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FISCAL IMPACT REPORT

SPONSOR Alcon/Pettigrew/Black **ORIGINAL DATE** 1/24/22
/Roybal Caballero **LAST UPDATED** 2/1/22 **HJR** 6
SHORT TITLE Veteran Property Tax Exemption, CA **SB** _____
ANALYST Graeser

REVENUE (dollars in thousands)

| Estimated Revenue | | | | | Recurring or Nonrecurring | Fund Affected |
|-------------------|------|---|------|------|-------------------------------|--|
| FY22 | FY23 | FY24 | FY25 | FY26 | | |
| | | Minimal immediate impact, but, if enacted would be indeterminate but likely significant | | | Recurring if passed by voters | State GO Bonds, Municipal, County, School and Special District operating and debt levies |

Parenthesis () indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

| | FY22 | FY23 | FY24 | 3 Year Total Cost | Recurring or Nonrecurring | Fund Affected |
|--------------|------------------|------|------|-------------------|---------------------------|------------------------------|
| Total | \$150.0 -\$200.0 | | | \$150.0 - \$200.0 | Nonrecurring | SOS Operating (General Fund) |

Parenthesis () indicate expenditure decreases

Companion to HJR7 which would increase the current \$4,000 veteran's property tax exemption to \$10,000 and index that exemption for inflation.

SOURCES OF INFORMATION

LFC Files

American Community Survey 2019 5-yr S2101

American Community Survey 2019 5-yr DP04

Department of Finance and Administration, Local Government Property Tax Rate Sheets 2010 to 2020

Responses Received From

Municipal League (ML)

New Mexico Attorney General (NMAG)

Taxation and Revenue Department (TRD)

Department of Finance, Local Government Divisions (DFA/LGD)

Responses Not Received From

Veteran's Services Department (VSD)

New Mexico Counties

SUMMARY

Synopsis of House Joint Resolution

House Joint Resolution 6 proposes an amendment to Article 8, Section 15, of the New Mexico Constitution to expand the current property tax exemption for 100 percent disabled veterans and their widows and widowers to veterans with less than a 100 percent disability and their widows and widowers, basing the amount of the exemption on a veteran's federal disability rating.

The question would be on the ballot at the next general election or a special election called for the purpose.

See “Technical Issues” for discussion of the timeframe for passage and implementation of these provisions if passed by the voters.

FISCAL IMPLICATIONS

The only immediate impact of this proposed constitutional amendment would be election costs imposed on the Secretary of State (SOS).

“The SOS supports and understands the Legislature’s prerogative to place constitutional amendments before the voters of the state. For the purposes of determining the costs involved, the SOS wishes to inform legislators that, under Section 1-16-4 NMSA 1978, the SOS is required to print the full text of each proposed constitutional amendment, in both Spanish and English. The cost of producing the voter guide will change depending upon the number and length of the constitutional amendments passed and the number of registered voters but can be estimated at \$25 thousand.”

“The SOS is also constitutionally required to publish the full text of each proposed constitutional amendment once a week for four weeks preceding the election in one newspaper in every county in the state. In 2020, the SOS spent \$351,015 for the required newspaper publications, however, the cost is dependent upon the number and length of the constitutional amendments that are passed. For planning purposes, an estimate of \$20.72 per word may be used to represent the costs realized in the 2020 general election to estimate the cost of publishing each constitutional amendment.”

“The number of constitutional amendments that pass may also impact the page size of the ballot, or if the ballot size is caused to become greater than one page, front and back, which may increase the cost of producing the ballots for the general election. In addition to the cost of the ballot, there may be time added to the voting process, which would require additional ballot printing systems in order to ensure a smooth and efficient voting process within the bounds of national best practices. The additional requirement that the SOS publish a certificate for every law that is repealed by the counties will be an added cost to the SOS, although it is difficult to estimate the cost at this time.”

The operating budget impact shown in the table on page 1 is an approximation to the election costs imposed on the SOS.

The impact in any municipality depends on the value of property in the municipality owned by

less than totally permanently disabled veterans. Each 100 percent disabled veteran is entitled to a full property tax exemption. Each veteran, disabled or not, is entitled to an exemption of \$4,000 from the net taxable value of the property to which they apply the veteran exemption. Expanding the exemption for disabled veterans not only increases the number of veterans entitled to this exemption but the partial exemption amount will be in addition to the basic \$4,000 exemption. Still, the decrease in net taxable property values in most municipalities likely will not cause significant revenue problems but may in some smaller communities.

