

BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

February 10, 2025

Bill: HB-294

Sponsor: Representative Kathleen Cates

Short Title: Taxation of Certain Agricultural Land

Description: This bill amends Section 7-36-20 NMSA 1978 to include land conservation easements in land used primarily for agricultural purposes that is subject to special valuation. Section 7-38-12.1 NMSA 1978 to add reference to conservation easements.

Effective Date: Not specified; 90 days following adjournment (June 20, 2025). Applicable to taxable years beginning on or after January 1, 2025.

Taxation and Revenue Department Analyst: Lucinda Sydow

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2025	FY2026	FY2027	FY2028	FY2029		
(\$12,000)	(\$12,900)	(\$13,900)	(\$14,900)	(\$16,000)	R	Counties
(\$300)	(\$323)	(\$348)	(\$373)	(\$400)	R	State General Obligation Bond Fund

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

Methodology for Estimated Revenue Impact: The proposed amendment to 7-36-20 NMSA 1978 expands the definition of “agricultural purposes” for special valuation by including land that if not for a conservation easement, could produce agriculture products. Special valuation of agricultural land on average has a lower assessment value compared to residential or commercial properties. This proposal will lower the taxable value of the acreage under conservations easements. Per the Land Trust Alliance, there is approximately 960.3 thousands acres of private land held in conservation easements in New Mexico.¹ This amount of acreage represents approximately 3% of all private land holdings in New Mexico per an estimate of private land in New Mexico from the Elk Private Land Use System². The Taxation and Revenue Department (Tax & Rev) assumed an equal distribution of the easement acreage by the percent of acreage of each county to the state total acreage. As discussed below in Policy Issues, rural counties with higher acreage and scenic land are more likely to be impacted by the change in valuation. This method does not account for counties with higher federal or state ownership which may impact the weighting of the easement acreage to each county.

To estimate the loss in revenue in each county, Tax & Rev assumed a taxable value per acre for the 960.3 acres based on the taxable value for private land published in the 2023 New Mexico Property Tax Facts by the New Mexico Department of Finance and Administration (DFA).³ This taxable value per acre was multiplied by the weighted acreage in each county. Tax & Rev then applied the average county mill rate according to the 2023 New Mexico Property Tax Facts to the lost taxable value in each county. The estimated direct aggregate impact in loss of property tax revenue in Fiscal Year 2025 is \$31.0 million in the first year before yield control adjustments are made (see below).

¹ <https://landtrustalliance.org/land-trusts/gaining-ground/new-mexico>

² <https://eplusnm.org/home/land-ownership-in-new-mexico/>

³ <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 acreage under conservation easement in the county, as well as the remaining local authority to adjust property tax rates.

To estimate the final fiscal impact of this legislation in FY2025 and forward, Tax & Rev accounted for adjustments in property tax rates that are likely to happen per the yield control statute. The weighted average of the remaining residential authority to adjust the mill rates in each county was applied to the remaining tax base in each county after the loss of net taxable value from conservation easements. Tax & Rev estimates that potentially sixteen counties - Catron, Cibola, Colfax, De Baca, Guadalupe, Harding, Hidalgo, Luna, McKinley, Mora, Quay, Roosevelt, Sierra, Socorro, Torrance, and Union - may not have sufficient tax base nor remaining mills that may be imposed to offset the loss of tax base and revenue from exempting conservation easements through yield control. However, this effect will vary depending on how willing and able the local administrations are in utilizing their remaining operating rate millage authority or if the growth in the remaining tax base is sufficient. The estimated net impact of \$12 million in the first year for these 16 counties is only the impact at the county level. Additional impacts in special districts, including municipalities and school districts are not included in this impact. The loss above is only to counties, with approximately 2.5% of the loss to the state General Obligation Bond (GOB) fund, which is used to make debt service payments on State GOBs.

Tax & Rev assumes a growth in conservation easements of approximately 57,000 acres a year. This is based on the average annual acreage granted an income tax credit under 7-2-18.10 and 7-2A-8.9 NMSA 1978. Tax & Rev also increased the taxable value by the 6-year growth of the median list price in New Mexico, excluding growth from 2022.⁴ If this property tax proposal incentivizes more conversion of land to conservation easements, then the estimate above will increase. There also could be a future impact to general fund revenue from additional income tax credits for those taxpayer's whose conveyance of land meets 7-2-18.10 and 7-2A-8.9 NMSA qualification.

Policy Issues: The expansion of property tax exemptions for land conservation easements will continue to erode horizontal equity in property taxes as those in similar economic situations will no longer be treated equally. The bill will represent an erosion of the local property tax base, on which most local governments rely for their budgets and operations. Due to the diverse acreage makeup of counties between rural and urban land usage, this bill could result in higher loss of property tax base in counties with higher ratio of rural to urban acreage and higher proportion of private scenic acreage that surrounds federal, state, and Native American land and parks.

A Colorado study estimated the economic benefits from land protection via conservation easements. They cited long-term ecological and societal benefits such as water supply and flood control; fish and wildlife habitat; recreational use; and erosion control among others.⁵ While there may be a broader public good to preserve land for conservation and allow private landowners to continue using their land in doing so, the cumulative impact of exemptions in the property tax base will require more tax revenue from fewer properties. More exemptions also adds complexity to the tax code for local county assessors and increases the costs of administration.

Technical Issues: None.

Administrative & Compliance Impact: This bill presents little to no impact for Tax & Rev's Property Tax Division. County assessors will be more heavily impacted.

⁴ Housing Inventory: Median Listing Price in New Mexico (MEDLISPRINM) | FRED | St. Louis Fed

⁵ <https://www.tpl.org/wp-content/uploads/2013/12/benefits-CO-easements-taxcredit.pdf>

