We wanted, then, to distinguish what we could about these latter adopting cities. Finally, we wanted to take a look at some of the change characteristics of the 626 cities that have not enacted a statute. As the majority of economic growth in the state has accrued to its metropolitan counties, we also controlled for whether the city was in a metro county or not.

Figure 3 helps us to gain some perspective on our cities. In Figure 3A we see that the vast majority of both TIF and all other valuation growth between 1989 and 1999 has accrued to the original TIF cities, whether they were metro or nonmetro. The metro 1989 or before TIF cities added \$1.4 billion in TIF value and \$9.5 billion in all other value. The nonmetro 1989 or before TIF cities added a much higher ratio of TIF value (\$964.1 million) compared to all other value (\$3.56 billion). Although those cities adding TIF ordinances after 1989 yielded much less growth than our original group, we can see that the amount of TIF valuation as a percentage of all valuation is higher than the pre-1989 group. Valuation growth among our 624 non-TIF cities was very small, amounting to about \$.864 billion in all.

Figure 3B gives us the changes per capita between 1989 and 1999 (using 1999 populations as the divisor). The metro pre 1989 cities added \$1,506 per capita in TIF incremental values and \$10,241 in all other values. The non-metro, pre-1989 cities added \$1,576 in TIF increment and \$5,585 in all other values. The metros here yielded nearly twice as much all other valuation growth as the nonmetros. Among the post 1989 cities, we see that those in the metros, primarily the booming suburban cities, averaged new TIF increment per capita of \$3,563 and all other valuation of \$11,500. For the post 1989 adopters that were not in a metro, they added \$2,070 in TIF increment per capita and \$4,048 in all other valuation. For this chart we can see that cities in the metropolitan counties fared much better in growth per capita.

Figure 3C gives us the TIF increment and all other taxable valuation growth per community in each group. The accumulations in the metropolitan pre-1989 TIF

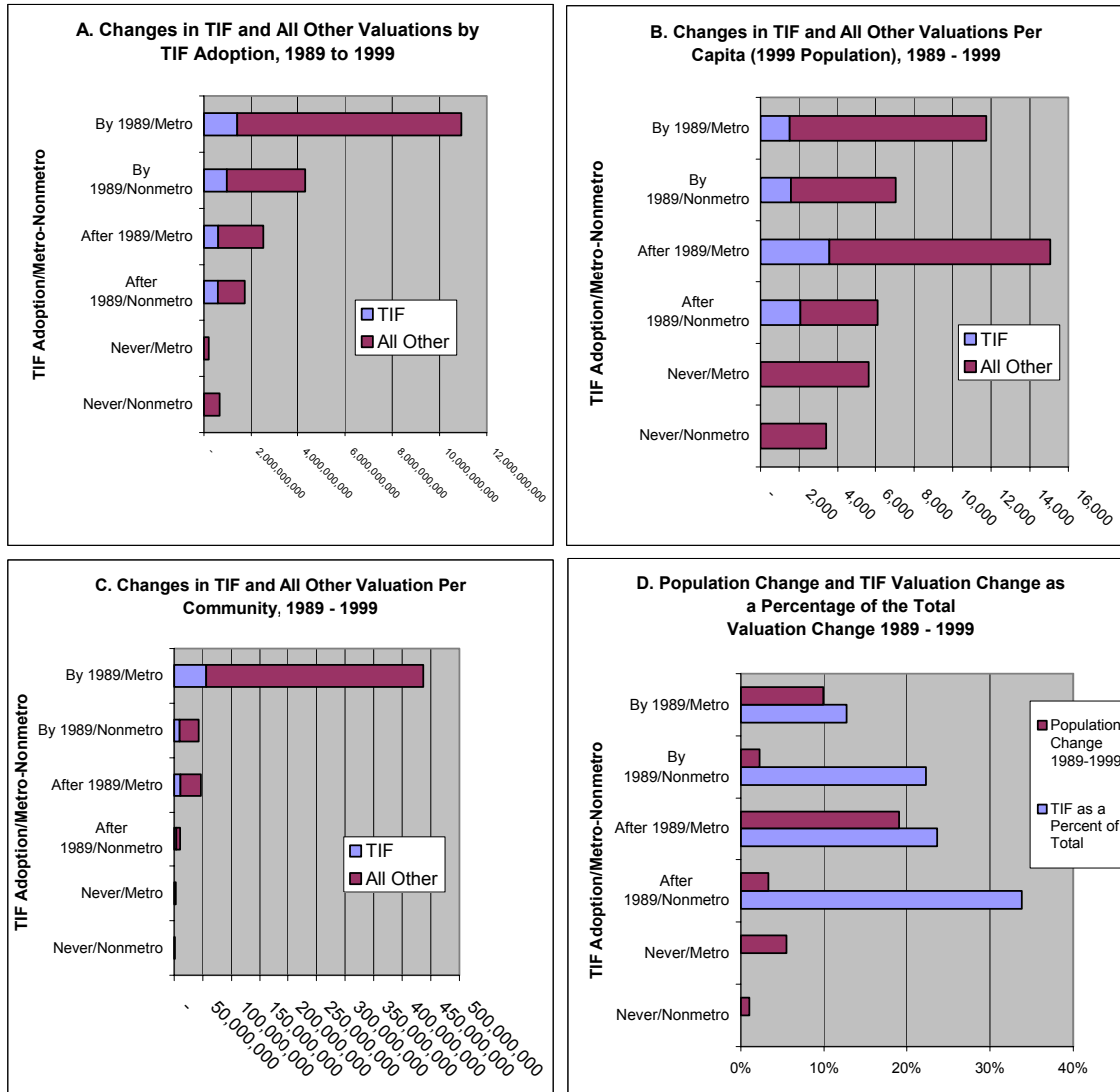
¹⁷ We have already established that the early adopters of TIF ordinances were the state's larger cities, including nearly all of its metropolitan cities and most of its larger trade centers. These were the cities that had undergone significant central city deterioration over the years and were the original candidates for renewal.