Any reduction in valuation maintenance attributed to this expanded exemption will serve to increase the yield control provisions applied to modify any reduction. It also serves to transfer the costs of this proposal to non-disabled veterans.

There will be a reduction in the amount of property tax-backed debt obligations that may be issued. This is likely not to be an issue of concern. However, debt levies are essentially determined by dividing the debt service for the issuance year by the net taxable value in the imposing jurisdiction. The state debt levy has been constant at 1.36 mills for years.

TRD has analyzed the potential fiscal impacts of this bill as follows:

| Estimated Revenue Impact* | | | | | R or NR** | Fund(s) Affected |
|---------------------------|--------|------------|------------|------------|-----------|---|
| FY2022 | FY2023 | FY2024 | FY2025 | FY2026 | | |
| -- | -- | (\$18,300) | (\$19,000) | (\$19,700) | R | Counties, Municipalities, Property Taxing Districts |
| -- | -- | (\$500) | (\$500) | (\$500) | R | State General Obligation Bond Fund |

* In thousands of dollars. Parentheses () indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

“It is assumed for this analysis that the proposed amendment is approved by the voters in the November 2022 general election and would come into force for FY24 after enabling legislation.”

“There are approximately 62 thousand veterans claiming the \$4,000 property deduction (per Article 7, Section 5 of the constitution). According to data released by New Mexico Department of Workforce Solutions, 34 percent of New Mexico veterans reported having a disability¹. The Taxation and Revenue Department (TRD) then assumes that the average percentage of disability among veterans is 50 percent.”

“Estimate for taxable property values in New Mexico in FY 2021 is based on the median value of homes sold in New Mexico in 2020 and 2021, according to the housing trends published by the New Mexico Realtors Association². The value is then grown at the average rate of increase in median home values in New Mexico between 2012 and 2019, in order to exclude the abnormal growth in property values witnessed between 2019 and 2021. To estimate the loss in revenue from the proposed amendment, the average mill rate in the state according to the 2020 New Mexico Property Tax Facts published by New Mexico Department of Finance and Administration was used³.”

“Local impacts of the legislation proposed in this bill will vary widely across the state depending on the local trends in property values, the per capita population of veterans in the county, as well

¹ <https://www.dws.state.nm.us/Portals/0/DM/LMI/2020%20Veterans%20Profile.pdf>

² <https://www.nmrealtor.com/housing-trends/>

³ <https://www.nmdfa.state.nm.us/local-government/budget-finance-bureau/property-taxes/property-tax-facts/>

as the remaining local authority to adjust property tax rates. To finally estimate the impact of this legislation, Tax & Rev accounted for adjustment in property tax rates that are likely to happen in response to this amendment per the yield control statute (Section 7-37-7.1 NMSA 1978). According to the 2021 Annual Report published by the New Mexico Department of Veterans Services, 63% of the veteran population is concentrated in Bernalillo, Dona Ana, Sandoval, Santa Fe and Otero counties. The weighted average of the remaining authority to adjust the mill rates in these counties compared with the rest of New Mexico was considered to account for the extent of the revenues lost that will be absorbed by yield control. It was found that approximately 40% of the lost revenue will be mitigated as a result of yield control. However, this effect will vary depending on how willing and able the local administrations are in utilizing their remaining operating rate authority. The loss is mostly to local authorities, with approximately 2.5% to the state General Obligation Bond (GOB) fund, which is used to make debt service payments on State GOBs.”

For particular veterans, this could be a major tax break. For example, take a veteran living in a residence with a \$100 thousand taxable value. This veteran qualifies for the \$4,000 basic veteran exemption, which translates to a net taxable value of \$96 thousand. If the veteran is 50 percent permanently disabled, the veteran would qualify for an additional \$50 thousand in exemption, or a net taxable value of \$46 thousand. At a tax rate of \$30/\$1,000 of valuation, that is a savings of \$1,500.

This bill creates or expands a tax expenditure with a cost that is difficult to determine but likely significant. LFC has serious concerns about the significant risk to state and local revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting.

LFC staff created a rough model to determine the order of magnitude of the property taxes shifted from service-connected disabled veterans to nondisabled veterans and the general public. This model is only approximate and contains several assumptions. LFC staff modeled the percentage disability for all disabled veterans from national data and used state statistics for the percentage of veterans who are homeowners. Median tax obligations by county were then determined from ACS data.

