Planning Magazine, American Planning Association
http://www.planning.org/planning/2009/mar/moneymesa.htm

March 2009

Money on the Mesa

How Albuquerque's massive new "jobs first" development benefits from some interesting financial tools.

By Andrew Webb

South of Albuquerque's small but bustling airport, and east of the 300-year-old neighborhoods and junk yards that flank the Rio Grande for miles south of downtown, is a high mesa that the recession appears to have forgotten.

On a recent winter morning, massive yellow earthmovers were busy carving an increasingly complicated network of roads into what just a few years ago was a featureless plateau stretching for miles. Truckloads of materials trundled up a two-year-old boulevard complete with elaborately painted overpasses, new desert-friendly landscaping, and a series of concrete and rock rattlesnake sculptures, each longer than a city bus, in the medians. At the top of the escarpment, armies of construction crews were putting the finishing touches on a solar equipment manufacturing plant, a financial services office complex, and a translucent glass "town center" that will eventually house retail businesses, a school, and offices for the developer, Forest City Covington.

This is Mesa del Sol, one of the largest master planned new urbanist communities in the U.S. It will eventually be home to 100,000 people, a fifth of Albuquerque's current population.

Its backers set out in early 2006 to attract jobs to the 12,900-acre development years before the first home went up. Three years later, Mesa del Sol's "jobs first" philosophy seems to have worked. All told, the projects under construction or in operation at Mesa del Sol account for about 4,100 permanent employees, with more coming.

"We'll have 5,000 employees up here in the next year," says Mesa del Sol president Michael Daly.

Construction aside, there is already industry at the top of the mesa. Advent Solar, one of two solar-energy-related businesses here, has been cranking out photovoltaic cells in a state-of-the-art factory since 2006. Employees of Boston-based Fidelity Investments' human resources outsourcing arm were set to begin work at new mesa-top offices before Christmas. And a quarter-mile to the east, Albuquerque Studios' 168,000 square feet of soundstages, and the scrubland that surrounds them, have played host to more than half a dozen movie productions, including the latest entry in the Terminator series, and thousands of film crew members.

Meanwhile, a health care company, the U.S. Drug Enforcement Administration, and the National Nuclear Security Administration are in the early stages of office construction. Indeed, Mesa del Sol seems to have squeaked in just under the wire of the decelerating global economy. It has also avoided the local backlash against the tax increment financing Forest City Covington is using to build its pedestrian- and bicycle-friendly roads and sidewalks, parks, and other infrastructure.

But belt-tightening by the state government threatens to end a freewheeling era of high-cost business incentives, and major home builders elsewhere in the city, such as KB Homes, have pulled out of other parts of town, leaving half-developed neighborhoods and empty lots in their wake. Whether or not Mesa del Sol can sell the 37,000 homes and create the 25,000 new jobs it has promised over the next 35 to 50 years is anyone's guess.

New kind of development

Forest City Covington is a subsidiary of Cleveland, Ohio-based Forest City Enterprises, a $10 billion, 90-year-old publicly traded real estate firm known for new urbanist-style communities and for building major commercial high-rise and mixed use projects in blighted urban neighborhoods.

Unlike Denver's 4,700-acre Stapleton neighborhood, which Forest City has almost completed on the site of a former airport, Mesa del Sol is being built on state-owned land that has, up to now, seen no building.

Mark Lautman, a well-known local economic developer who has spearheaded employer recruitment to Mesa del Sol, recalls an early meeting with Forest City cochair Albert Ratner as the state was seeking a developer for the property in 2002. "He said, 'If you had the West Side to do over again, what would you do differently in terms of design, planning, and permitting?'" Lautman says. "That was the basis for Mesa del Sol's thought process."

Between 1980 and the present, Albuquerque's northwest mesa, known locally as the West Side, has grown at triple the rate of the rest of the city, controversially bisecting a national monument protecting 700-year-old American Indian petroglyphs. This part of the city is known for car-centric bedroom communities developed in unruly patches, poorly planned arterial roads, and a shortage of bridges leading to employment centers on the other side of the Rio Grande.