communities were tremendously greater than the accumulations in all of the other sections. They added \$55.98 million in TIF increment and \$380.7 million in all other valuation per community over the period assessed. The nonmetros in this group added \$9.5 million in increment and \$33.3 million in all other taxable values. Per community, the metropolitan cities that enacted TIF statutes after 1989 did better than the nonmetro pre-1989 cities. They added \$11.0 million in TIF increment per community and \$35.5 million in all other valuation. The non-metro, post-1989 cities added \$3.5 million in increment and \$6.8 million in base per community.

Last, in Figure 3D we simply compare a couple of indicators. The first is TIF incremental valuation change as a percentage of total valuation change. The second is the percentage change in population over the same period. We can see that all of non-metro aggregations posted much lower population gains over the years measured than did their metropolitan aggregations. The metro, pre-1989 group grew by 9.9 percent, and the metro, post-1989 group grew by a whopping 19.1 percent. Among the nonmetro, after 1989 cities we find population growth 3.3 percent, and in the nonmetro pre-1989 cities we find population growth of just 2.3 percent. In both of these cases, these cities realized a lower rate of population growth than the cities located in the metropolitan counties that did not have a TIF ordinance in effect by 1999.

In contrast, when we look at TIF incremental values as a percentage of all taxable valuation growth for our cities, we see that for the post 1989 nonmetro cities, the TIF increment that they captured represented a full 34 percent of all valuation growth; among the metro post 1989 cities 24 percent of all new growth was captured in a TIF increment. The pre-1989 nonmetros captured 22 percent, and the metros in that group captured 13 percent. If we look at TIF capture as a measure of economic development effort intended to lead to job and population growth, at least by this measure the evidence indicates that the TIF “effort” only works, as measured by significant population gain, in metropolitan counties. Among our two nonmetropolitan city groups, we see each has a relatively high level of effort coupled with comparatively poor population performance.