The rough conclusion is that this property tax exemption would create an annual average property tax reduction of \$767 for 29.4 thousand service-related disabled veterans with property tax liability. This would create an additional annual per capita burden of \$14 for the population in general. If the joint resolution is passed by the Legislature, presented and accepted by the people at a general election, then TRD or LFC will refine these estimates.

House Joint Resolution 6 – Page 5

| Geographic Area Name | Total Population | Veterans Veterans | Veterans with any disability | Approx Veterans with Service-connected Disability | Approx Current Veteran's Deduction 100% Disabled | Approx Proposed Veteran's Percentage Disabled Deduction | Approx Amount of Property Taxes Shifted from Service-Connected Disability persons to others | Per Capita Amount of Shifting |
|----------------------|------------------|-------------------|------------------------------|---|--|---|---|-------------------------------|
| Bernalillo County | 523,423 | 48,191 | 13,855 | 10,560 | \$2,602,136 | \$12,633,458 | \$10,031,322 | \$19 |
| Catron County | 3,071 | 401 | 182 | 139 | \$7,312 | \$34,778 | \$27,466 | \$9 |
| Chaves County | 47,813 | 3,649 | 1,473 | 1,123 | \$120,904 | \$584,242 | \$463,338 | \$10 |
| Cibola County | 20,520 | 1,791 | 884 | 674 | \$57,152 | \$277,939 | \$220,787 | \$11 |
| Colfax County | 10,042 | 1,275 | 476 | 363 | \$31,447 | \$152,786 | \$121,339 | \$12 |
| Curry County | 34,425 | 4,904 | 1,185 | 903 | \$85,782 | \$415,538 | \$329,756 | \$10 |
| De Baca County | 1,512 | 262 | 148 | 113 | \$13,000 | \$61,800 | \$48,800 | \$32 |
| Doña Ana County | 160,651 | 14,427 | 4,558 | 3,474 | \$507,363 | \$2,455,740 | \$1,948,377 | \$12 |
| Eddy County | 42,106 | 3,606 | 1,169 | 891 | \$97,667 | \$473,056 | \$375,389 | \$9 |
| Grant County | 22,170 | 2,622 | 1,032 | 787 | \$57,405 | \$277,931 | \$220,526 | \$10 |
| Guadalupe County | 3,608 | 375 | 107 | 82 | \$5,373 | \$26,447 | \$21,074 | \$6 |
| Harding County | 386 | 58 | 18 | 14 | | | \$0 | \$0 |
| Hidalgo County | 3,326 | 321 | 89 | 68 | \$3,424 | \$16,178 | \$12,754 | \$4 |
| Lea County | 48,956 | 2,374 | 608 | 463 | \$45,552 | \$221,365 | \$175,813 | \$4 |
| Lincoln County | 15,869 | 2,142 | 553 | 421 | \$59,472 | \$286,581 | \$227,109 | \$14 |
| Los Alamos County | 14,173 | 1,439 | 219 | 167 | \$42,218 | \$202,869 | \$160,651 | \$11 |
| Luna County | 17,879 | 1,460 | 568 | 433 | \$31,458 | \$152,347 | \$120,889 | \$7 |
| McKinley County | 51,481 | 2,992 | 1,239 | 944 | \$150,335 | \$727,790 | \$577,455 | \$11 |
| Mora County | 3,711 | 339 | 142 | 108 | \$9,264 | \$45,239 | \$35,975 | \$10 |
| Otero County | 47,847 | 8,070 | 2,001 | 1,525 | \$141,212 | \$685,781 | \$544,569 | \$11 |
| Quay County | 6,515 | 564 | 240 | 183 | \$11,928 | \$57,027 | \$45,099 | \$7 |
| Rio Arriba County | 29,981 | 2,268 | 932 | 710 | \$72,800 | \$353,808 | \$281,008 | \$9 |
| Roosevelt County | 14,022 | 1,165 | 339 | 258 | \$22,446 | \$109,444 | \$86,998 | \$6 |
| Sandoval County | 106,871 | 11,347 | 3,116 | 2,375 | \$514,292 | \$2,495,276 | \$1,980,984 | \$19 |
| San Juan County | 92,651 | 7,115 | 2,610 | 1,989 | \$259,875 | \$1,258,719 | \$998,844 | \$11 |
| San Miguel County | 22,383 | 2,099 | 1,021 | 778 | \$85,184 | \$413,142 | \$327,958 | \$15 |
| Santa Fe County | 120,852 | 9,957 | 2,908 | 2,216 | \$415,250 | \$2,013,796 | \$1,598,546 | \$13 |
| Sierra County | 9,339 | 1,527 | 673 | 513 | \$34,452 | \$167,092 | \$132,640 | \$14 |
| Socorro County | 13,077 | 1,038 | 446 | 340 | \$39,140 | \$190,550 | \$151,410 | \$12 |
| Taos County | 26,833 | 2,515 | 626 | 477 | \$66,474 | \$321,291 | \$254,817 | \$9 |
| Torrance County | 12,302 | 1,551 | 382 | 291 | \$28,974 | \$140,217 | \$111,243 | \$9 |
| Union County | 3,385 | 345 | 102 | 78 | \$5,625 | \$26,750 | \$21,125 | \$6 |
| Valencia County | 57,629 | 6,075 | 2,176 | 1,658 | \$235,994 | \$1,145,517 | \$909,523 | \$16 |
| New Mexico | 1,588,809 | 148,264 | 46,077 | 35,118 | \$5,860,910 | \$28,424,495 | \$22,563,585 | \$14 |

