



Tax Increment Development Districts (TIDDs)

Frequently Asked Questions

What are TIFs and TIDDs?

Tax increment financing (TIF) is an economic development tool that provides funding for public infrastructure in a specific area by using part of the increased property and/or gross receipts tax (GRT) revenue generated within that area. The assumption is that redevelopment in that area will result in increased economic activity and increased tax revenue – and this increase will cover the costs of the infrastructure. Bonds are issued to finance the infrastructure.

The area receiving the TIF is called a tax increment development district, or TIDD. TIDDs are political subdivisions of the state, separate and apart from a municipality or county, and are governed by a board. They are their own entity and the bonds issued are the responsibility of the TIDD board, not the developer. Investors in TIDD bonds are intended to take all the investment risks rather than local or state government. Nationwide, most TIF is done with only city and/or county tax revenue.

When are TIFs and TIDDs a good choice for development?

Tax increment financing can be a good tool to provide incentives for development that is risky and may not occur without the government taking on some of the risk. Redevelopment projects are often risky because they involve

renovating existing structures and dealing with possible environmental contamination. For example, TIF is being used to redevelop the Stapleton Airport in Denver, CO. After the airport was abandoned, 4,700 acres of land within the Denver city limits sat unused. However, this land had hundreds of acres of runways that needed to be removed and contamination from jet fuel that needed to be addressed, among other challenges. The city, county and the Denver Urban Renewal Authority are partnering with Forest City Covington (Mesa del Sol's developer) to redevelop the property into residential and commercial areas.

TIF has also been used in Washington, D.C., to bring retail stores, office space, movie theaters and apartment buildings back into downtown. And in New Mexico, the city of Las Cruces is starting the process of forming a TIDD to encourage downtown redevelopment. This is an effort driven by the city, not by a developer, in the interest of revitalizing downtown. This is what TIDDs should be used for.

Why should we reform the current TIDD structure?

There are several reasons. First, the state is doing something it has never done before. It is taking future GRT revenues that would normally be used to pay for services all across New Mexico and handing them over to developers for use in specific areas. Such development usually takes place on the city or county level, not the state level, so a large chunk of state GRT revenue is funneled directly into one area of one city or county, leaving the rest of the state behind. While in the past, growth in one part of the state would benefit the entire state through increased state GRT, with TIDDs, growth

will only benefit specific areas of the state, and it will do so for 25 years or more.

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This is dangerous because the revenue from state GRT makes up one-third of all General Fund revenues. This jeopardizes the future stability of the state's General Fund, which is spent mostly on programs like education, health care and public safety – all of which benefit the whole state.

The Department of Finance and Administration's chief economist has raised concerns about using state GRT revenues in TIDDs. In testimony to the Board of Finance he has said, "In effect, [a TIDD] is a capital outlay project that will only benefit residents of the project area and the near surrounding areas, but will be funded by all the taxpayers of New Mexico through lower levels of state services..."¹

What are some of the other risks?

The state's portion of the TIDD revenues may not cover the cost of the new state services and projects required in the TIDD, and may not even cover the cost of the bond payments. In Kansas City, MO, five out of the ten tax increment districts that issued bonds do not raise enough revenue to repay those bonds, and a city audit found that total TIF revenue

for all projects equaled only 50 percent of original projections.² While the TIDD bonds are the obligations of the TIDD's governing board, not of the state, city or county, these boards are a political subdivision of the state. It's unlikely that New Mexico would allow a state entity to default on bonds worth hundreds of millions. It could jeopardize our ability to issue bonds in the future.

The jobs promised by TIDD projects may not materialize or they not last the entire 25 years. There are no penalties or other consequences if the projects using taxpayer money don't actually deliver on the promises. There are not any requirements to make sure a TIDD meets its employment and development goals. There is also not enough transparency so that taxpayers can be assured that their money is being used wisely.

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How much money is at stake?

The state will have promised more than \$1.1 billion in future GRT revenues for *just two* TIDD projects – Mesa del Sol and SunCal (if the SunCal legislation is approved). Compare this to \$150 million in General Fund money for FY09 capital outlay projects for the *entire state*. Also, there are no limitations on the number and size of TIDDs or total tax funds that can be used, and once the bonds are

¹ Department of Finance and Administration Economic Analysis Unit; "Comments and Recommendations: SunCal's Upper Petroglyphs Project TIDD application"; as provided to the Board of Finance on December 18, 2007.

² City Auditor's Office, City of Kansas City, Missouri. Performance Audit: Tax Increment Financing Follow-Up. April 2007. Retrieved from <http://216.62.88.52/coldfusionapps/auditor/showrecord.cfm?ID=170>.

issued, the funding cannot be reallocated for any other priorities that may arise over the next couple of decades.

The \$1.1 billion going to Mesa del Sol and SunCal will subsidize infrastructure on only 7,000 acres of the total 67,000 acres planned for these two developments. Under the current law developers will keep coming back for more, so it's easy to see how this could eat up the state General Fund in very short order. This was the case in Illinois, which enacted similar TIF legislation in the 1980s. Within a year, the sheer number of new requests threatened to drain the state treasury. An emergency repeal was enacted, and pre-existing TIFs were scaled back.³

Who controls the money after the TIDD is approved?