Since signing on to develop Mesa del Sol in 2003, Forest City Covington's goal has been to reverse that trend by creating an entirely self-contained community where people could walk to work or shopping, children could ride bikes to schools, and acres of parks would encourage healthy, outdoor lifestyles.

The company tapped architect and urban planner Peter Calthorpe to handle land design. Calthorpe is known for urban and suburban development bearing the hallmarks of the new urbanist philosophy: walkability, environmental sustainability, and focus on mass transit.

In line with that thinking, the development is slated to include a number of green features, including LEED-certified industrial and office buildings, a proposed solar power generation plant on the development's eastern border, and water-saving touches like porous parking lots and rooftop catchment systems.

According to Carthorpe's master plan, residential neighborhoods will feature an eclectic mix of single-family units and compound-style apartments mimicking the adobe and pueblo-style architecture popular in New Mexico, along with modern live-work and condominium buildings. The neighborhoods will be clustered around four town centers, and each will feature public plazas and parks, rather than large individual yards, in an effort to conserve water.

"We're pushing the houses and front porches right out to the street, and pushing people into contact with their neighbors," Lautman says.

The industrial mix, he says, is designed to bring together creative thinkers, alternative energy scientists, film crews, and government, office, and manufacturing employees, and to keep them on the mesa — and off the traffic grid — by creating a sense of place.

"The first bar that opens here, you'll have digital animators hanging out next to 60-year-old nuclear physicists," he says. "It's going to look like the cantina in Star Wars."

Turning to TIF


Mesa del Sol — annexed by the city in 1993 — languished on the drawing board for decades as officials debated the type of development needed and wrangled with complicated land ownership issues. The first 3,000-acre phase came to life in 2005 with the construction of a long-awaited, $25 million road extension to reach it, and groundbreaking for a Forest City Covington-financed factory for Advent Solar.

Many local officials and observers lauded the development as an antidote to the sprawl that has enveloped other parts of the city. "As we grow, we need to do it in a way that benefits the people already here" and "that is something we can point to with pride," Dolph Barnhouse, executive director of the now-defunct antisprawl group 1000 Friends of New Mexico, said in late 2005. "Mesa del Sol is proving to be a wonderful opportunity to provide a large-scale addition to housing in a positive way. We're happy they've been willing to work with us."

But within months, 1000 Friends and an ad hoc coalition of other government watchdog groups began to question the way Forest City Covington aimed to pay for Mesa del Sol's streets, parks, and other infrastructure — the widely used and increasingly controversial tool called tax increment financing.

Tax increment financing is the earmarking of future tax revenues to cover up-front costs of redevelopment, such as street improvements. First developed in the 1950s, this method of public finance was originally conceived of as a way to redevelop inner-city neighborhoods. TIFs became increasingly popular as federal infrastructure funding dried up in the 1970s, and today nearly every state allows them.

During New Mexico's 2006 legislative session, lobbyists working on behalf of Forest City Covington quietly helped rewrite existing, but never-used, state statutes allowing tax increment financing. The Tax Increment Development Act, passed that year, lets so-called Tax Increment Development Districts, or TIDDs, leverage a portion of future sales and property tax revenues generated within the district to finance public infrastructure bonds.

Later that year, Forest City Covington began approaching city, county, and state governments for approval of tax increment development districts at Mesa del Sol, arguing that to attract employers and home builders, it would need to invest an estimated $635 million in public infrastructure through 2022. The company sought up to 75 percent of any new taxes generated on the mesa to pay off 25-year infrastructure bonds worth an estimated $400 million.

Backers sought to allay lawmakers' fears by producing studies, which they said proved Mesa del Sol's development would result in no net expense to the city. They argued that the 25 percent of new taxes left over for the governing agencies would more than cover needed new services, such as schools, police, and fire protection.

Forest City said it needed TIF backing in order to provide infrastructure "a step above" that found elsewhere in the city and attract businesses and residents. The company stressed its desire to consider the whole project at once, rather than try to connect disparate subdivisions later. It argued that it had already invested $40 million of its own money into infrastructure for the project.

