

TIF and TIDDs; STIBs and  
GOBs; PIDs and PUDs! What in  
the alphabet is going on?



# What is Tax Increment Financing (TIF)?

- “TIF is designed to channel funding toward improvements in distressed or underdeveloped areas where development would not otherwise occur” (Wikipedia)



# What is Tax Increment Financing (TIF)?

- “TIF creates funding for public projects that may otherwise be unaffordable to localities. (Wikipedia)
- “With federal and state sources for redevelopment generally less available, TIF has become an often-used financing mechanism for municipalities.” (Wikipedia)



# What is Tax Increment Financing (TIF)?

- 49 states and the District of Columbia have enabling legislation for tax increment financing.
- Arizona is now the only state without a tax increment financing law.
- California (1952) and Illinois (1977) have had TIFs for decades, many others have only recently passed or amended state laws that allow them to use this tool.
- Arkansas (2000); Washington (2001); New Jersey (2002); Delaware (2003); Louisiana (2003); North Carolina (2005); New Mexico (2006)



# The New Mexico Tax Increment for Development District Act

- NMSA 1978 §§5-1-5.1 through 28 (2006).
- **The New Mexico Tax Increment Development District Act** is a way of using the tax increment financing idea described in previous slides to finance public infrastructure, such as roads, utilities, recreation facilities and so on that will serve a private development of a particular type.
- The Tax Increment for Development Act is the enabling statute for the New Mexico version of tax increment financing.



# The Exchange or Promise

The developer of a large-scale development promises to provide:

- jobs;
- economic opportunities;
- state general revenue; and
- innovative design including workforce housing, energy and environmental efficiency.

In exchange for this economic development, the sponsoring governments grant the developer first call on all or a portion of the incremental tax revenues generated by the project.



# What does this mean?

- In simple terms, the developer builds the public infrastructure required to serve residential, commercial and industrial areas of a large-scale development.
- The governing body (city or county) and the state dedicate a portion (in NM, up to 75%) of the incremental gross receipts or property taxes generated by the project to repaying bonds sold to reimburse the developer for the costs of building the infrastructure.



# More meaning...

- The members of the TIDD board, appointed by the city or county, make the decision about when to sell, what kind, duration, call features, etc. of the bonds supported by incremental city, county and/or state gross receipts and property tax revenues.
- In the case of “green field” projects, all GRT and property tax is incremental.



# What's unusual about the New Mexico version of TIF?

- The New Mexico TIDD law takes the unusual step of adding state level taxes to “TIFable” revenues.
- The NM law also adds sales taxes (gross receipts tax) to “TIFable” revenues.
- In all other states except Ohio, only incremental local property tax can be used for tax increment financing of public infrastructure.



# Why is this important?

- These differences are important because there is no standard methodology for analyzing these projects.
- Without a standardized methodology, we have difficulty discussing the policies and philosophies of tax increment financing of public infrastructure.



# More on TIF ...

- The dedicated increment is usually limited to a portion of the overall increase in tax revenue and is further limited by the time over which the developer is granted the use of the revenue. Eventually, the sponsoring government(s) get(s) all of the incremental revenue generated from the economic activity.



# How about TIDDs?

- In the New Mexico version of the exchange (as enacted in Chapter 5-15, NMSA 1978), the developer's call on the incremental tax revenue must be used to pay off bonds which have been sold in the regular financial markets (tax exempt municipal revenue bonds) to finance the construction of public infrastructure.



# More on TIDDs ...

- Any public infrastructure financed by dedicated TIDD tax revenue, such as roads, utility lines, parks, senior centers, public safety facilities or community centers and may include schools, must be dedicated to the sponsoring city or county government.



# More on TIDDs ...

- After the infrastructure has been dedicated to the sponsoring government, that government becomes responsible for maintaining the infrastructure with no further assistance from the developer or from the bonds sold to finance the infrastructure construction.



# More on TIDDs ...

- TIDDs -- New Mexico style -- allow the city or county to dedicate up to 75% of incremental gross receipts or property taxes and the state to dedicate up to 75% of state gross receipts taxes.
- Bonds for a particular TIDD may have a duration of 25 years from when the first bond is sold.
- With multiple TIDDs for the same project, the bond repayment period could extend for 35, 40 or even 50 years from breaking ground.