Figure 3. Major Changes in TIF Adopting and Non-Adopting Cities, 1989 to 1999



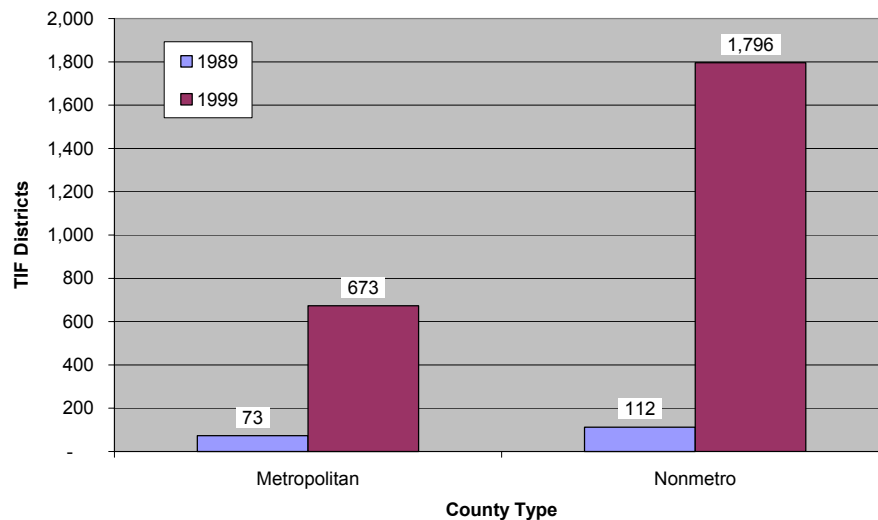
Aggregating to the County Level

For a more comprehensive assessment of the some of the data on our TIF districts in Iowa, we are required to rely on county level aggregates. In this section we are able to isolate more information about our TIF districts, including the actual number of districts over time, the value and the kind of assessed and taxable valuation that is in the district and in the remainder of the urban areas of the counties, and the amount of taxes that are collected, respectively, in the increment and in the remainder of the urban jurisdictions.

After we isolate some of the characteristics of change in TIF districts in our state over two time periods, 1989 and 1999,¹⁸ we are also interested in determining whether there are measurable economic and social outcomes that we might attribute to the accumulation of TIF territory and investment. We have added data on jobs, population, nonfarm earnings, and retail trade changes to our data set.

Figure 4 gives an eye-opening display of the growth in TIF districts in the state of Iowa over the last decade. Our cities in metropolitan counties had 73 TIF districts in 1989, but by 1999 they grew to 673. Our cities in the state’s nonmetropolitan cities had 112 districts in 1989, but they grew to almost 1,800 by 1999. If we compare this chart with the Figure 2A, we would see that in 1989 the average city with a TIF ordinance had 1.5 districts per city. In 1999 the average was 7.6 districts per city.

Figure 4. TIF District Growth, 1989 to 1999



As the number of cities with districts has grown, along with the overall number of districts, we see that the average fiscal size and fiscal yield of the district has changed. In Figure 5A and 5B we can see the outcomes. In 1989, the average metropolitan TIF city had \$7.1 million in TIF valuation per district and collected \$219,915 in property taxes off of the increment. In 1999, the average district value more than halved to \$3.2 million, and the taxes collected declined to \$98,171 per district. The average nonmetro TIF in 1989 had \$1.8 million in incremental valuation and collected \$52,556 in tax increments.

¹⁸ The data represent the calendar years in which the property assessments are made (1989 and 1999). These assessments were applied, however, to fiscal years 1991 and 2001.

By 1999 the average TIF district had \$1.04 million in valuation from which an average of \$29,375 was collected.

This figure significantly bolsters our contention that the creation of TIF districts over the last decade has been primarily for the effect of satisfying a specific industrial growth opportunity, as opposed to the more open-ended urban renewal mode of operating this development incentive.

