Tax Increment Development Districts (TIDDs)
Information Memo

Definitions

Tax Increment Financing (TIF)— A financing method which uses the additional taxes generated by a completed development to pay for development costs such as land acquisition and site improvements. The difference between the taxes before the development occurs and after its completion is referred to as the "increment".

Tax Increment Development Districts (TIDDs)— a district formed for the purposes of carrying out tax increment development projects

Greenfields— land that has not been previously developed and is usually outside of the existing urban edge. Generally has a gross receipts tax base of zero, and relatively low property tax base.

Background

Nationally, TIDDs have been used as a financing tool for urban areas in need of redevelopment or revitalization. They are often used to help finance specific infill, brownfield or redevelopment zones that require some amount of financial incentive to become feasible.

In 2006 the state legislature, during its 30-day session, overwhelmingly voted for the passage of the Tax Increment Development Act. This last bill "came and went late in the evening with hardly a glance from legislators and none from the press."[1] According to Governing Magazine's November 2007 issue, the lobbyist force from the development community was quite extraordinary and the bill passed even though the fiscal impact report said "unknown".
(http://www.governing.com/archive/2007/nov/forest.txt)

The state Tax Increment Development Act allows cities and counties to create TIDDs that can leverage the future gross receipts tax and property tax revenues within a defined area to finance the sale of public bonds. Bond dollars are then allocated to the project developer to pay the infrastructure costs of the new development.

The City of Albuquerque's enabling TIDD legislation included the "no net expense" test. However, this feasibility test is based on many economic assumptions. The development is expected to generate sufficient tax revenues to sustain itself without additional funds from the City. The diversions of up to 75% of gross receipts and property taxes is for up to a 25 year period.

After enduring the first TIDD negotiations for Mesa del Sol, several Councilors started to question the wisdom and need in the usage of this tool for development on the fringes of the City.

On February 5, 2007, Albuquerque City Councilor Michael Cadigan introduced O-07-64, the TIDD Reform bill. This bill was developed to prevent the use of TIDDs in greenfields –on the fringes of the city.

In an attempt to cooperate with the development industry, Councilor Cadigan held 3 stakeholder[*] meetings and developed a compromise bill allowing TIDDs in greenfields as long as they ensure that the diverted revenues are creating real benefits to the rest of the City. Safeguards are also included to

---

[1] http://www.governing.com/archive/2007/nov/forest.txt
[*] Participation in TIDD Reform Stakeholder meetings included: Councilor Cadigan, Councilor Benton, Councilor Heinrich, Councilor O'Malley, Councilor Sanchez, Council staff representatives, SunCal representatives, NAIOP representatives, Home Builders of Central NM representatives, NM Voices for Children Representatives, Greg LeRoy of Good Jobs First, New Mexico Chapter of the American Planning Association representative. 1,000 Friends of NM representative, Southwest Organizing Project representatives, Albuquerque Independent Business Alliance representative, Albuquerque Affordable Housing Coalition representatives, and neighborhood representatives

guarantee the developer fulfills the goals of: job creation, transit-oriented development, workforce housing levels, etc.

1st TIDD in NM

Mesa del Sol

Forest City Covington, owner/developer of the approximately 13,000 acre Mesa del Sol (currently the largest greenfield TIDD in the Mesa del Sol TIDDs combined are the largest contiguous TIF district in U.S. history (greenfield or non) and the state TIDD bonding commitment of $500 million is also the largest in the nation)

How much tax revenue will be captured for use by Mesa del Sol developers for the next 25 years?

- City of Albuquerque – 67% of the base increase for gross receipts and property taxes
- State of New Mexico – 75% of the base increase of gross receipts taxes
- County of Bernalillo – application pending (up to 75% is permitted)

However, Mesa del Sol has been proactive in bringing jobs to New Mexico and has made provisions in its master development plan to incorporate high-wage job creation, transit-oriented development, workforce housing, etc.

TIDDs the size of Mesa del Sol and SunCal can create substantial financial risk to the City and the state. Mesa del Sol alone is almost 13,000 acres which could have as many as 25,000 houses and more than 1 million square feet of retail space. The tax diversion is estimated to be in excess of $500 million. SunCal has 55,000 acres it could develop.