# More on TIDDs ...

- To date, the state Board of Finance (BoF) has received three project applications:
  - Forest-City Covington's Mesa del Sol project (Albuquerque, 5 TIDDs applied for and approved, 2006-07);
  - Westland Development's SunCal project (Bernalillo County, 9 TIDDs applied for, 4 specified TIDDs approved initially, although the infrastructure bonds were not approved by the legislature, 2007-08); and
  - Verde Realty's Rialta Mesa and associated industrial projects (Dona Ana County, 3 TIDDs applied for, currently in process 2008).



# This program is not a giveaway.

- The developer provides a fair measure of jobs, economic opportunities and state general revenues in exchange for the tax increment financing of public infrastructure.
- In addition, the incremental TIDD revenue is only used to finance and build dedicated and deeded public infrastructure which would eventually have to be provided by the developer or the residents and businesses within the project.



# Proviso...

- After the infrastructure has been dedicated to the sponsoring government, that government becomes responsible for maintaining the infrastructure with no further assistance from the developer or from the bonds sold to finance the infrastructure construction.
- The new development imposes additional costs on all levels of government – city, county, school district and the state.



# What does 5-15 NMSA 1978 require of the BoF?

- The enabling statute – 5-15 NMSA 1978 – requires the state Board of Finance to determine two requisites prior to approving a state GRT increment:
  - “likely to stimulate the creation of jobs, economic opportunities and general revenue for the state”; and
  - the use of the state GRT increment is “reasonable and in the best interest of the state.”



# If the answer is a TIDD, what is the question?

- How can we keep the best and brightest of our children and grandchildren in New Mexico after they complete their higher-education? Isn't the best way to have good jobs to offer, that need talented, educated and motivated young people?
- How can we keep Albuquerque from developing like Phoenix or Las Vegas?



# The second question

- The second question that might be answered by TIDD financing of public infrastructure is the incentive to developers to improve the quality, energy efficiency, and social amenities in large-scale development in the state.
- Without tax increment financing of public infrastructure, the state's growth path may replicate the sprawl and unplanned growth development experience of Phoenix, Las Vegas or Denver.



# When used reasonably and appropriately

- When used reasonably and appropriately (and, I might add, fairly and efficiently), TIDD financing of public infrastructure can be a useful and effective tool to be used in implementing the state's economic development strategy.



- This strategy emphasizes the growth of high quality, high pay jobs and economic opportunities and simultaneously provides strong incentives for developers to upgrade the quality and innovative design parameters of urban development in New Mexico.



- We can tell our young people, “You do your best to develop your talents and get a good education; we’ll do our best to make sure you can get a good job in New Mexico and build your lives here.”
- The comparable slogan for the other agenda is, “Sensible development solutions; not sprawl.”



# So...

We can transform the state's TIDD statute from a pretty scary, high-risk instrument whose passage and implementation we'll regret for the next fifty years to one that will help us achieve a better standard of living and quality of life for ourselves, our children and our grandchildren.



# The five principles...

- The trick is to interpret the statute in the light of the following five general principles.



# The five principles...

1. The State General Fund must be approximately whole in the short-, medium- and long-run.
2. The developer, prospective business and homeowners in the district, the State, the city (if applicable) and the sponsoring county must all have a permanent, balanced contribution to the infrastructure financing.
3. Each TIDD proposed within an overall larger project must be considered separately.



# The five principles...

4. Any State (or local) funds must be used efficiently – at least as efficiently as the diverted funds would be used to provide statewide infrastructure or ordinary appropriations that meet the needs of the citizens of the State.
5. Other government entities in the state should neither receive a revenue or economic windfall, nor should any government entity be unduly damaged by a approved TIDD in a neighboring community.



# What does this mean?

- Clearly, the methodology adopted to prepare an application and the methodology adopted by the BoF to review each application are closely tied to the interpretations of “likely to create jobs, economic opportunities and state general revenue” and “in the best interests of the state.



- The effort to nail down these concepts continues. The BoF will present a draft regulation at its May meeting.
- All three of the applications submitted to date have used a variant of a constant-dollar cost-benefit approach.
- The usual cost-benefit study stands out 15-20 years (buildout + 2years) and assumes all jobs and income, as well as costs are new.



# More difficulties...

- In addition to philosophical disagreement – should any government subsidize private development – there is a methodological controversy.
- The conventional and traditional tax increment financing scheme uses incremental local government property taxes to pay off infrastructure bonds.
- Adding gross receipts taxes and state taxes into the equation makes the analysis much, much harder.



# There are five critical issues/jurisdictions that must be included in a complete analysis:

- Economic activity within the project boundaries.
- Economic activity outside the project boundaries, but within the boundaries of the sponsoring jurisdiction(s).
- Economic activity outside the project boundaries and outside the boundaries of the sponsoring jurisdiction.
- Economic migration and investment from outside the state.
- Relative activity within the boundaries of the school district.