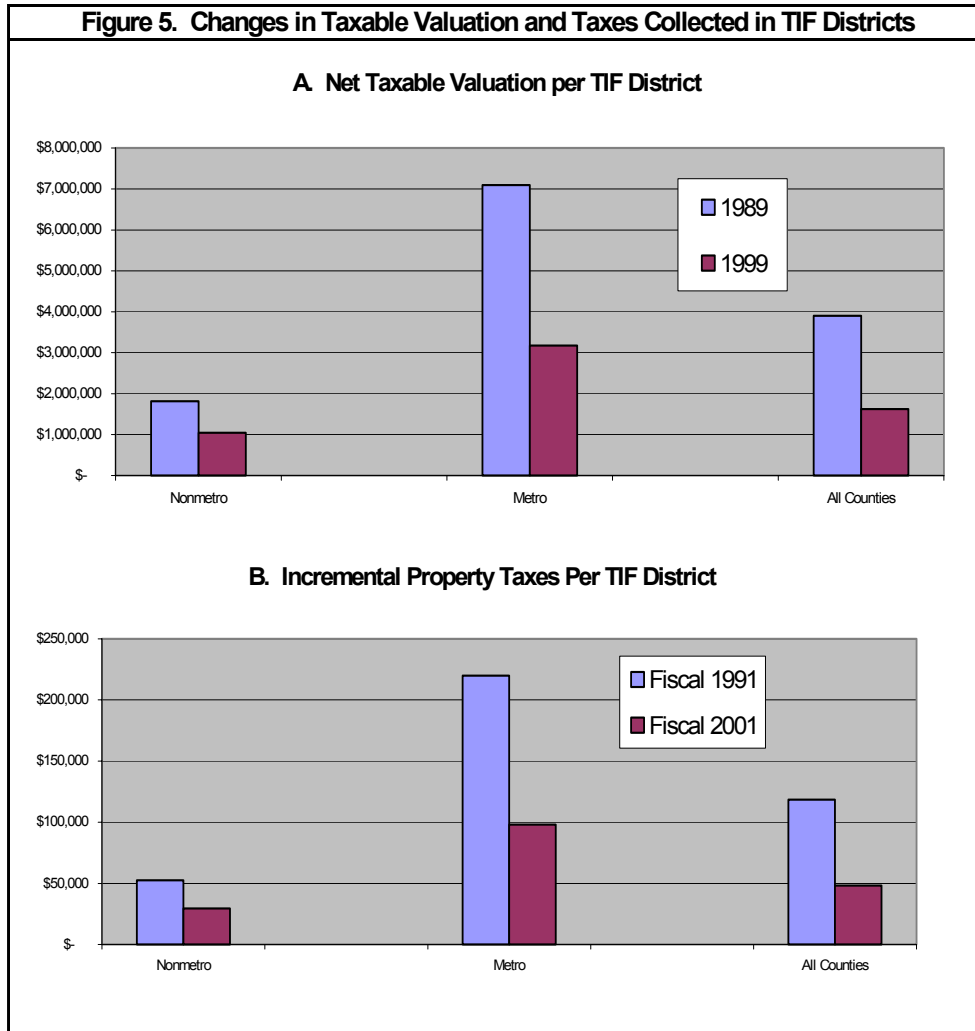


Table 1 displays the major fiscal changes in the TIF districts. Here we are comparing aggregate TIF valuations and incremental property taxes collected in our

urban areas versus the remainder of urban valuation and property taxes.¹⁹ By fiscal 1999, our TIF net valuation grew from \$.721 billion to just over \$4.0 billion, or by 456 percent. All other net valuation grew by 43 percent.²⁰ Concomitantly, TIF increment property taxes grew from \$22 million to \$118.8 million, or 442 percent. For the urban remainder we see that taxes grew faster than the tax base: taxes grew by nearly 59 percent, while the base grew by just 43 percent.

Though we do not present the data here, our analysis also indicated that a growing fraction of the TIF incremental value came in the form of residential property. In 1989 it represented just 1.6 percent of the net TIF increment. By 1999, this property classification accounted for 24 percent of the incremental value, due mostly to the latter revisions in the law allowing TIFs for new residences.

Table 1. Changes in TIF and All Other Urban Valuation, 1989 to 1999

		Net Taxable Valuation	Net Property Taxes
1989	TIF	721,186,298	21,940,107
	Urban Remainder	36,826,629,510	1,132,568,786
1999	TIF	4,007,702,629	118,827,467
	Urban Remainder	52,524,013,715	1,795,924,983
Actual Change	TIF	3,286,516,331	96,887,360
	Urban Remainder	15,697,384,205	663,356,197
Percentage Change	TIF	455.7%	441.6%
	Urban Remainder	42.6%	58.6%

TIF Correlations

Given the collective use of TIF financing, one would expect sets of outcomes at the county level that would give us some indication of their success or not. The TIF ultimately is supposed to increase and enrich the tax base through job growth, population retention, earnings gains, and trade enhancement. We have sets of variables in our analysis that allow us to isolate evidence of fiscal, economic, or social benefits attributable to the proliferation of TIF districts in our state.