Once the TIDD is approved, the state loses all control over a large revenue stream for up to 25 years, and it is spent without any oversight by either the executive or legislative branches. This is especially risky because developers can control the TIDD governing boards, handle procurement outside of normal state guidelines, and set prices for the infrastructure work to be done. This creates many conflicts of interest and raises concerns about control over taxpayer monies.

Aren't TIDDs required for "good" development?

Good planning and the financing of public infrastructure are two completely

separate issues. In the case of Albuquerque, the planning aspect was laid out in the Planned Growth Strategy recently adopted by the city. Public infrastructure for new development was to be financed by impact fees paid by the developer. The use of TIDDs is a way for the developer to bill the taxpayer for these fees. While the law requires that TIDD proposals include "good" planning, there is no enforcement to make sure they are actually implemented once the TIDD is approved.

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The question, then, is not whether the developments considered for TIDDs are good – those currently under consideration are very promising. The real question is: **Why should the state pay for development that will occur anyway?** TIDDs are being used to pay for growth in "greenfield" – or undeveloped areas – where development is already occurring. Without a TIDD, the state would receive 100 percent of the increased GRT revenue from that growth.

Aren't TIDDs necessary for economic development?

The state already provides incentives for economic development in the form of tax credits, job training funds, and more. In the case of Mesa del Sol, the state has offered a \$130 million incentive to a solar firm for 1,500 jobs and \$47 million for an investment firm for 1,200 jobs. These firms presumably count as part of the development's overall job goal. This is on top of the \$500 million already promised to Mesa del Sol for bringing good jobs to the state.

³ Klemens, M.D. (June 1990). *TIFs: What Cost to the State Treasury*. Illinois Issues, June 1990. Retrieved October 12, 2007, from Illinois Periodicals Online: <http://131.156.59.13/ipo/1990/ii900618.html>.

Also, TIDD plans are based upon the assumption that all of the businesses and residents locating there, along with the assumed economic activity, will be new to New Mexico. However, this assumption is overly optimistic.

If a new mall opens on the west side of Albuquerque, for example, not all of the shoppers in that mall will be new. Some people will stop shopping at an existing mall in order to shop at the newer, closer mall. In fact, one of the TIDD applicant's documentation even shows that most of the industrial activity within the TIDD will not come from new businesses but from relocating businesses.⁴ When this happens, the state will lose existing GRT revenue from the economic activity that has relocated.

One could argue that not all of the economic activity in Mesa del Sol is new. Albuquerque Studios was already considering locating to New Mexico and was looking at the railyard in Albuquerque.⁵ They are now located in Mesa del Sol. Advent Solar was already up and running in Albuquerque but also relocated to Mesa del Sol.

Isn't this like issuing general obligation bonds?

Yes, but general obligation bonds and other bonds that fund capital outlay are

⁴ SunCal Companies; Application of Westland DevCo, LP for Dedication of State Gross Receipts Tax Increment and Property Tax Increment for DevCo Tax Increment Development Districts 1 – 9; November 27, 2007. The Concord Group; Strategic Input Relative to the Tax Increment Financing of the Upper Petroglyphs in Bernalillo County, New Mexico; September 20, 2007; p. 5 and Exhibit III-2.

⁵ Haley Wachdorf, "Studio forsakes railyard, shops Mesa del Sol," *New Mexico Business Weekly*, January 27, 2006.

usually issued on behalf of the whole state. And general obligation bonds must be approved by the voters. Compare the \$1.1 billion for Mesa del Sol and SunCal to the state's total outstanding debt of \$917 million issued from 2001 to 2007 for *statewide* capital outlay. Another way to think about it – the \$629 million bond authorization requested for SunCal alone is almost three times as much as the 2008 General Obligation Bond of \$223 million.

Don't developers have to pay the costs upfront?

While developers must pay 20 percent of costs before bonds are issued, they can then get that 20 percent repaid.⁶ Some TIDD applicants are even including the cost of buying the land as part of what could be reimbursed.⁷

Most importantly, public infrastructure is paid for out of bond proceeds. The bonds must be paid back over 25 years with the increased revenues from the development. If those revenues don't materialize, the TIDD board is on the hook, not the developer. The developer has already had its costs reimbursed.

Wouldn't other NM communities benefit from their own TIDDs?

In theory, yes. The problem is, rural communities simply are less able to attract big development projects like Albuquerque's Mesa del Sol or SunCal.

⁶ 5-15-20(B) NMSA 1978.

⁷ SunCal Companies; Application of Westland DevCo, LP for Dedication of State Gross Receipts Tax Increment and Property Tax Increment for DevCo Tax Increment Development Districts 1 – 9; November 27, 2007. WestLand DevCo, LP Bernalillo County, New Mexico Tax Increment Development Plan; p. 8.