"Nobody is doing new urbanism on this scale under pure market conditions," Lautman said. "This has to be a true public-private partnership."

Further, the company said, the funds could only be used for infrastructure, which would be publicly owned. "In effect, the future people living in this subdivision are going to be paying their own way" for world-class infrastructure, Fred Mondragon, then director of Albuquerque's Office of Economic Development, said in 2006. "It's a good deal for the city, and a good deal for the developer. The city gets the entire subdivision at no cost, and this allows for the master planning of the community to create quality development."

Despite some complaints that Forest City was pressing for a quick vote on the city's first-ever TIF application, the Albuquerque city council ultimately approved creation of the first of five proposed TIDDs at Mesa del Sol, although it pared down the percentage of city-owed taxes that would be diverted to infrastructure bonds from the proposed 75 percent to 67 percent.

The approval meant that the city would forego an estimated $130 million in new gross receipts and property tax revenues generated at the massive development over the next 25 years. That caught the attention of Gabriel Nims, who was by then executive director of 1000 Friends of New Mexico, and others.

"My board and I started looking at the application to the city of Albuquerque, and we were struck by the size of the project and the dollar amount," he says. "This is the biggest TIF-funded project in the U.S., and it opened up a lot of questions about the potential impact on public services."

TIF skeptics

Over the next few months, other organizations, including the League of Women Voters, New Mexico Voices for Children, and the American Federation of State, County and Municipal Employees joined a rising chorus of TIF skeptics. Among their concerns: that the economic activity TIFs are contingent on won't occur at the predicted scale, leaving a shortfall of funding to cover basic services and straining city, state, and county government resources.

"All of us started wondering what we got ourselves into," says Lora Lucero, AICP, a planner and attorney based in Albuquerque who is currently researching the issue for the League of Women

Voters. (Lucero is also the editor of Planning & Environmental Law, published by APA.) "I really think Mesa del Sol is raising the bar for sustainable development much higher than it's ever been raised in New Mexico. And that's not just their goal on paper; they've actually been performing consistently with the plans that where adopted."

The lengthy terms and sheer size of the projects give governments little option for later review if conditions change, she says. "I'm concerned that if you open the barn door for that long, that's going to be a lot of horses out of the barn."

Tax increment financing also changes, perhaps unintentionally, the way infrastructure is financed in New Mexico, says Anne Stauffer, a policy analyst for New Mexico Voices for Children. In New Mexico, infrastructure projects — from sewers and streets to new schools and public buildings — are typically paid for with nonrecurring disbursements authorized by the state legislature. The state funds the lion's share of such capital outlays with bonds issued against expected revenues from oil and gas extraction and other income.

Property tax and gross receipts tax revenues are typically routed to a different pool of money: the state's general fund, which is used to cover education, public safety, Medicaid, and other ongoing programs. Tax increment financing reroutes income that would have boosted the state's coffers.

"So the state is giving up future revenue growth that would have benefits statewide for infrastructure projects in localized areas," Stauffer says. "They're using gross receipts taxes right off the bat for infrastructure rather than state-run programs."

Stauffer and others wonder if using potential general fund money to pay for high-end infrastructure in a greenfield is really fair, especially if any new revenues created by the development, which could benefit other populations, are already spoken for. "It raises real questions about statewide equity," she says.

Susan Jones, AICP, a planner for Bernalillo County, wonders whether taxpayers will be able to track developers' use of the new revenues. "I'm ambivalent about tax increment financing, because frankly, developers are going to get these infrastructure subsidies anyway," she says, comparing the use of TIF with the political backroom deals commonly attributed to the capital outlay process. "But I'm concerned about the transparency of the TIDD boards, and with how we will pay for maintaining the infrastructure once it is turned over to the public."

In the two years since the city of Albuquerque approved Forest City Covington's request, both the county and the state have also signed off on portions of their share of new tax revenues generated at Mesa del Sol. And a raft of TIF applications has flooded in, ranging from a downtown revitalization project in southern New Mexico to the redevelopment of a nearly empty Albuquerque shopping mall.

