



Iowa Department of  
**REVENUE**

**Local Option Sales Tax-Tax Increment Financing Evaluation Study**

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## **Preface**

[Iowa Code Section 2.48](#) requires certain state agencies, including the Department of Revenue, to review a schedule of tax expenditures each year and file a report with the legislature. Each review is required to assess the tax expenditure's equity, simplicity, competitiveness, public purpose, adequacy, and extent of conformance with the original purpose of the enacting legislation. A review may also include recommendations for better aligning a tax expenditure with the original intent of the enacting legislation. The Local Option Sales Tax (LOST) Tax Increment Financing (TIF) Program is scheduled for review in 2022.

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## **Executive Summary**

The Local Option Sales Tax (LOST) Tax Increment Financing (TIF) Program allows incorporated cities to designate incremental increases in LOST revenues generated within an urban renewal area (above a base year amount) to be used for projects within that designated area to attract new retail development as part of a broader strategy of mixed economic development. The goal is to attract new tenants to vacant retail space, or to help with the renovation of a business site, thereby helping that business to remain open in the city. To be eligible, a city must have a LOST ordinance in effect and have established an Urban Renewal Area. This is the second evaluation of the LOST TIF Program.

The major findings of the study are these:

### **LOST TIF Program in Iowa**

- The LOST TIF program allows local governments to use LOST tax revenue sources instead of property taxes in a TIF-like program for specific specified projects in urban renewal areas, if a city has a LOST ordinance in effect and has already established an urban renewal area.
- In the last five years, five cities with designated urban renewal areas have participated in the program: Spencer (Clay County); Stuart (Adair County); Red Oak (Montgomery County), Davenport (Scott County), and Colfax (Jasper County).

### **Descriptive Statistics of LOST TIF Programs**

- The Colfax Urban Renewal LOST TIF Program's first base year was in FY 2021 with a TIF base year total of \$23,000 a year. FY 2022 was the Program's first LOST TIF increment distribution year when the LOST TIF increment distribution amount was \$10,700.
- Between FY 2018 and FY 2022, a total of \$536,425 has been distributed for the Davenport Urban Renewal LOST TIF Program.
- The Red Oak Urban Renewal Program has collected \$26,750 in LOST TIF increment distributions between FY 2018 and FY 2022.
- The Spencer Urban Renewal LOST TIF Program is the largest of all current Iowa LOST TIF programs. The LOST TIF increment distributions have increased from \$44,500 in FY 2018 to \$169,000 in FY 2022 totaling almost \$600,000 over the last five fiscal year.
- The Stuart Urban Renewal Program has collected \$116,100 in LOST TIF increment distributions between FY 2018 and FY 2022.

## **I. Introduction**

The purpose of this study is to analyze tax data and other pertinent information to evaluate the Local Option Sales Tax (LOST) Tax Increment Financing (TIF) Program. This study will focus on its utilization, economic impact, equity, simplicity, competitiveness, adequacy, and extent of conformance with the original intent of its enacting legislation.

The LOST TIF Program was commenced on July 1, 2008, as defined in [Iowa Code Section 423B.10](#). In the last five years, five cities with designated urban renewal areas have participated in the program: Spencer (Clay County); Stuart (Adair County); Red Oak (Montgomery County), Davenport (Scott County), and Colfax (Jasper County). Since 2013, approximately \$2.0 million in LOST TIF increment payments have been distributed to five cities' LOST TIF urban renewal area programs.

Section II of the study describes the LOST TIF Program in Iowa. Section III presents descriptive statistics regarding characteristics of LOST TIF Programs. Section IV concludes the evaluation.

## **II. LOST TIF Program in Iowa**

### **A. The Iowa LOST TIF Program**

In Iowa, there is a 6.0 percent State sales tax rate. Of this amount, 5/6th of the State sales taxes are deposited in the State General Fund and 1/6th is deposited in the Secure an Advanced Vision for Education (SAVE) Fund. In addition to the State sales tax, a Local Option Sales Tax (LOST) may also be imposed at a rate up to 1.0 percent of taxable sales by local governments. In order for a local government to have a LOST, a majority of the eligible electors in that city must approve it in a county-wide election to impose the LOST. As of this writing, a majority of local jurisdictions in Iowa have a LOST. Tax increment financing (TIF) is an economic development tool that provides public financing for specific projects within a designated area in local government jurisdictions. Traditionally, TIF areas have been funded with local property taxes, which, divert future property tax revenue increases from a defined area or district toward an economic development project or public improvement project the defined designated area.

