

Taxpayers Association of Central Iowa: West Des Moines Microsoft Project Financing Works for Property Taxpayers

APRIL 28, 2014) -- Recently the City of West Des Moines announced a \$1.13 billion investment by Microsoft Corporation in a new data center. The Taxpayers Association of Central Iowa has endorsed the project's financing as a good deal for property taxpayers, and here's why.

To put this project in perspective, think about it as generating the equivalent of 75 percent of all property taxes currently collected in Waukee - just from one single project! Cities want as much commercial valuation as they can get because it is taxed on 100 percent of its assessed value (whereas residential property is currently taxed on about 55 percent of its assessed value). The more commercial property a community has, the more dollars it can generate for a given tax rate, or the lower its tax rate can be in order to generate a given dollar amount.

In order to serve the Microsoft project, infrastructure such as roads, water, sewer and fiber optics must be available to make the site operational. Typically a developer covers such front-end costs and it pays property taxes once the project is up and running. However, sometimes in order to induce a big developer to choose their community, a city will cover the costs of some of the infrastructure through tax increment financing (TIF). TIF districts generally work by reserving future property tax revenues in the district to finance the up-front infrastructure costs. As long as the project wouldn't happen without the inducement, and enough revenue is generated by the project to cover the costs within a reasonable period of time, it generates a net positive return and makes financial sense. (1) If the availability of infrastructure enables even more development to occur, all the better - the return just keeps going up.

In this case, the infrastructure associated with the Microsoft TIF project will leverage the development of an additional 2,000 - 3,000 acres. The Microsoft project alone will ultimately generate \$8 million per year in property taxes, more than enough to cover in just a few years the \$18 million of improvements the city has promised in the Microsoft agreement. In fact, the Microsoft project generates enough return to finance the infrastructure needed to develop the entire 2,000 - 3,000 acres. When that development occurs, it's even more of a win for taxpayers and for all governments in the area because the tax base has expanded.

West Des Moines has been one of the most responsible users of TIF in central Iowa and indeed statewide. It has a track record of using only the portion of the property tax dollars generated in the TIF district that is truly needed, thus allowing the remaining dollars to be accessed by the school district and the county. Currently West Des Moines is using only 39 percent of all the revenue generated in its TIF districts. In contrast, some communities such as Altoona, Windsor Heights and Pleasant Hill use almost all of the available resources, thus making the tax base inaccessible to the school district.

West Des Moines also terminates its TIF districts at the conclusion of their original terms, rather than extending them for additional terms. Again, this is not standard practice.

West Des Moines is limited in its use of TIF. Currently 9.1 percent of the total property tax base is tied up in TIF districts. Going forward, the Jordan Creek TIF will be expiring in a few years, which will allow the City to continue to reserve a low share of taxable value in TIF, even as this project comes on. Some communities in central Iowa have a much higher share of their total tax base reserved in TIF districts, for example at 35 percent Altoona has almost four times as much reserved.

The West Des Moines Microsoft project is the type of project for which TIF is intended. It pays its way and then some, plus it leverages an even greater increase in the tax base. In fact this project is so large that taxpayers should be asking for a tax rate decrease in the future when the infrastructure is completed and the TIF expires. Then it becomes the ultimate win/win.