Most notable is California-based developer SunCal's proposal to create nine tax increment development districts in a sprawling 55,000-acre project on mostly unincorporated land west of Albuquerque. Though the state and county have signed off on rerouting future tax revenues to

SunCal, lawmakers in the 2008 legislative session balked at approving more than $600 million in infrastructure bonds to be repaid with those TIDD revenues.

As this story went to press, SunCal was mounting a public relations initiative featuring mailers boasting of its plans for new high-wage job creation and what it says will be "sustainable" development on the vast property, in preparation for the 2009 legislative session.

The last two years have brought a nationwide groundswell of criticism of tax increment financing, with detractors arguing that a mechanism for funding neighborhood revitalization has been coopted by developers for residential and big box retail developments on the urban fringe, with little oversight and at the expense of inner-city neighborhoods.

"Between SunCal and Mesa del Sol, we'll be losing $40 million a year in new revenues to the general fund that could be used for statewide programs," Nims says.

Responding in August to the rising tide of opposition, the state Board of Finance, one of several agencies that must approve TIF applications, tightened its rules. Among the changes: far more stringent requirements for job creation and third-party economic analysis of the proposals; contingency planning for economic factors such as inflation or unexpected drops in economic activity; and assurances that business recruitment to new TIF-backed developments will focus on new job growth, and will not cannibalize existing jobs from other parts of a city.

Meanwhile, the so-called TIDD Reform Coalition in January was preparing to request a moratorium on tax increment financing from the legislature so the issue could be given more study.

Economic challenges

Mesa del Sol's tax increment financing application may have made it in under the gate, but by late 2008, the souring economy had inevitably begun to take its toll on the development.

As companies nationwide put expansion plans on the back burner, parent company Forest City Enterprises saw its stock price drop from a mid-2007 high of $70 a share to $6.33 per share in late 2008. Forest City Covington laid off Lautman and a handful of other local employees in November, deferring to city and state economic development agencies for ongoing business recruitment.

"The company is fine, but we had to look at our overhead relative to the pipeline," Daly says. "This was the right time to get to the right size relative to the ebb and flow of business. It's a tough time in the real estate industry."

Sony Pictures Imageworks has shelved plans to build a 50,000-square-foot office for 300 computer animators at Mesa del Sol, delaying plans for a digital media education center to be built in cooperation with the University of New Mexico.

Meanwhile, according to the Home Builders Association of Central New Mexico, construction permits for new housing in the Albuquerque metro area in the third quarter of 2008 were down 61.4 percent over the same period in 2007 as foreclosures rose and mortgage lending dried up.

In response, Forest City Covington has reformatted plans for its first residential neighborhood, grading for which began in 2008. Originally, the neighborhood was to have about 10 housing types, ranging from $140,000 to $500,000. Now, Daly says, it will feature about six "products," and be closer to the $120,000 to $250,000 price range.

"That's being nimble," he says. "We're not moving any streets or parks, just changing the houses on the lots. We're confident people will want to live out here."

Revenues from Mesa del Sol's first tax increment development district, primarily gross receipts from construction activity, are being used to reimburse Forest City Covington for the estimated $40 million in public infrastructure it has already built. Daly acknowledges that activity may slow down at Mesa del Sol for now, but he reiterates that the project is taking a long-term view.

"We've got good momentum three years in. Even in the next few months, you're going to see a lot more people out here without hardhats," he says. "We're going to go from being a construction site to a real working community with a vibrant business environment and new houses on the horizon."

Andrew Webb is a business researcher and writer in Albuquerque, New Mexico.

Resources

Images: Top — Workers build a parking lot for the Fidelity Investments human resources office at Mesa del Sol. The 210,000-square-foot facility opened in December 2008. Photo Mesa del Sol. Middle — Aperture Center, the first of several 'town centers' that will form the retail and office centerpieces of Mesa del Sol's residential neighborhoods. Photo by Andrew Webb. Bottom — A sign at Mesa del Sol, south of Albuquerque. Advent Solar's photovoltaic plant can be seen in the background. Photo by Andrew Webb.