TIF ordinance cities commanded about 92 percent of all urban taxable valuation across the state. In short, nearly all of the state’s urban base is influenced to some degree by the presence of TIF districts. We have therefore aggregated our TIF fiscal statistics for urban territories to the county level. To that data set we have added economic and

¹⁹ An important clarification is in order. In Iowa, for tax purposes, all valuation located within boundaries of a municipal corporation is classified as “urban” – all other is classified as “rural.” All cities are considered municipal corporations in the state whether their population is 15 or 205,000.

²⁰ “Net” valuation allows for the deduction of the exempted valuations and tax collections on residences attributable to military service.

population variables. Our simple method for analysis in this investigatory stage was to find the difference in shares in our TIF-based spending and other fiscal, economic, and social variables between 1989 and 1999 and calculate the Pearson’s Correlation for them against the TIF spending variable. If TIFs are, indeed, instrumental in maintaining regional fiscal, economic, and social vitality, then we would expect a positive correlation among our chosen variables against the TIF-increment spending. As the vast preponderance of new TIFs since 1989 were of the “bird in the hand” variety – directly associated with an industrial gain, we assume that there will be distinct measurable economic and fiscal outcomes. Our findings are presented in Table 2.

When we review the literature, the statutes, and the practices of TIF adoption, we find that the TIFs are supposed to bolster the value of homes, the commercial and industrial base, ultimately the aggregate value of the remainder of the urban areas, and tax collections. These enhancements are expected to have a moderating or dampening effect on property tax rates. As TIFs were intended to attract better paying, usually manufacturing, jobs we would expect positive manufacturing job outcomes. As manufacturing jobs are likely to be considered base jobs for any regional economy, we would expect concomitant multipliers to show up in nonmanufacturing jobs, as well. Ultimately, all regional jobs and earnings would rise, as would regional trade. Finally, with all of benefits of TIF-based incentives, we would expect positive population outcomes.

Table 2. TIF Increment Indicators versus Fiscal, Economic, and Social Variables	
Correlates	TIF Tax Collections
Residential Market Values	0.019
Taxable Value of Commercial/Industrial	0.198
Net NonTIF Taxable Values	0.156
Net NonTIF Property Taxes	0.223
Property Tax Rate	0.084
Nonmanufacturing Jobs	-0.023
Manufacturing Jobs	0.254
All Nonfarm Jobs	-0.057
Nonfarm Earnings	0.139
Retail Trade	-0.095
Population	0.022

In the case of Iowa over the years that we have measured, our change in shares of TIF-increment spending at the county level has not yielded important fiscal, economic, and social outcomes. Even though a growing fraction of TIF-increment spending is associated with new housing along with the still popular traditional manufacturing and other higher value economic enhancements, we found no correlation with the market value of homes. We do expect the increment to be funding more business and industry, which ultimately would show up as enhanced commercial and industrial taxable valuations. On a county-wide basis the correlation was quite small at less than $r=.20$. There was a positive, but relatively minor relationship between TIF-spending and nonTIF taxable property values ($r=.16$) and property tax collections ($r=.22$). These two correlations could represent a shifting of tax effort to nonTIF properties, or they could simply be associated with the larger places getting the growth, nonetheless; a situation that seems to be the case in the state. The positive rates of nonTIF valuation growth and tax collections, however, yielded no meaningful relationship between the change in TIF-spending and tax rates in our counties.

The strongest economic relationship is found in the share of manufacturing jobs at $r=.25$, which was to be expected as these are the kinds of jobs a TIF is typically used for. There is no statistically evident multiplier effect, however, as there was no correlation to speak of against nonmanufacturing jobs or all nonfarm jobs.²¹ A very minor correlation was identified with nonfarm earnings ($r=.14$), and no relationship was found with retail trade or with population shares. As regards the current level of TIF-based spending in the state, their relationships to these sets of fiscal, economic, and population outcomes are truly under-whelming.

