



Tax Increment Financing

Tax increment for development districts, authorized under the Tax Increment for Development Act, are special areas created primarily to allow for certain tax revenue—the additional revenue generated by economic activity in the area—to be diverted to finance infrastructure.

Creating a District

Most of the time, the increase in tax revenue from an increase in economic activity flows to the city, county, or state government. In a tax increment for development district, or TIDD, that increase—called incremental revenue—diverts to a board that can spend it on roads, water systems, or other infrastructure. The resulting infrastructure is deeded to the appropriate government, which is then responsible for the operation and maintenance. In New Mexico, the incremental revenues can be from either property tax or gross receipts tax or both.

The community or neighborhood seeking to create a tax increment for development district must seek approval from the governing body—for example, city council—of the taxing authority. The group must submit a petition with signatures of at least 50 percent of the owners of real property in the proposed district along with the approved plan to the clerk of the taxing entity. The governing body can also adopt a resolution on its own accord to form a district without the petition. In all but the state's four largest counties, development districts also need approval from the Department of Finance and Administration.

Once a resolution has been adopted and after public hearings on the resolution, voters in the district must approve the creation of the district and elect a board. Depending on the details of the development plan, the election might also include approval of new property taxes, approval of how the revenue will be used, and the issuance of bonds. No election is necessary if all the property owners in the district agree on the plan.

Unlike the similarly structured “tax increment financing districts” in other states, New Mexico tax improvement development districts do not have to be created in “blighted” areas.

Development Plan

The development plan must outline how the plan will stabilize the local economy, help create jobs, accommodate schools and housing, and generate tax revenues for improve-

ments. In addition, the project must demonstrate innovative planning, incorporate sustainable principals, and fit with the long-term planning of the local government. The planners must also work with the Taxation and Revenue Department to identify “base” taxes—the amount of taxes generated in the area being considered for a district before the creation of the district—so that those taxes are not diverted.

How a District Works

Once a district has been formed and a board elected, the state will recognize the district as a political subdivision separate from the county or municipality and divert the incremental revenue. If a district is using gross receipts tax revenue, the Taxation and Revenue Department will divert the state's share of gross receipts tax collection as well as the increment if approved by the Board of Finance. To approve the gross receipts tax diversion, the board must find that approving the increment is in the best interest of the state and will create jobs and generate new revenue through increased economic activity. To ensure the district grows the state's economy, districts should focus on requesting increments for developments that draw investment and economic activity from outside of the state, not simply move activity from one part of the state to another.

The district uses the revenue stream to pay off the debt created by financing the infrastructure. The issuance of any bonds must be reviewed by the New Mexico Finance Authority and, if state gross receipts tax is dedicated, authorized by the Legislature. Unless the district is part of a metropolitan redevelopment area, property owners in the district must cover 20 percent of the initial infrastructure cost. However, the district can repay them with bond proceeds.

For More Information:

- Guidance for creating a tax increment development district is available from the Taxation and Revenue Department here: <https://www.tax.newmexico.gov/governments/municipal-county-governments/forming-tax-increment-districts/>
- The Tax Increment for Development Act is in statute as 5-15 NMSA 1978 (Chapter 5, Article 15). The authorizing legislation for Mesa del Sol, the first TIDD to be approved by the Legislature, is 5-15A NMSA 1978.