



# City of Muscatine

ITEM NUMBER 2022-0482

## IN-DEPTH ITEM - CITY COUNCIL

DATE: 12/8/2022

### STAFF

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### SUBJECT FOR DISCUSSION

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Tax Increment Financing Policy

### EXECUTIVE SUMMARY

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City staff is proposing that the City Council adopt a Tax Increment Financing (TIF) policy. The City has aggressively utilized TIF, and staff have identified a need to clarify how/when the City uses TIF to incentivize economic growth and development.

The attached TIF policy was drafted by the City Administrator and the City Finance Director with input from the City's TIF legal counsel. The purpose of the policy is to document the goals of the TIF program and to establish structure and objectivity for evaluating economic development projects. Establishing a standard policy and framework for economic incentives ensures that the City's financial resources are used as efficiently and effectively as possible while accomplishing key City goals.

If the Council supports the TIF policy, staff will bring it forward for Council approval.

### GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

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Does City Council have questions regarding the information presented?

Does City Council support bringing the policy forward for approval?

### BACKGROUND/DISCUSSION

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City staff is proposing that the City Council adopt a Tax Increment Financing (TIF) policy. The City has aggressively utilized TIF, and staff have identified a need to clarify how/when the City uses TIF to incentivize economic growth and development.

#### TIF Basics

Incremental property taxes are the new property taxes generated by improvements to the

project property. The incremental property valuations are multiplied by the year's TIF tax rate which is determined by subtracting any protected levies (e.g. the debt service levies) from the consolidated tax rate of the property. This calculation determines the amount of TIF funding available to a project. Property valuations are independently determined by the Muscatine County Assessor unless determined by a minimum assessment agreement.

Chapter 403 of the Code of Iowa contains the Urban Renewal Law. Major amendments to Chapter 403 were enacted in 1994 which changed many tax increment requirements as of January 1, 1995 along with later amendments which made it more possible for cities and counties to use tax increment revenues to finance public improvements related to private housing development. The City utilizes TIF for both of these purposes.

### **Proposed TIF Policy**

The attached TIF policy was drafted by the City Administrator and the City Finance Director with input from the City's TIF legal counsel. The purpose of the policy is to document the goals of the TIF program and to establish structure and objectivity for evaluating economic development projects. Establishing a standard policy and framework for economic incentives ensures that the City's financial resources are used as efficiently and effectively as possible while accomplishing key City goals.

Recommended TIF policy goals include:

1. Ensure that the City provides economic support to strategic projects that accomplish a public purpose.
2. Support City goals as outlined in the City's Strategic Plan through new construction and rehabilitation of existing properties in strategic locations throughout the community.
3. Promote quality development of residential, commercial, and industrial properties and add or retain high quality jobs.
4. Improve overall economic conditions and meet community housing needs.
5. Continue to increase the taxable valuation of properties in the City of Muscatine.
6. Drive future development through strategic public infrastructure projects in lieu of increasing general obligation debt.
7. Provide a guide for developers seeking economic incentives from the City.

The City receives many inquiries from developers regarding whether their project is available for TIF incentives. The staff proposes that the following policies will be used when making a determination regarding TIF eligibility:

1. The City may provide TIF funds for projects that meet City goals, align with the City's comprehensive plan, and comply with the City's development standards and zoning ordinances.
2. The City may provide TIF funds for projects that are in the best interests of the overall community and do not deter from quality of life or environment.

3. The City may provide TIF funds for projects that improve property designated as “blighted” in the City’s Urban Renewal Plan.
4. Any project seeking TIF funds must demonstrate that the project will not occur in Muscatine or will be reduced in scope without TIF.
5. The City may provide TIF funding for residential, commercial, or industrial projects.
6. The amount and structure of TIF funding is dependent on whether the project meets certain goals such as meeting affordable housing needs, whether there is a need for public infrastructure to serve the project, or if the project is located within strategic areas of the City.

Meeting TIF policy guidelines or other criteria is not intended to guarantee the award of financial assistance. City Council may also consider other factors not listed in this policy when determining if a project will receive TIF funding.

### **City's TIF Funding Mechanism**

TIF projects can be legally funded with various types of debt, including general obligation debt, pure tax increment revenue debt, internal loans between governmental funds and “rebate agreements”, in which all or a portion of annual tax increment revenues are paid back to developers. The City primarily uses rebate agreements for development projects and consequently, is considered the City's standard TIF funding mechanism. The City also utilizes TIF for infrastructure improvements and internal loans to fund staff time and other resources dedicated to economic development.

### **Standard TIF Program**

In order to maintain appropriate and consistent tax revenues for all taxing entities, TIF rebates generally do not exceed 50% of the available TIF increment created by a TIF property for a maximum of 10 years. This limitation is set to realize the needs and obligations of the general fund, the County and school districts and to ensure that the utilization of TIF will have minimal impact to ongoing operations.

### **Expanded TIF Program**

The City may consider TIF rebates larger than 50% and up to a maximum of 20 years if the project provides significant economic benefits. Staff proposes the following guidelines for expanded TIF assistance:

1. The degree to which a project alleviates blight by rehabilitating existing properties and/or buildings or adapting current buildings for a new use.
2. Projects that fill a critical unmet need in the community (e.g. housing, retail, etc.).
3. Projects that provide for a significant expansion of the City’s property tax base.
4. Projects that create a significant number of new, quality jobs.
5. Any other considerations as determined by the City Council.

### **TIF Application Process**

A general process for projects requesting TIF assistance is outlined in the proposed TIF policy. The process includes a consultation meeting, information gathering, and endorsement of the concept by City Council. If the project is supported, then the legal process related to Urban Renewal Areas and TIF districts is initiated. The process culminates in approval of a Development Agreement, which is a formal document outlining the TIF funding mechanism and timeline as well as any other key terms associated with the development. The Development agreement is prepared by the City's bond counsel based on information provided by City staff and the developer.

### **Next Steps**

If City Council supports the proposed TIF policy, staff will bring it forward for approval by the City Council at a regular meeting.

### **ATTACHMENTS**

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1. DRAFT TIF Policy 12.07.22