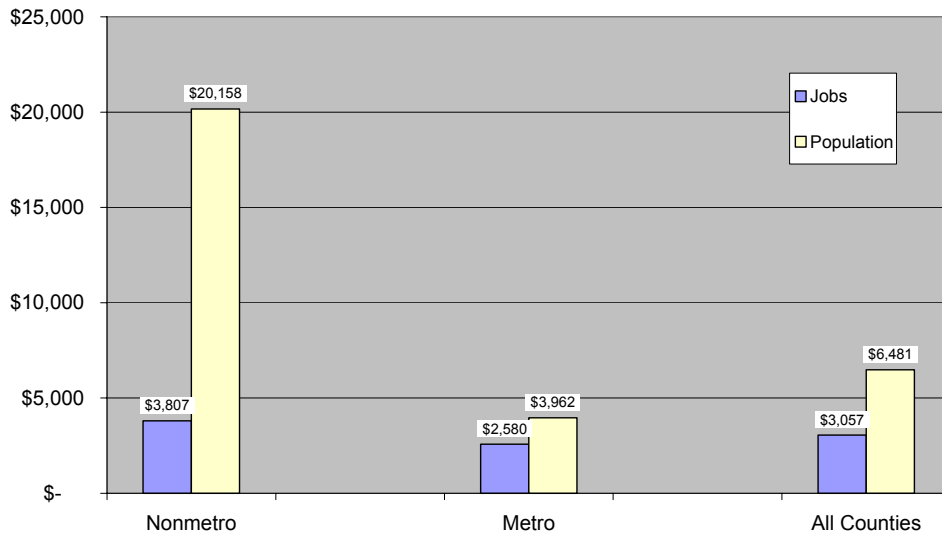
Where does this leave us? Figure 6, below, puts TIF spending into current perspective. First of all, the state of Iowa, over the period that we have scrutinized, enjoyed nonfarm job growth of about 320,000 but only yielded 150,000 more in population. Every county posted nonfarm employment gains, though the relationship between nonfarm job gains and population gains was uneven. Nonmetro counties enjoyed about 45 percent of the new job gains but only accumulated 12 percent of the new people. The values in Figure 6 represent the aggregate TIF spending in 2001 divided by the annual average increase in jobs and population, respectively, over the period that we assessed in this study. When plotted we find that in our nonmetropolitan counties, TIF spending per year amounts to \$3,807 per new nonfarm job. In metro

counties TIF spending is \$2,580 per new nonfarm job. Per new person, however, the spending outcomes are very high. In the nonmetros, the current level of TIF spending annually divided by the expected increase in population for this year is \$20,158 per person. For the metros it is \$3,962. Overall, statewide, current TIF spending per new job is \$3,057 and TIF spending per new resident is \$6,481.

Conclusions

The proliferation of TIF districts in Iowa and TIF-increment spending is intended to bolster the state’s economic and population fortunes. Given the massive adoption of TIF statutes (a third of all cities, within which 92 percent of the state’s urban valuation is located) it is not possible to study our TIF cities with enough comparable control cities to determine both spatial and temporal efficacy. Consequently, we have been forced to simply try to isolate reasonable sets of correlates to see whether TIF increment spending in Iowa has led to discernible fiscal, economic, and social outcomes. We have determined that these measures do not yield significant positive outcomes for the state of Iowa and its tax payers. Indeed, as the last figure indicates, the state’s, primarily urban tax payers, are heavily subsidizing job growth and population growth (assuming that is what the TIF districts are for primarily).

Figure 6. Current TIF Tax Collections by Annual Average Job and Population Increase, 1989-1999



²¹ Though generally touted as a good thing, the expansion of manufacturing jobs in the state has on net yielded lower paying manufacturing jobs. In 1980, the average manufacturing worker in the state earned 105 percent of the U.S. average; in 1999 that same average worker made 83 percent of the U.S. average.