Note: According to Greg LeRoy of Good Jobs First, other states only divert the property tax portion and not the gross receipt taxes. (NM has a very lucrative and uniquely generous system.)

Concerns

City revenue from fees, Gross Receipts Taxes and Property Taxes have never been enough to pay for growth and take care of the existing community. This is clear, just the flooding in Martineztown and Barelas and the over a billion dollars of unfunded rehabilitation needs in the City of Albuquerque alone. How will we take care of the existing community and the additional burden of new development on the fringes when most of the new tax revenue is being siphoned off to developers?

The sheer magnitude of the greenfield areas in Albuquerque under consideration means that dedicating up to 75% of the gross receipts tax revenue from these area for up to 25 years may mean less General Fund is available for citywide and statewide operating budgets and capital outlay. What happens if state capital outlay funding is reduced for other projects in Albuquerque?
For example: The reconstruction of the Paseo del Norte/ I-25/Jefferson interchange.

There is the risk of an erosion of existing tax base if businesses and people move from other parts of Albuquerque into the Mesa del Sol or SunCal developments.

By using TIDDs in greenfields the City forgoes a new revenue stream to build the infrastructure for a developer instead of building the infrastructure in the parts of Albuquerque that need it the most. What does the rest of Albuquerque get out of this diverted revenue stream?

The remaining 25%[2] of the gross receipt taxes are suppose to cover the City's operating costs within the TIDD. This includes any City costs, including police, firefighters, parks, senior centers, solid waste, transit costs, etc. What happens if the TIDD does not generate enough revenue to cover the city's operating costs within the TIDD?

---

[2] If the full 75% is given to the developer through the TIDD process.

What happens if the TIDD revenue is not sufficient to pay the bond payments? Despite statements that these bonds are not obligations of the city or state, the political and financial fallout from a default on bonds by a TIDD would likely have broader implications for the City and State.

In California where TIF/TIDDs have existed for decades, according to an Economic Research Associates Issues Paper in 1999, "the state, along with cities and counties teamed up to avoid defaulting on the TIF debt." Can New Mexico afford to pledge general funds to bail out a huge developer?

Furthermore, TIDD-supported businesses and homes will create an uneven playing field in the local economy that could depress home values in the existing community and make it harder for small businesses to compete and thrive.

If the TIDD revenue is greater than the costs of the public infrastructure, who gets the excess revenue and for what purpose? In addition, will these developers offer complete transparency to the City and the public?

Is it truly a no net expense to the City of Albuquerque?

Revenue projections for TIDDs often assume all economic activity is:

- Entirely new to New Mexico
- Would not have occurred otherwise

However, relocating of existing businesses and homeowners is a real possibility.
Example: Stores in Winrock Mall that moved to Cottonwood Mall when it opened and to the new ABQ Uptown.
Lastly, development in these areas (greenfields such as SunCal) is inevitable – with or without TIDDs.

Does Retail truly need to be subsidized? Retail jobs are not high wage jobs – and thus do not merit subsidization. Furthermore, will these retail workers be able to live in this new community? Will the housing be affordable to them? Or will they have to commute?

Although the Southwest Mesa is, in fact, under-retailed – with only 10 square feet per person, Albuquerque has 38 square feet of retail per person, almost double the national average of 20 square feet of retail per person. The proposed retail development will divert dollars from existing retailers and those tax dollars that would have normally gone to the entire city will now be trapped in the TIDD.

If you shop at a store within a TIDD, up to 75% of your tax dollars stay within the boundaries of the TIDD. Contrastingly, if you shop at a store outside a TIDD your tax dollars revert to the City which goes to funding projects and programs in your community.

Additional information in this packet

Advocates for TIDD Reform:

- New Mexico Voices for Children
- American Planning Association, New Mexico Chapter
- 1,000 Friends of New Mexico
- Southwest Organizing Project
- Albuquerque Affordable Housing Coalition

There will be a televised debate on TIDDs in greenfields on KNME's "The Line" (Channel 5) on Friday, November 30th at 7pm and on Sunday, December 2nd at 6:30am.