Tax Increment Development Districts and State Financing

New Mexico Voices for Children

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Tax Increment Financing

- ✓ The question facing every legislature is: “What is the most effective and appropriate use of taxpayer dollars?
- ✓ New Mexico Voices for Children does not believe that tax increment financing for greenfield development is an effective and appropriate use
- ✓ Concern that how the Tax Increment Development Act of 2006 is being used could pose serious risks to the long-term stability of the General Fund

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Tax Increment Financing

- ✓ Economic development tool
- ✓ Dedicates a portion of the increased property and/or gross receipts tax revenue generated within a specific area to pay for infrastructure improvements
- ✓ Assumption is that development will result in the increased tax revenue
- ✓ Originally designed as an incentive to redevelop existing areas that have fallen on hard times
- ✓ Not intended for low-risk, new developments that would occur anyway

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Mortgaging New Mexico's Growth

- ✓ The 2006 Tax Increment Development Act allows use of TIF in undeveloped, "greenfield" areas
- ✓ Some of the areas under consideration for tax increment development districts (TIDDs) are those that provide the best opportunity for growth in this state
- ✓ The sheer magnitude of the greenfield areas under consideration means that dedicating up to 75% of state gross receipts tax revenue from these areas for up to 25 years may reduce the funding available for statewide priorities

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Budgets Depend on Growth

- ✓ Consensus revenue projections assume 5% growth in Gross Receipts Tax (GRT) tax base
- ✓ Most of the recent growth in GRT revenue has been from economic activity crucial to many TIDD plans
- ✓ Redirecting up to 75% of these GRT revenues to TIDDs could reduce General Fund available for statewide spending

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Skimming Off the Top of the General Fund

✓ Using state Gross Receipts Tax to fund public infrastructure for specific developments basically creates a recurring General Fund revenue stream for capital outlay

Ceding Authority over Capital Outlay

- ✓ TIDDs transfer authority over capital outlay spending from the Legislature to the developer for up to 25 years

- ✓ Real possibility that there will less General Fund for capital outlay in the future because of revenue diversion to TIDDs

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General Fund Flows Before TIDD

Gross Receipts Tax

- Annual collections

General Fund

- Revenue greater than recurring General Fund Budget available for capital outlay in next budget year