It seems also apparent that the ease with which TIF district designation can be done in Iowa, along with the multiplicity of uses that TIF districts can be put, that the law now has become a *de facto* entitlement for new industry and housing development in much of the state with little to no evidence of attention paid to the overall public benefit or the mean costs of the practice. It also seems apparent that given the ease with which these districts can be developed that cities are somewhat cynically preemptively capturing new valuation and tax revenues in the name of economic development, but that in the main, this preemption is likely yielding much more collective fiscal harm across taxing districts in the long run than good. Iowa's counties are specifically burdened by this practice, as they primarily depend on property taxes for the preponderance of county-level services.²² Iowa schools are held partially harmless, as state aid kicks in to offset the erosion in tax base that would occur because of TIF accumulation among the cities. The state offset for the schools is not complete, but it is substantial. One indirect outcome, then, is that a large portion of current TIF-based losses to local governments, schools in particular, is borne by state government, and that fraction has increased drastically over the last 10 years. One wonders if a state that now finds its accounts severely stretched will continue to tolerate this shift.

Finally we get to the “bird in the hand” problem when dealing with local officials. In a large fraction of TIF transactions across the state in recent years there is an actual company with actual jobs. There is a negotiation, perhaps for performance, i.e., roads, curb and gutter, a set number of new jobs, etc., or perhaps their taxes are simply rebated for just building in our town – sort of a selection reward. City officials believe that the TIF action was instrumental in job growth in their town and in their region. How could it not be? We have an investment, and we have a firm with jobs. On net, however, except for the increment to manufacturing jobs, there is no evidence of economy wide benefits (trade, all nonfarm jobs), fiscal benefits, or population gains. There is indirect statistical evidence that this profligate practice is resulting in a direct transfer of resources from existing tax payers to new firms without yielding region-wide economic and social gains to justify the public's investment.

There was an enlightening exchange between Bartik and Courant in the *National Tax Journal* (1994) on tax incentives and growth. Bartik told us that “policies of ‘buying

²² We must note, however, that counties in the state have adopted an aggressive stance towards cities' practice of pre-emptive TIF adoption and TIF district extension. Some, especially the larger counties, are confronting the TIFing communities and demanding a share of the either accumulated increment or anticipated new increment on an extension. The communities are not obliged to do this, but given local politics and pressure have begun to negotiate payments in “lieu of taxes” to county governments.

growth' using various financial and tax subsidies, have a high cost per job created (847).” This appears to be borne by our research. He does argue, however, that there can be considerable regional benefits if the subsidies find their way into bolstering areas with high unemployment, i.e., the amount of economic gain per public dollar spent would be considerably higher in such instances. Toward that end, and toward the end of helping guide policy makers, he offers three pieces of advice to local policy makers: (1) target incentives more carefully so that the greatest return per cost is realized; (2) policies should emphasize improving business productivity and not just capital subsidization; and (3) it is essential for metropolitan entities to cooperate in economic development programs and incentives as they essentially have one labor market not multiple markets.

Courant's views are less relativistic than Bartik's. He argues for, and argues that economists have a duty to aggressively promote and educate policy makers on, welfare economics principles of government intervention (863-881). He notes that in general policymakers and economists do a poor job of quantifying the costs, isolating benefits, and generalizing findings about public intervention. In effect, the research however well done methodologically tells us little about the quality of the jobs or capital subsidized and little about the kinds and value of public services foregone or whose costs have been shifted. He argues against the unenlightened if not banal tendency to just “count jobs,” and that governments should be doing two things: (1) providing local services efficiently, and (2) taxing mobile factors (labor and capital) appropriately. He also believes that much more effort should be generated in compiling the value of all local and state incentives and to measure them against direct and indirect benefits.

What does this tell us about the prospects for towns in Iowa? Evidence suggests that there is broad-based and exorbitant subsidization of retained and new jobs and retained population in much of the state. Stated differently, existing taxpayers, its householders, wage earners, and retirees are aggressively subsidizing business growth. And much of that growth seems to be substandard as measured by the state's annual average rate of pay relative to the nation's. There were few meaningful economic, fiscal, and social correlates with this practice from our assessment; consequently, the evidence that we analyzed suggests that net positions are not being enhanced.

For states like Iowa, this analysis suggests that the enabling legislation for tax based incentives deserves revisiting. Though the TIF programs is highly popular among city government officials, and why wouldn't it be given the growth in property tax yield over the years, there is virtually no evidence of broad economic benefits in light of the costs.

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