# Contribution equity...

We must compare the relative financial contributions to the building of public infrastructure:

- by the developer (as lower profits);
- by the homeowners and business owners within the boundaries of the project as higher house prices or rents or by incurring additional future property taxes from a PID or from the 5 mills allowed in the statute;
- by the city and county governments as the contributions of incremental gross receipts and property tax revenues; and
- by the state from its contributions of incremental gross receipts tax revenues.



- The calculation of costs to the local government (fire, police, recreation, roads, utilities, libraries), school districts (additional or less membership, and the state (general control, Medicaid and other subsidized health care, various welfare programs, public school support, higher education, state police, corrections, probation and parole and the court system, state parks, etc) are very tricky.



# Inflation

Another significant issue is the impact of inflation.

- Inflation affects the cost of public infrastructure, which is the whole point of this exercise.
- Inflation affects the cost of building materials during the buildout phase, thus the estimate of non-recurring construction gross receipts taxes.
- Inflation affects differentially the cost of providing state and local services to the new population.



# One final thought –

- The original concept of Tax Increment Financing originated in California and was slowly adopted in the east and Midwest.
- The concept was to use TIF to redevelop blighted areas (brown fields) by sharing property tax values created by the development between the developer and the sponsoring government.



# One final thought ...

- Twenty years later, tax increment financing -- New Mexico style -- adds incremental state and local gross receipts tax revenue to the mix and restricts the use of incremental tax revenues to repayment of bonds used to finance public infrastructure.
- What is left is barely recognizable as classic tax increment financing.



# One final thought ...

- With so little history on which to rely we are shooting blind.
- The concept may work for New Mexico or may not.



# One final thought ...

- The act will undoubtedly need “tweaking” to transform it into a useful tool to assist us all in moving the state forward, assisting our children and grandchildren to build good lives in the state, and setting the national standard for high quality, visually, socially and environmentally superior development.



# Thanks for your kind attention ...

- With that, I'll be happy to answer questions.



# First, some definitions...

- “Act” means the Tax Increment for Development Act, NMSA 1978 §§5-1-5.1 through 28 (2006).
- “Application” means the submittal by the District, or, if the District is not yet formed, by the owners of at least fifty percent of real property located within the boundaries of the area proposed for inclusion within the District.



# Definitions

- “Economic base business” and “Economic base jobs” means a business which has employees and the product or service being produced is sold outside the local economy. For this discussion, we can distinguish between local economic base jobs and state-level economic base jobs.



# Definitions

- “Indirect effects” means the economic activity – buying and selling of goods and services – of suppliers.
- “Induced effects” means the economic activity that results from household spending by employees of all companies directly and indirectly affected by a Project.



# Definitions

- “Public Improvement District (PID)”, means a voter-approved (75%) special property tax assessment district created pursuant to 3-33 NMSA 1978
- “Public Utility District (PUD)” is the general term used in most other states to mean public improvement district in New Mexico.



# Definitions

- “Sponsoring government” means a city or county government, acting through elected representatives – for example a city council or a county commission – designated in the Tax Increment for Development Act.



# Definitions

- “TIF” means Tax Increment Financing
- “TIDD” means Tax Increment Development District – the New Mexico version. “TIF” and “TIDD” are related as the general is the specific.
- “TIDD board” means the governing board for the TIDD as described in the Tax Increment for Development Act.



# How did we previously finance public infrastructure?

Prior to the 2006 law, local public infrastructure necessary to support economic development was provided through seven mechanisms:

1. Local general obligation (voter approved) bonds (GOBs);
2. Federal CDBG funds allocated by city council;
3. State GOBs (voter approved) supported by statewide property tax values and allocated to local projects by the legislature.



4. Severance Tax Bonds (STBs) supported by state level oil and gas severance taxes and allocated 1/3rd by the house, 1/3rd by the Senate and 1/3rd by the Governor.
5. House Bill Junior, which allocates excess General Fund balances to programs and projects allocated 1/3rd by the house, 1/3rd by the Senate and 1/3rd by the Governor.



6. In a few cases, infrastructure has been provided using a Public Improvement District, whereby property owners approve a property tax increment to build sewers or extend water lines; and
7. Developer-provided pursuant to a “no-net-cost-to-government” ordinance.



