F I S C A L   I M P A C T   R E P O R T

SPONSOR SCORC **DATE TYPED** 03/09/05 **HB**

SHORT TITLE Tax Increment Financing **SB** CS/845/aSCORC

ANALYST Padilla-Jackson

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	NFI*			

(Parenthesis ( ) Indicate Revenue Decreases)

*No response from Taxation and Revenue Department (TRD)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Department of Finance and Administration (DFA)
New Mexico Public Education Department (NMPED)

SUMMARY

The Senate Corporations and Transportation Committee (SCORC) amended the SCORC committee substitute for Senate Bill 845. With respect to elections for the creation of a new district, the amended bill requires that, "the election shall be in accordance with the Tax Increment Law and may be called as a special election or may be held concurrently with an election held pursuant to the Municipal Election Code." Also with respect to holding an election to form a district, the second amendment states that "the election may be called as a special election or may be held concurrently with an election held pursuant to the Municipal Election Code."

Synopsis of Original Bill

Senate Bill 845 as substituted by the Senate Corporations and Transportation Committee would create tax increment financing districts. It would permit the issuance of bonds by districts to build infrastructure to encourage planned private investment to increase their property values and marketability and then applies incremental property and gross receipts taxation on the new development to repay the bonds.

In order to achieve this, the bill changes existing statutes related to the Metropolitan Redevelopment Code to grant districts (in addition to or instead of municipalities) the various powers, including, but not limited to the ability to acquire, own, lease, improve and dispose properties in a metropolitan redevelopment area to promote industry and develop trade in a slum or blighted area. The bill would also authorize districts (in addition to municipalities) to carry out the provisions of the Metropolitan Redevelopment Code, to include the issuance of tax increment bonds.

The bill defines a district to mean a tax increment financing district formed pursuant to the Metropolitan Redevelopment Code.

<u>Other Changes to the Tax Increment Law</u>
Senate Bill 845 provides for voter approval of the issuance of tax increment bonds, by a district, secured by property taxes for a metropolitan redevelopment project. The bill states that upon approval for the tax increment method for a metropolitan redevelopment project, the local governing body shall submit to the voters the question of issuing the tax increment bonds. The notice shall state the purpose of the metropolitan redevelopment project for which the tax increment bonds are to be issued and the amount of the issue. The bill requires that a majority of the vote to proceed with the bond issuance.

Further, the bill would amend the Tax Increment Law to require for formation of a tax increment financing district a presentation of a petition of ten or more business owners or five or more property owners in a district. As with the metropolitan redevelopment district formation, the formation of a tax increment financing district would require a public hearing, approval for the creation of the district by the governing body, and an election for the formation of the district. A three-fourths majority of the votes cast by registered voters and qualified elector property owners in the municipality is required for tax increment financing district formation.

<u>Metropolitan Redevelopment Tax Act</u>

The bill outlines steps and requirements for the creation of a new metropolitan redevelopment district, requiring a presentation of a petition signed by at least 25 percent of the voters in the proposed district. The bill outlines the requirements for a public hearing regarding the formation of the district. Upon the approval for the creation of the district by the governing body, the governing body would order that an election be held on the formation of the district. The creation would require at least three fourths majority of the vote.

The bill would create of the “district redevelopment fund”. The fund shall consist of money deposited into the fund pursuant to the Metropolitan Redevelopment Tax Act and appropriated to the district.

The amount by which the sum of gross receipts tax for the current calendar year exceeds the base revenue (amount of gross receipts taxes within a district during the previous calendar year) shall be credited to the district and deposited in the district redevelopment fund. The bill states that money would not revert to the general fund and the end of the fiscal year.

The bill authorizes a municipality to issue revenue bonds, known as “municipal gross receipts tax increment bonds” payable from and secured by gross receipts taxes credited to a district and deposited in the district redevelopment fund. The bonds cannot have a maturity of greater than 20 years. The proceeds from the sale of the bonds can only be used for the purpose for which the bonds were issued, which can include the cost of acquiring the site and the cost of the construction of any part of the metropolitan redevelopment project, including architects' and engineers' fees, the purchase of any part of that project that may be acquired by purchase and all expenses in connection with the authorization, sale and issuance of the bonds and any related costs incurred by the municipality.

The effective date of the provisions of this bill is July 1, 2005.

Significant Issues

DFA provided the following comments regarding Senate Bill 845:

The tax increment, or TIF, method of financing redevelopment is used in 48 other states. Senate Bill 845 offers the option of using the pledge of increments of property taxes or gross receipts taxes to repay debt incurred to pay for needed public infrastructure improvements. Metropolitan redevelopment area plans that emphasize retail would want to exercise the gross receipts option; plans who want areas rich in housing and offices would choose the property tax route. Both could be exercised by a city such as Las Cruces, who recently adopted a downtown plan that calls for both retail and housing that would come on the heels of the emplacement of $15 million of public improvements. Bernalillo, Clovis, Farmington, and Santa Fe are examples of other municipalities who could exercise either option for pending redevelopments.

Many metropolitan redevelopment areas (MRA) have already been established in Albuquerque, however, none have been able to use tax increment financing with the legal cloud over TIFs.

According to NMPED, the increase in property taxes related to the redevelopment of property would benefit school districts by increasing the total property value within the district. However, the districts would not see these increases until after the bonds have been retired. (A period of time up to 20 years).

FISCAL IMPLICATIONS

According to TRD, the proposed legislation would likely impose no significant impacts on existing state and local revenue sources. DFA agrees that there would be no reduction of state, county or municipal revenue, as payment of necessary public infrastructure improvements comes from taxes on the increment of value of property and/or gross receipts within a redevelopment area.

The amendments to the bill do not change the original fiscal impact analysis.

OTHER SUBSTANTIVE ISSUES

DFA notes that most development and redevelopment activity in a redevelopment district will be privately financed. However, the improvements to public space require public financing. They believe that it is crucial that such public improvements come first, if the financing for the private development is to follow.

OPJ/lg