February 13, 2018

Director of Research and Technical Activities  
Governmental Accounting Standards Board  
director@gasb.org

Response to Project No. 24-16ED

Dear Director:

I am writing to express serious concerns about Question 4.6 that would exempt all uses of Tax Increment Financing for public infrastructure from Statement 77 disclosure. In Iowa, there are in practice no restrictions on the acceptable use of TIF revenues, and there are hundreds of examples of cities paying for not just road or water and sewer improvements directly connected to a development project, but all manner of public facilities, such as parks, soccer fields, or fire stations. Under this proposed rule, are all public facilities open to being defined as “infrastructure” and thus exempt from disclosure? What is to keep local governments from defining that term as broadly as possible in order to conceal as much of their TIF expenditure as they can? Is there any reason to believe that state governments will conscientiously expend the effort required to monitor and regulate such practices?

More importantly, TIF is increasingly being used for routine public infrastructure that in earlier times would have been financed by the use of general obligation or revenue bonds, retired entirely from the property taxes or utility fees of city taxpayers and residents. Cities have discovered that they can use TIF instead, and in effect grab revenue in an intergovernmental free lunch and thereby make school district and county taxpayers bear a substantial share of those costs. When the tax base that is the source of the TIF revenue has been placed in a TIF district, the increment is no longer available to the schools or the county, and they must raise tax rates on all their taxpayers to make up for the loss in tax base. The effect is to raise taxes throughout the county and the school district, and in independent school district states the school boundaries typically extend well beyond the city limits. Thus cities can use TIF to even make nonresidents pay for a share of their routine city facility costs. It is disappointing to think that the substantial increase in transparency brought about by GASB 77, shedding light on such revenue diversions through TIF, could be greatly weakened and undermined by this proposed infrastructure exclusion.

If public infrastructure is exempted from TIF disclosure, school districts and counties that endure revenue losses passively from the use of TIF by cities would no longer have to report the effects of a substantial portion of that TIF use. This would seriously undermine the entire effort at transparency in the use of TIF. From the standpoint of the schools or the county, the exemption of public infrastructure spending exempts the use of TIF most damaging to their finances. When a TIF is used to abate the taxes of a private development, there is at least the prospect of the taxable property in that development eventually coming out of TIF and augmenting the tax base of the school district or county. When TIF is used instead for public infrastructure, particularly for routine public facilities unconnected with a particular development (because the TIF district is so large, in many cases encompassing the entire town), the revenue loss has no upside even in the long run, as there is not even a pretension that the city’s action is creating new tax base for the schools or the county.

There is an additional concern. In many cities, infrastructure associated with new subdivisions or other development projects is normally the financial responsibility of the developer. If instead that infrastructure is paid for using TIF, the developer’s or future owners’ property taxes in effect repay the developer for infrastructure costs that otherwise would have been the developer’s responsibility. For example, suppose the city wanted to
incentivize a development. One option would be to require the developer to pay $500,000 for city street improvements, per normal practice, but then grant a property tax abatement worth $500,000. Another option would be for the city to use TIF, diverting $500,000 of the incremental taxes paid by the developer to cover the cost of installing the $500,000 worth of city streets for the project. The net effect on taxpayers and the developer is the same – the developer gets out of the street cost, and the city and other taxing entities give up $500,000 in revenue. It is difficult to understand why the city would be required to disclose the first but not the second.

Peter Fisher
Research Director, the Iowa Policy Project
Professor Emeritus, the University of Iowa