IASB

Background

The revenue effect of a tax increment financing (TIF) district is to capture the growth in property valuation from all taxing authorities (county, city, community college, school district, etc.) and return all of the revenue from these entities to one central source to finance property improvements, job training agreements, tax rebate agreements, etc..

The Iowa school foundation formula is first and foremost an equalization formula – that is, the formula provides equalization of funding between property taxes and state aid. In general, TIF districts result in reduced or foregone property valuation with the state making up the lost revenue. Those funds outside of the foundation formula are of two varieties: those with specific rate limitations and those without. Lost property valuation has a different effect on each group.

Effect on School District Revenues

For those property tax revenue streams under the foundation formula, losses in property valuation are partially recovered through increased state aid (those costs below 87.5% of the cost per pupil), with the remainder being recovered through the additional levy in the form of higher rates (for those costs in excess of 87.5% of the cost per pupil. If you take the valuation in the TIF and multiply by your General Fund tax rate above the $5.40 uniform levy, this will be amount which is shifted to other taxpayers (this will cover you the cash reserve levy as well). Then run your valuation numbers two ways, one including the TIF value and one without. The difference in tax rates is the amount attributable to TIF. A similar shift to other taxpayers of the district will occur for the management levy. Debt service and PPEL levies use the valuation including TIF, so there is no impact to your PPEL or Debt service.

For non-rate limited levies set by the board, it is possible to recover the foregone valuation by increasing the rate for the other taxpayers in the school district.

Conclusion

In general, the school finance formula helps to partially offset the revenue loss which TIFs would otherwise cause. However, to the extent a school board does not simply increase or shift the tax burden to other property owners, then the effect to taxpayers is nearly impossible to perceive because their overall tax rate remains unchanged. If the district chooses to raise property tax rates to offset the lost valuation, taxpayers simply bear the burden of the improvements imposed by the city, but raised by the school district and the other taxing authorities.