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FISCAL IMPACT REPORT

Alcon/Pettigrew/
Black/
SPONSOR Roybal Caballero **ORIGINAL DATE** 01/22/22
LAST UPDATED 02/01/22 **HJR** 7

SHORT TITLE Veteran Property Tax Exemption Increase **SB** _____

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY22	FY23	FY24	FY25	FY26		
		No immediate fiscal impact: see Fiscal Implications		Moderate changes: see Fiscal Implications	Recurring	All property tax beneficiaries

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	Secretary of State Operating General Fund

Parenthesis () indicate expenditure decreases

Companion to HJR6 which proposes a property tax partial or complete exemption for disabled veterans, with the percentage of exemption set by the percentage of disability as determined by the Veteran's Administration

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

Attorney General's Office (NMAG)

Department of Finance and Administration, Local Government Division (DFA - LGD)

Taxation and Revenue Department (TRD)

Responses not received from

Veteran's Services Department (VSD)

New Mexico Counties

SUMMARY

Synopsis of House Joint Resolution

House Joint Resolution 7 proposes an amendment to Article 8, Section 5 of the New Mexico Constitution to increase a property tax exemption for honorably discharged members of the armed forces and their widows and widowers from \$4,000 to \$10,000, effective for the 2023 property tax year, which begins January 1, 2023.

After the 2023 property tax year, the \$10 thousand property tax exemption would be indexed to inflation.

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 time frame for passage and implementation of these provisions if passed by the voters.

FISCAL IMPLICATIONS

The only immediate fiscal implications of a joint resolution proposing a constitutional amendment are the 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.”

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However, if the constitutional amendment is passed by the voters and enabling legislation is enacted by the Legislature and signed by the governor, there would be fiscal consequences to the veterans affected by the new property tax exemptions, to non-veteran property tax payers who could be required through the action of yield-control (Section 7-37-7.1 NMSA 1978) to pay slightly more taxes than in the absence of the new exemptions and to local government jurisdictions, including school districts, that would experience a slight reduction in their maximum bonding authority.

Unlike HJR6 which expands the population eligible for an increased exemption for service-related disabled veterans, this proposal if enacted would not increase the population and the increased level of exemption could and would be administered by the county assessor’s staff.

LFC staff created a rough model to determine the order of magnitude of the increase in property taxes shifted from veterans to non-veterans in the general public. This model is only approximate and contains a number of assumptions and ignores a number of specific features of the property tax code, including yield-control.

The rough conclusion is that this property tax exemption would create an annual average property tax reduction of \$180 for almost 100 thousand qualifying veterans and an additional annual per household burden of \$34 for the population in general. Subsequent information from TRD indicated that 62,000 veterans claim the current \$4,000 exemption, so the LFC model may be somewhat overstated. 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.

Geographic Area Name	Total -- Civilian population 18 years and over	Veterans -- Civilian population 18 years and over	Veterans Qualifying	Qualification %	Increase in Taxes shifted	Benefit per Qualifying Veteran	Per Owner Occupied Unit Shifting
Bernalillo County	523,423	48,191	30,353	63%	\$7,275,432	\$240	\$43.15
Catron County	3,071	401	352	88%	\$35,773	\$102	\$30.79
Chaves County	47,813	3,649	2,514	69%	\$322,255	\$128	\$20.09
Cibola County	20,520	1,791	1,230	69%	\$231,348	\$188	\$38.68
Colfax County	10,042	1,275	906	71%	\$148,501	\$164	\$35.72
Curry County	34,425	4,904	2,796	57%	\$386,116	\$138	\$36.51
De Baca County	1,512	262	164	63%	\$23,219	\$142	\$55.15
Doña Ana County	160,651	14,427	9,102	63%	\$1,580,908	\$174	\$32.19
Eddy County	42,106	3,606	2,506	69%	\$331,814	\$132	\$22.47
Grant County	22,170	2,622	1,785	68%	\$164,174	\$92	\$20.35
Guadalupe County	3,608	375	235	63%	\$37,534	\$160	\$43.29
Harding County	386	58	38	66%	\$4,543	\$120	\$32.92
Hidalgo County	3,326	321	227	71%	\$25,938	\$114	\$21.87
Lea County	48,956	2,374	1,586	67%	\$254,991	\$161	\$16.95
Lincoln County	15,869	2,142	1,726	81%	\$247,829	\$144	\$40.65
Los Alamos County	14,173	1,439	1,067	74%	\$157,054	\$147	\$26.72
Luna County	17,879	1,460	889	61%	\$121,204	\$136	\$22.35
McKinley County	51,481	2,992	2,122	71%	\$416,273	\$196	\$28.03