The LOST TIF program allows local governments to use LOST tax revenue sources instead of property taxes in a TIF-like program for specific specified projects in urban renewal areas,<sup>1</sup> if a city has a LOST ordinance in effect and has already established an urban renewal area. Urban renewal areas must be a slum area, blighted area, economic development area, or combination of these areas which the local governing body designated as appropriate for an Urban Renewal Project. For this Program, projects can include improvements to streets, sewers, sidewalks, and other infrastructure related to residential, commercial, or industrial development; redevelops of slum or blighted areas; funding private economic development; and financing construction of low- and moderate-income housing.

To begin a LOST TIF program, a city must establish a based TIF year, which is the year a LOST TIF ordinance is adopted. Then, LOST revenues from sales taxes generated in the

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<sup>1</sup> Urban renewal areas are limited in duration to 20 years from the year that revenue is first remitted.

designated TIF area during this base year are established as the LOST TIF base. In subsequent years, increases in LOST revenues in the TIF area are designated as the increment distribution, which are revenues that may be used for the designated urban renewal project within the LOST TIF program. The local government generally does not need the permission of the other taxing authorities to establish a TIF Taxing District. Where there is a LOST TIF, the LOST Distribution for the county as a whole is reduced by the amount of the LOST TIF increment for the designated project. The other cities and unincorporated area of the county will continue to receive only the base year amount from sales in the LOST TIF district as long as the LOST TIF is in effect. For example:

- City A enacts a LOST TIF for a designated urban renewal area.
- In the LOST TIF base year, LOST revenues from sales taxes in the TIF are \$100,000.
- In the next fiscal year, LOST sales taxes revenues in the TIF district increase by \$20,000 from the previous year for a total of \$120,000 in the second fiscal year.
- The \$20,000 incremental increase is returned to City A for the designated urban renewal area.
- With the LOST TIF, City A receives 100% of the \$20,000 increase. The county in which City A resides and the other cities within this county forego their share of the tax increase LOST distribution for the \$20,000 sales tax base increase.
- Without the LOST TIF, City A would have received its designated distribution percentage of the regular LOST distribution formula for all governments in the county.

**III. Descriptive Statistics of LOST TIF Programs**

**A. Colfax Urban Renewal LOST TIF Program**

The Colfax Urban Renewal LOST TIF Program’s first base year was in FY 2021 with a TIF base year total of \$23,000 a year. FY 2022 was the Program’s first LOST TIF increment distribution year when the LOST TIF increment distribution amount was \$10,700. ([See Table 1. Colfax Urban Renewal LOST TIF](#))

**B. Davenport Urban Renewal LOST TIF Program**

Unique to all other LOST TIF programs, the Davenport Urban Renewal Program has a zero sum LOST TIF base year. This mean that, in it’s first year as a program, no sales taxes were generated for the designated area. As a result, all LOST sales tax revenues in years following the base LOST TIF year for the designed are considered the same amount for the increment payment as the amount distributed for the LOST TIF urban renewal project. Since FY 2018, these LOST TIF increment distribution amount have varied from a low of \$42,000 in FY 2021 to a high of \$192,500 in FY 2022. Between FY 2018 and FY 2022, a total of \$536,425 has been distributed for the Davenport Urban Renewal LOST TIF Program. ([See Table 2. Davenport Renewal LOST TIF](#))

**C. Red Oak Urban Renewal LOST TIF Program**

The Red Oak Urban Renewal LOST TIF Program’s TIF base year total is \$16,500. This program experienced LOST TIF increment distributions of \$11,700 in FY 2018 and \$15,000 in FY 2019. However, the Program has not realized any increment distributions since FY 2019 due to no reported LOST revenues being generated in the designated area. While this renewal program is still active, this \$0 a fiscal year increment distribution trend is anticipated

to continue for the foreseeable future. In total, this Program has collected \$26,750 in LOST TIF increment distributions between FY 2018 and FY 2022. ([See Table 3. Red Oak Renewal LOST TIF](#))

**D. Spencer Urban Renewal LOST TIF Program**

The Spencer Urban Renewal LOST TIF Program's started FY 2018 with a \$405,300 base amount. However, this increased by almost \$28,000 for FY 2019 and then changed again in FY 2020 with a decrease of \$14,000 until the base settled at \$419,100 for FY 2020 through FY 2022. Traditionally, once a base year is established, it does not change for the duration of the program. However, cities are allowed to change the scope of a LOST TIF program if approved. When this happens, a new base year is established as demonstrated by Program scope changes which applied to FY 2019 and FY 2020 for the Spencer Urban Renewal LOST TIF Program. While the Program's base year amount has remained between \$405,300 and \$434,000 over the last five years. The LOST TIF increment distributions have increased from \$44,500 in FY 2018 to \$169,000 in FY 2022 totaling almost \$600,000 over the last five fiscal year. This makes the Spencer Urban Renewal LOST TIF Program the largest of all current Iowa LOST TIF programs. ([See Table 4. Spencer Renewal LOST TIF](#))