Recurring General Fund Budget

- Statewide spending priorities decided annually

Capital Outlay

Statewide spending priorities decided annually

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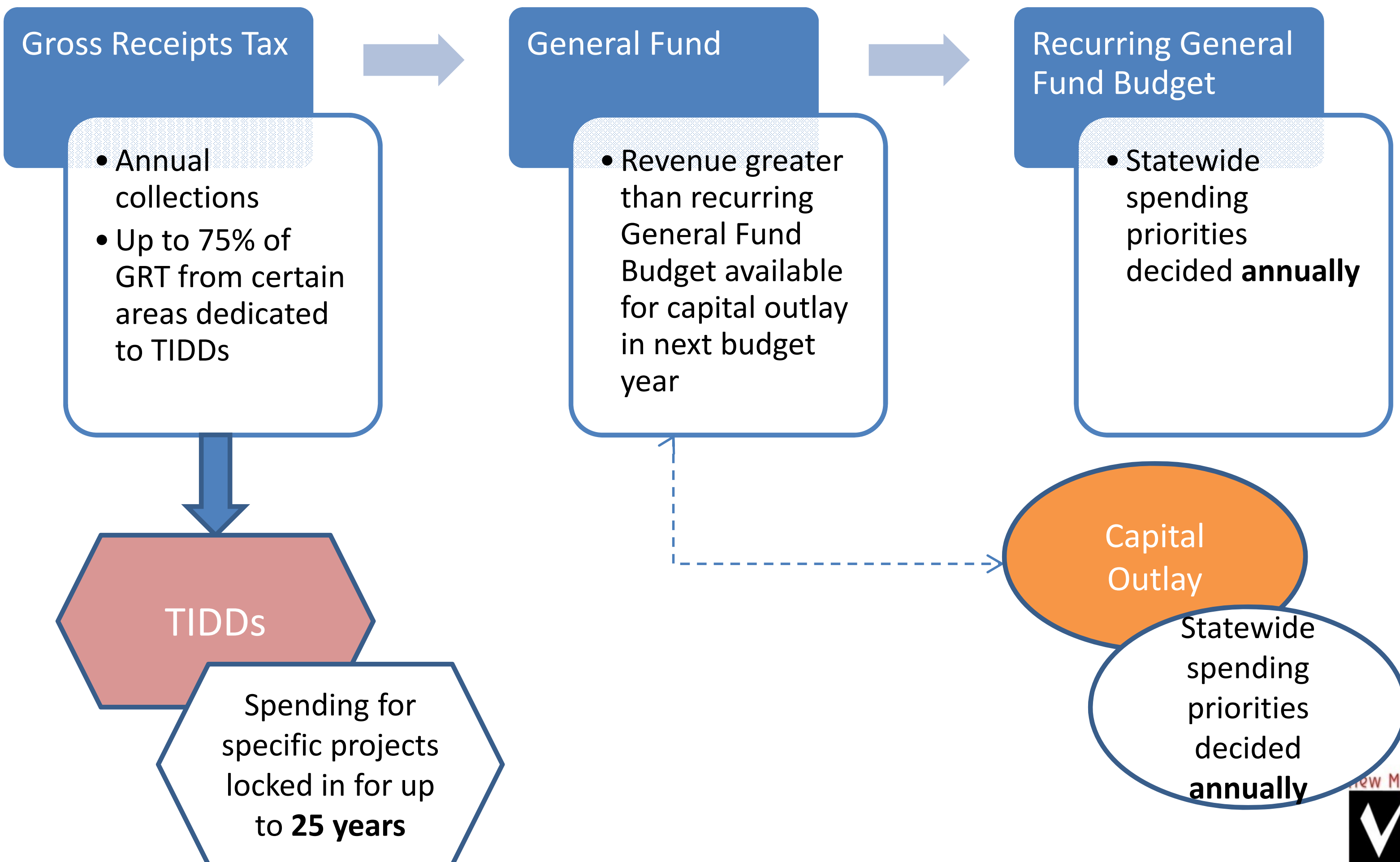
General Fund Flows After TIDD



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Costless?

- ✓ Revenue projections for TIDDs often assume all economic activity is:
  - ✓ Entirely new to New Mexico
  - ✓ Would not have occurred otherwise
- ✓ But relocating of existing businesses and homeowners is a real possibility
- ✓ Development in some of these areas is inevitable – whether TIDDs or not
  - ✓ New Mexico is the 15th fastest growing economy in U.S.

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Example: Mesa del Sol

- ✓ Mesa del Sol is used as example because it is the only TIDD for which there is currently public data
- ✓ Assumes 100% new economic activity
- ✓ Includes Personal Income Tax from expected new jobs in calculation of net benefit to state
- ✓ By year 15, the state is paying more for services it provides in TIDD than the revenue it is receiving from the TIDD

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Example: Mesa del Sol Revenues and Costs to State

(in millions)	2007-2011	2012-2016	2017-2021	2022-2026	2027-2031	Total 2007-2031
Assumes 100% new economic activity						
Mesa del Sol						
GRT Revenue to TIDD	42.4	90.0	136.4	141.3	141.3	551.3
State of New Mexico						
Operating Costs within TIDD*	(14.5)	(55.5)	(100.2)	(119.4)	(119.4)	(409.1)
GRT Revenue from TIDD	14.1	30.0	45.5	47.1	47.1	183.8
Property Tax Revenue from TIDD	0.2	1.4	2.8	4.0	4.0	12.4
Net cost before PIT	(0.2)	(24.1)	(51.9)	(68.4)	(68.3)	(212.9)
Personal Income Tax from TIDD	15.4	38.3	63.2	67.3	66.5	250.8
Net benefit/cost to State	15.2	14.2	11.3	(1.1)	(1.8)	37.9