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Mora County	3,711	339	290	86%	\$27,791	\$96	\$18.97
Otero County	47,847	8,070	5,181	64%	\$711,310	\$137	\$46.88
Quay County	6,515	564	347	62%	\$55,011	\$159	\$29.43
Rio Arriba County	29,981	2,268	1,743	77%	\$213,082	\$122	\$21.78
Roosevelt County	14,022	1,165	681	58%	\$94,329	\$139	\$23.68
Sandoval County	106,871	11,347	8,918	79%	\$1,726,115	\$194	\$43.06
San Juan County	92,651	7,115	5,053	71%	\$737,637	\$146	\$23.94
San Miguel County	22,383	2,099	1,476	70%	\$188,766	\$128	\$23.12
Santa Fe County	120,852	9,957	7,059	71%	\$977,107	\$138	\$22.26
Sierra County	9,339	1,527	1,129	74%	\$159,961	\$142	\$38.96
Socorro County	13,077	1,038	762	73%	\$138,861	\$182	\$41.88
Taos County	26,833	2,515	1,922	76%	\$181,018	\$94	\$19.57
Torrance County	12,302	1,551	1,291	83%	\$179,761	\$139	\$38.27
Union County	3,385	345	224	65%	\$29,146	\$130	\$32.17
Valencia County	57,629	6,075	4,950	81%	\$828,185	\$167	\$37.63
New Mexico	1,588,809	148,264	100,624	68%	\$18,012,985	\$179	\$34.12

TRD has analyzed this bill and come to similar conclusions:

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2022	FY2023	FY2024	FY2025	FY2026		
--	--	(\$6,800)	(\$6,800)	(\$6,800)	R	Counties, Municipalities, Property Taxing Districts
--	--	(\$200)	(\$200)	(\$200)	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 FY2024 after enabling legislation.”

“There are approximately 62,000 veterans claiming the \$4,000 property deduction (per Article 7, Section 5 of the constitution). The Taxation and Revenue Department (Tax & Rev) calculated the associated fiscal impact based on increasing the property deduction to \$10,000 for the current population and adjusted the amount of the exemption for inflation using IHS Markit’s current forecast for inflation based on the Consumer Price Index.”

“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 New Mexico Realtors Association¹. 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 used².”

¹ <https://www.nmrealtor.com/housing-trends/>

² <https://www.nmdfa.state.nm.us/local-government/budget-finance-bureau/property-taxes/property-tax-facts/>

“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 as to remaining local authority to adjust property tax rates. To finally estimate the impact of this legislation, Tax & Rev accounted for adjustment in property tax rate 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 by 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.”

SIGNIFICANT ISSUES

TRD noted in comments to last year’s HJR3 the following significant issue:

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

LFC staff note that this constitutional amendment creating a property tax exemption may serve to provide tax relief to only a portion of veterans. The exemption only applies to owner-occupied residences used as a principal resident. Thus, it excludes any veteran who is institutionalized, homeless or who is 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 tax benefit would range from \$240 in Bernalillo County to under \$100 in Grant, Mora and Taos Counties.

New Mexico has traditionally valued its veterans, and the provisions of this bill would increase the benefits accorded to our veterans.

DFA notes the following:

The proposed tax exemption increase in HJR7 is similar to existing tax exemptions found in Article VIII, Section 15 of the New Mexico Constitution, in which the legislature exempts from taxation 100 percent of the property, including community or joint property if married, of every 100% disabled veteran of the armed forces if the veteran occupies the property as a primary place of residence. This exemption continues for the widow or widower of the veteran as long as the widow or widower continues to occupy the property as a primary place of residence. This bill is also similar to HJR6 which proposes to extend the disabled veterans exemption in Article VIII, Section 15 to partially disabled veterans based on their federal veteran disability rating percentage. The burden of proof of exemption eligibility is on the person claiming the exemption.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since 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 using largely 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 notes there would be administrative impacts:

If voters approve the property tax exemption in HJR7, county assessors would need to update their records for taxpayers that meet the conditions and 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

HJR6, seeks a constitutional amendment to expand the current 100 percent exemption for 100 percent service-related disabled veterans to allow a deduction for disabled veterans with less than 100 percent service-related disability. The new exemption would be equal to the federal percent of service-related disability.

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 NMSA 1978. The CA as passed requires it to apply to the 2023 property tax year which begins January 1, 2023. There might be a challenge to implement provisions that can decrease property taxes for veterans, but increase property taxes for other residential homeowners. Unlike the exemption for service-related disability in Section 7-35-5.1 NMSA 1978 proposed in HJR6, this exemption is not mandatory if the people approve the constitutional amendment. The Legislature could enact enabling legislation in the course of the 2023 session and make the increase in veteran’s exemption effective for either the 2023 or 2024 property tax year.

DFA/LGD suggests the following:

“HJR7 doesn’t define the term “inflation” and there are various data tables that are published by the United States Department of Commerce regarding inflation which could lead to each county

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coming up with their own interpretation and application of inflation. To have a consistent annual inflation percentage applied statewide, one option is to amend the language on page 2, line 11 to read ‘...adjusted for inflation based on the most current inflation factor published on the website of the New Mexico Department of Finance and Administration, Local Government Division.’”

LFC note: this issue would be resolved with enabling legislation amending Section 7-37-5.1 NMSA 1978.

OTHER SUBSTANTIVE ISSUES

TRD notes the following associated issue:

The Constitution presently states that the exemption is “from taxation.” Some have questioned whether the exemption from taxation applies to the value of the property or the taxable value of the property (which is 1/3rd of the value of the property). TRD proposes no change to the HJR or Constitution to clarify “from taxation” because it would create an inconsistency with Section 7-37-4 NMSA 1978, head of household exemption and possible inconsistent application of exemptions.

LG/acv/rl