**E. Stuart Urban Renewal LOST TIF Program**

The Stuart Urban Renewal LOST TIF Program's TIF base year total is \$93,734. This program experienced LOST TIF increment distributions of \$16,800 in FY 2018 and stayed in this range until FY 2022 when the LOST TIF increment distribution increased to \$42,000. The increase is wholly attributable to increases in overall LOST revenues in the designated area. In total, this Program has collected \$116,100 in LOST TIF increment distributions between FY 2018 and FY 2022. ([See Table 5. Stuart Renewal LOST TIF](#))

**IV. Conclusion**

The LOST TIF Program was commenced on July 1, 2008. The goal of the Program is to allow incorporated cities to designate incremental increases in LOST revenues generated within an urban renewal area (above a base year amount) to be used for projects within that designated area to attract new retail development as part of a broader strategy of mixed economic development, to attract new tenants to vacant retail space, or to help with the renovation of a business site, thereby helping that business to remain open in the city. Since FY 2018, \$1.3 million in in LOST TIF increment payments have been distributed to five cities' LOST TIF urban renewal area programs, with \$414,000 of this being distributed in FY 2022. ([See Table 6. Total FY 2018-2022 Urban Renewal LOST TIF](#))

## Iowa's LOST TIF Program Evaluation Study Tables



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**Table 1. Colfax Urban Renewal LOST TIF**

Fiscal Year	TIF Base Year Total	Reported LOST Total	LOST TIF Increment Distribution Total
2018	\$0	\$0	\$0
2019	\$0	\$0	\$0
2020	\$0	\$0	\$0
2021	\$0	\$0	\$0
2022	\$22,914	\$33,601	\$10,686
Total		\$33,601	\$10,686

Source: The Iowa Department of Revenue

**Table 2. Davenport Urban Renewal LOST TIF**

Fiscal Year	TIF Base Year Total	Reported LOST Total	LOST TIF Increment Distribution Total
2018	\$0	\$118,479	\$118,479
2019	\$0	\$111,799	\$111,799
2020	\$0	\$71,800	\$71,800
2021	\$0	\$41,893	\$41,893
2022	\$0	\$192,453	\$192,453
Total		\$536,425	\$536,425

Source: The Iowa Department of Revenue

**Table 3. Red Oak Urban Renewal LOST TIF**

Fiscal Year	TIF Base Year Total	Reported LOST Total	LOST TIF Increment Distribution Total
2018	\$16,495	\$28,151	\$11,656
2019	\$16,495	\$31,587	\$15,092
2020	\$16,495	\$0	\$0
2021	\$16,495	\$0	\$0
2022	\$16,495	\$0	\$0
Total		\$59,738	\$26,749

Source: The Iowa Department of Revenue

**Table 4. Spencer Urban Renewal LOST TIF**

Fiscal Year	TIF Base Year Total	Reported LOST Total	LOST TIF Increment Distribution Total
2018	\$405,280	\$449,709	\$44,429
2019	\$432,961	\$522,383	\$89,423
2020	\$419,120	\$557,473	\$138,353
2021	\$419,120	\$573,276	\$154,156
2022	\$419,120	\$587,926	\$168,806
Total		\$2,690,767	\$595,167

Source: The Iowa Department of Revenue

**Table 5. Stuart Urban Renewal LOST TIF**

Fiscal Year	TIF Base Year Total	Reported LOST Total	LOST TIF Increment Distribution Total
2018	\$93,734	\$110,556	\$16,822
2019	\$93,734	\$108,610	\$14,876
2020	\$93,734	\$111,241	\$17,507
2021	\$93,734	\$118,630	\$24,896
2022	\$93,734	\$135,710	\$41,976
Total		\$584,747	\$116,076

Source: The Iowa Department of Revenue

**Table 6. Total FY 2018-2022 Urban Renewal LOST TIF**

Fiscal Year	TIF Base Year Total	Reported LOST Total	LOST TIF Increment Distribution Total
2018	\$515,508	\$706,895	\$191,386
2019	\$543,189	\$774,379	\$231,190
2020	\$529,349	\$740,515	\$227,660
2021	\$529,349	\$733,799	\$220,944
2022	\$552,263	\$949,690	\$413,921
Total		\$3,905,278	\$1,285,102

Source: The Iowa Department of Revenue