ASSUMPTIONS ARE KEY:

	2007-2011	2012-2016	2017-2021	2022-2026	2027-2031	Total 2007-2031
If only 90% new econonmic activity	11.0	5.2	(2.3)	(15.2)	(15.9)	**(17.2)**
If only 75% new economic activity	4.6	(8.3)	(22.8)	(36.4)	(37.1)	**(99.9)**

** Operating costs are: Public Schools, Higher Ed, City/County Hold Harmless Payment*

Source: Fiscal Impact Reports for HB1088 and SB839; Legislative Finance Committee; 3/07

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The TIDD Wave

- ✓ Mesa del Sol –
  - ✓ TIDD created by Albuquerque City Council; Bernalillo County pending
  - ✓ Bond authorized
  - ✓ 12,000 acres
- ✓ SunCal/Westland
  - ✓ TIDD creation and bond application expected
  - ✓ Potentially 55,000 acres
- ✓ Santa Teresa/Verde Group
  - ✓ TIDD creation pending with Dona Ana County
  - ✓ About 2,600 acres
- ✓ Others??

→*Legislature will have to approve each bond application*

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Questions – Use and Oversight

- ✓ What happens if every new development in New Mexico wants to be a TIDD?
- ✓ Which state agency has oversight over TIDD development and implementation?
- ✓ What state agency has done a complete, independent analysis of the fiscal impact of proposed TIDDs?
- ✓ If the state's analysis relies upon data from the developers, are the assumptions made by the developers adequate to ensure that the taxpayers are protected?

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Questions – Fiscal Impact

- ✓ What happens if the TIDD does not generate enough revenue to cover the state's operating costs within the TIDD?
- ✓ What is the total impact on state revenues given tax incentives provided to businesses that locate within TIDDs?
- ✓ Is it realistic to assume that all of the economic development would not have occurred without a TIDD?
- ✓ Is it realistic to assume that the state's 25% of the GRT from the TIDD will exceed the GRT revenue that state would have received from that area in the absence of a TIDD?
- ✓ If TIDD revenue is greater than the costs of the public infrastructure, who gets the excess revenue and for what purpose? Does the developer keep the revenue?

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Questions - Enforcement

- ✓ What state agency has enforcement authority to ensure that TIDD revenue is used for public infrastructure and policy goals consistent with the Act, especially since the state is not party to the master development agreements?
- ✓ What are the penalties if the infrastructure is substandard or not built?
- ✓ Since one of the goals of the TIDD Act is job creation, what happens if a TIDD does not meet its job creation targets?
- ✓ Which TIDD ordinance is controlling if a TIDD spans a city and a county?

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Principles

- ✓ Oversight, Transparency, Enforcement
- ✓ Stakeholder input
- ✓ No net expense
- ✓ Workforce housing
- ✓ Small/local business
- ✓ Good jobs with benefits
- ✓ Transit-oriented development
- ✓ Schools
- ✓ Sustainability
- ✓ Open space

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Recommendations

- ✓ Moratorium on bond authorizations
  - ✓ Better understanding of General Fund impact
  - ✓ Clarify questions and uncertainties

- ✓ Revise statute to:
  - ✓ Exclude undeveloped greenfields from TIDDs
  - ✓ Include oversight and enforcement by state agency
  - ✓ Require certain public policy goals be met
    - ✓ Workforce housing, transit-oriented development, good jobs etc.
  - ✓ Add a reporting requirement for counties and municipalities to inform LFC and DFA of TIDD proposals
  - ✓ Prohibit capital outlay funds from being appropriated to TIDDs, which are political subdivisions of the state

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