# Interpretation, interpretation, interpretation ...

- In the absence of clear regulations published jointly by the BoF and NMFA, each of the three TIDD project applications received to date have used different methodology.
- This lack of uniformity makes it somewhat difficult to extract general principles or a common lesson.



2006 Median Earnings in the past 12 months (in 2006 Inflation-adjusted dollars)

Population 25 years	Total							Female/ Male Ratio
	Population 25 and over	% of total	Earnings	Ratio to US	Ratio to NM	Ratio to Median	Ratio to High School Graduates	
<b>U.S. total</b>	195,932,824		\$32,086					67.4%
Less than high school graduate	31,246,095	15.9%	\$18,641			58.1%		59.8%
High school graduate (includes equivalency)	59,123,954	30.2%	\$26,123			81.4%		65.1%
Some college or associate's degree	52,671,880	26.9%	\$31,936			99.5%		65.4%
Bachelor's degree	33,496,187	17.1%	\$45,221			140.9%		66.5%
Graduate or professional degree	19,394,708	9.9%	\$59,804			186.4%		66.4%
<b>New Mexico total</b>	1,239,433		\$27,503	85.7%			122.6%	66.1%
Less than high school graduate	229,510	18.5%	\$15,250	81.8%		55.4%	68.0%	52.7%
High school graduate (includes equivalency)	343,109	27.7%	\$22,425	85.8%		81.5%	100.0%	63.2%
Some college or associate's degree	352,988	28.5%	\$26,869	84.1%		97.7%	119.8%	64.5%
Bachelor's degree	179,016	14.4%	\$40,313	89.1%		146.6%	179.8%	67.1%
Graduate or professional degree	134,810	10.9%	\$51,178	85.6%		186.1%	228.2%	70.6%
<b>Albuquerque MSA</b>	529,036		\$31,005	96.6%	112.7%		123.6%	70.2%
Less than high school graduate	81,152	15.3%	\$16,186	86.8%	106.1%	52.2%	64.5%	56.9%
High school graduate (includes equivalency)	133,632	25.3%	\$25,078	96.0%	111.8%	80.9%	100.0%	68.5%
Some college or associate's degree	159,114	30.1%	\$29,450	92.2%	109.6%	95.0%	117.4%	67.2%
Bachelor's degree	87,003	16.4%	\$41,294	91.3%	102.4%	133.2%	164.7%	69.9%
Graduate or professional degree	68,135	12.9%	\$52,473	87.7%	102.5%	169.2%	209.2%	68.5%
<b>New Mexico excl. Albuquerque MSA</b>	710,397		\$24,895	90.5%	93.7%		120.1%	62.5%
Less than high school graduate	148,358	20.9%	\$14,738	96.6%	111.3%	59.2%	71.1%	50.4%
High school graduate (includes equivalency)	209,477	29.5%	\$20,733	92.5%	96.3%	83.3%	100.0%	59.3%
Some college or associate's degree	193,874	27.3%	\$24,751	92.1%	99.9%	99.4%	119.4%	62.2%
Bachelor's degree	92,013	13.0%	\$39,385	97.7%	107.0%	158.2%	190.0%	64.3%
Graduate or professional degree	66,675	9.4%	\$49,855	97.4%	111.0%	200.3%	240.5%	73.0%

Note: New Mexico ranks 12th among states with 10.9% of population 25 years and over with advanced degree.



# Evidence

- From this fragmentary analysis from American Community Survey data, it seems likely that there is adequate supply of educated people with good educational attainment. The data indicate a demand problem. There are simply not enough “new economy” jobs available in the state. This interpretation is not unequivocal.



# Conclusion

A conclusion of this line of argument is that we must develop the state's economy faster and farther than we have done in the past. Uncoordinated, fit-and-start tactics, including targeted and untargeted tax and financing incentives have not had consistent success in generating new economy, new generation jobs. What we learn is that we must develop, maintain and update an articulated, coordinated and accountable economic development strategy.



# When should governments subsidize private activity?

When there is a market failure or as a means to internalize positive externalities.

1. Example, when the private market generates house farms, but there is a substantial positive externality for high quality residential developments such as Mesa del Sol or SunCal.



# Or...

- When the market is not developing or relocating from other states high-paying, interesting and challenging jobs.
- Or when a desirable development or redevelopment project won't happen without government subsidy.



# Methodological remedy...

- The remedy is, to a first order of sophistication, to model the project using a dynamic, computable general equilibrium approach, such as that embedded in REMI's PolicyInsight model.