SIGNIFICANT ISSUES

This constitutional amendment creating a property tax exemption may serve to provide tax relief to only a portion of service-related disabled veterans. The exemption only applies to owner-occupied residences used as a principal residence. Thus, it excludes any service-related disabled veteran who is institutionalized, homeless, or occupying a rental unit. The value of the exemption is also highly variable depending on the city, county, and school district property tax rates in effect at the location of the veteran’s principal residence. Per the LFC rough model, the average tax benefit would range from over \$1,000 in Los Alamos and Bernalillo counties to under \$300 in Catron, Hidalgo, and Quay counties.

HJR7, a companion to HJR6, seeks a constitutional amendment to increase the current \$4,000 veteran’s property tax exemption to \$10 thousand for all veterans who occupy the taxed residence as a principal residence. This proposal also excludes providing benefits to institutionalized veterans and veterans who occupy rental units but would (at greater amounts of tax shifted) benefit more veterans.

TRD notes similar concerns:

An expansion of a property tax exemption for veterans would erode horizontal equity in property taxes. Taxpayers in similar economic circumstances or with similar disability designations are no longer treated equally. All other taxpayers in counties with room to adjust their yield control may see their property tax rates increase. However, this exemption accomplishes the broader public-good to maintain home ownership and quality of life for veterans with a range of disabilities.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met because TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers claiming the exemption and other information to determine whether the exemption is meeting its purpose. This is a general criticism of all property tax issues, largely because the property tax valuation is administered by 33 county assessors and primarily with archaic technology. The state-level administration of the property tax is shared between the Property Tax Division of the Taxation and Revenue Department and the Local Government Division of the Department of Finance and Administration.

In addition, this joint resolution makes no attempt to establish criteria for evaluating the unstated purpose of the exemption.

ADMINISTRATIVE IMPLICATIONS

TRD would incur modest additional administrative burden – primarily designing application documents and instructing county assessor staff members.

DFA/LGD also notes:

“If voters approve the property tax exemption in HJR6, county assessors would need to update their records for taxpayers that meet the conditions of and can provide proof for the exemption. This would need to be accomplished by January 1st after the successful election in order to meet the statutory deadline of April 1st for mailing notices of value to taxpayers for the next upcoming tax year.”

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Related to HJR7, which seeks a constitutional amendment to increase the current \$4,000 veteran’s property tax exemption to \$10 thousand for all veterans who occupy the taxed residence as a principal residence.

TECHNICAL ISSUES

The new provisions, if passed by the voters at the general election in November 2022, would require enabling legislation to amend Section 7-37-5.1 NMSA 1978. This could occur in the 2023 session, but would not be applicable for the 2023 property tax year, even if passed with an emergency clause. This new proportional exemption would be applicable to the 2024 property tax year beginning January 1, 2024, with valuations published in May 2024 and fiscal impact, including any modification of yield-controlled rates, affecting the November 2024 and April 2025 property tax payments. This enabling legislation may be mandatory if the people approve the constitutional amendment. The phrase is, “The legislature *shall* exempt from taxation the property ... of every veteran ...”

LG/al/acv/rl/acv