New Mexico VOICES for Children

Tax Increment Development Districts (TIDDs)

Frequently Asked Questions

Updated February 2009

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. New Mexico is only one of a few states that use state tax revenue in TIF.

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.

In New Mexico, the city of Las Cruces has formed 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 a more appropriate use of TIDDs.

However, TIDDs should not be used for primarily retail or other projects that just relocate businesses from one part of the state to another. These types of projects do not bring in new tax revenue, they simply shift existing tax revenue from the General Fund into the TIDD.

> "The state will have promised more than $1.5 billion in future GRT revenues for four TIDDs if pending authorizations are approved this session."

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 using them instead for local residential and commercial developments. 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.

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 – 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. We've seen recently how government has had to step in to bail out private businesses, the concern is that it will happen with TIDDs too.

The jobs promised by TIDD projects may not materialize or they may 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 no 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 $1.5 billion in future GRT revenues for four TIDD projects (if all are approved this session) – about $60 million a year for the next 25 years.[3] This is money that normally would have gone into the General Fund. Compare this to $123 million in General Fund money for 2008 capital outlay projects for the *entire state*. For 2009, there is no General Fund available for capital outlay at all.[4] Also, there are no limitations on the number and size of TIDDs or total tax funds that can be used, and once

[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.

[3] The state gross receipts increments dedicated to TIDDs are generally larger than the requested or approved bond authorizations. The fiscal impact reports for the bond authorization bills discuss the total amount of state GRT dedicated to the TIDDs. For example, while the bond authorization for SunCal is $408M, the total GRT dedication is estimated at $783M. See FIRs for HB 1088, 2007 session, and SB 19, 249 and 467, 2009 session.

[4] Legislative Finance Committee 2008 Post-Session Review; Report of the Legislative Finance Committee to the Forty-Ninth Legislature, First Session, Volume I.

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

The more than $1.3 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 two years the sheer number of TIFs created was costing the state $313 million a year. An emergency repeal was enacted, and existing TIFs were scaled back.[5]

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.

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Aren't TIDDs required for "good" development?

Good planning and the financing of public infrastructure are separate issues. In the case of Albuquerque, the planning aspect was laid out in the Planned Growth Strategy recently adopted by the city. While the law requires that TIDD proposals include "good" planning, there is no enforcement to make sure it actually happens once the TIDD is approved.

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 low-risk and already occurring. Without a TIDD, the state would receive 100 percent of the increased GRT revenue from that growth.

Don't taxpayers always pay for public infrastructure?

No. Most often, the cost of public infrastructure in new developments is split between the local government and the developer. For example, under the Albuquerque Planned Growth Strategy the cost of public infrastructure for new development was to be split by the city and the developer.[6] The use of TIDDs is a way for the developer to bill the taxpayer for its part of the infrastructure costs.

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 to 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.

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[5] 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.

[6] Colombo, Lou, "TIDDs Violate Planned Growth Strategy," Jan. 22, 2009.

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 in Albuquerque, for example, not all of the shoppers in that mall will be new. Some people will stop shopping at existing malls in Albuquerque and maybe even Santa Fe and shop at the newer mall because it is closer and/or has more desirable stores. In fact, economic analysis for three of the four TIDDs shows that most of the industrial or commercial activity within the TIDD will not come from new businesses but from businesses relocating from elsewhere within New Mexico.[7] When this happens, the state will lose existing GRT revenue from the economic activity that has relocated.

Isn't this like issuing general obligation bonds?

Yes, but general obligation bonds and other bonds that fund capital outlay are usually issued on behalf of the whole state. And general obligation bonds must be approved by the voters. Compare the $1 billion in bond authorizations for the four TIDDs to the state's total outstanding debt of $873 million issued from 2001 to 2008 for *statewide* capital outlay. Another way to think about it – the $408 million bond authorization requested for SunCal alone is almost twice 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 will then get that 20 percent repaid by tax revenue from the TIDD.[8]

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. And, as General Fund revenue for statewide programs and capital outlay is reduced, these areas will likely find it even harder to maintain their current services and infrastructure and attract new development.

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[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; Nov. 27, 2007. The Concord Group; Strategic Input Relative to the Tax Increment Financing of the Upper Petroglyphs in Bernalillo County, New Mexico; Sept. 20, 2007; p. 5 and Exhibit III-2. Economic & Planning Systems, "Winrock/ Quorum Town Center Redevelopment Project Tax Increment Development District Revenue and Investment Analysis; EPS #18488," Memorandum to Laird Graeser, New Mexico State Board of Finance, and Anna Lamberson and Jacques Blair, City of Albuquerque, Aug. 29, 2008. Bureau of Business and Economic Research, Economic Analysis [of the Las Cruces TIDD], revised Oct. 31, 2008.

[8] 5-15-20(B) NMSA 1978.