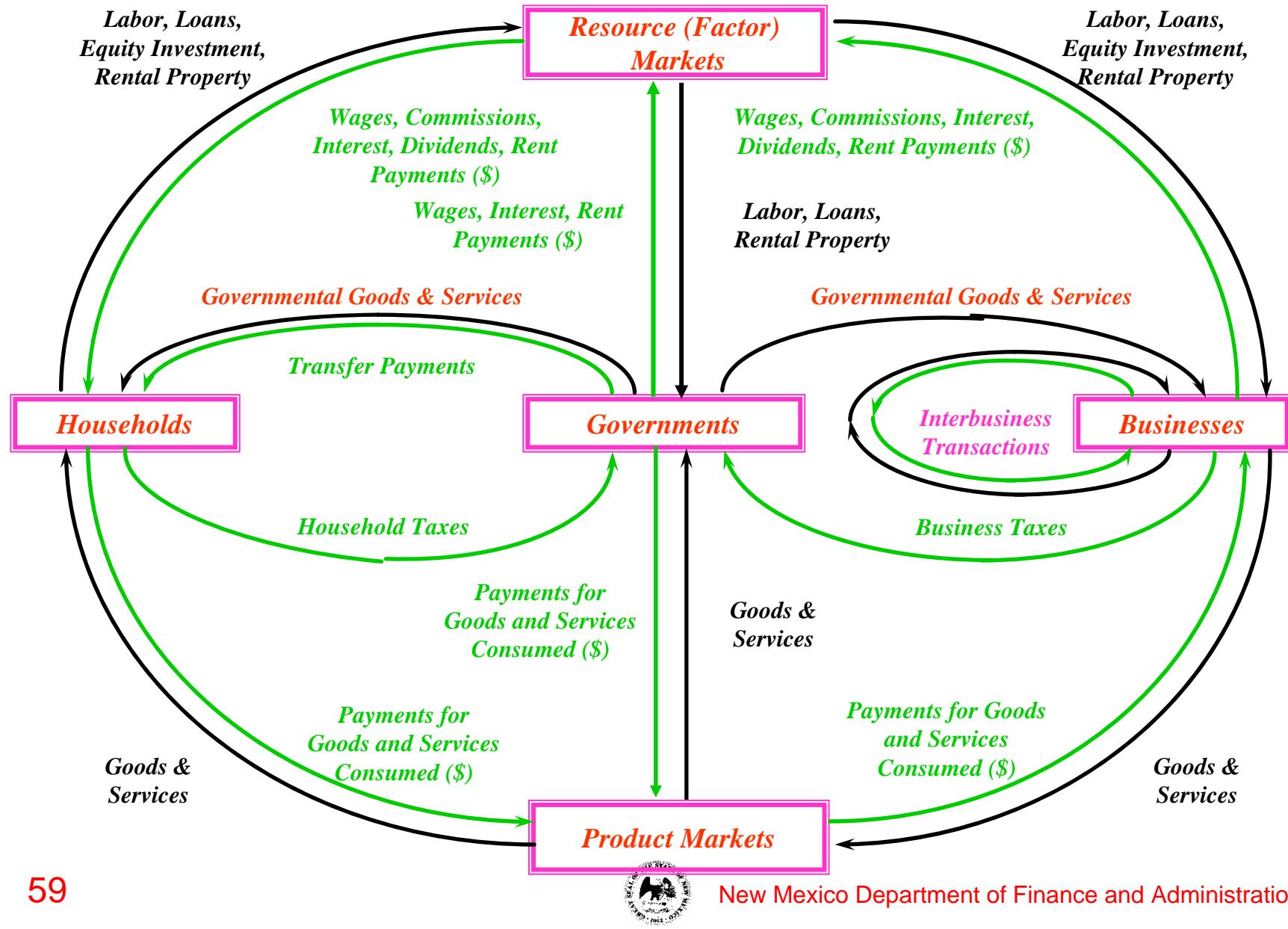


- There are two ways to explain how the BoF and DFA intend to look at each application: (1) methodological detail; (2) overview.
- In case there are any hardcore students of TIDDs in the audience, I've included in the packet of materials a draft checklist which includes many of the questions posed by state analysts looking at these issues.
- I've also included a draft step-by-step instructions for preparing an application to the BoF using the “build-it-and-they-will –come” method of cost-benefit analysis.



- We can learn a great deal about the equities and analytic techniques we must use by studying the circular flow of goods and money included in the next slide.





- This is because of the same transition problems that afflict the revenue calculation. None of the three analyses submitted to date have met the analytic standard which should be expected. This failure will be remedied for future submissions.

