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

ORIGINAL DATE 3/03/07
SPONSOR Boitano **LAST UPDATED** **HB**

SHORT TITLE Study Property Valuation Increase Limits **SB** SM 45

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	NFI			

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

SUMMARY

Synopsis of Bill

Senate Memorial 45 is a resolution that asks the Property Tax Division of the Taxation and Revenue Department (TRD) to review the assessment process of county assessors and report on that review, the status of "current and correct" values in all counties and any inequities uncovered to the interim Revenue Stabilization and Tax Policy committee (RSTP). RSTP is then directed to provide recommendations to make the valuation system more equitable.

The memorial finds that the current system allows for "radical changes in valuation whenever property is transferred;" that there are inequities within counties because of the statutorily mandated property valuations; that the system puts first time and elderly homeowners at a disadvantage; that the system makes affordable housing projects difficult; and assessors do not uniformly value properties.

FISCAL IMPACT

There is no fiscal impact associated with conducting a study.

SIGNIFICANT ISSUES

There are two issues presented by this memorial. The first is the 3 percent yield control on increases in valuation that prevents dramatic increases in valuation for existing homeowners. The second is the valuation that occurs when a property changes hands. Section 7-36-21.2 limits the growth in valuation to 103 percent of the prior year's value or 106.1 percent of the average of the past two years' valuation. The limit does not apply to property that is new construction, physical improvements, and subject to a change of ownership or zoning. In many neighborhoods, there is a growing disparity between the property taxes assessed on long time residents and new residents. The longer residents' property is valued at a level that is likely (depending on the neighborhood) much less than the new resident since market rate values of properties have experienced a significant increase over the last few years. However, absent the control on valuation increases, long time residents will face increasing tax liabilities if they live in an appreciating area.

An important note is that New Mexico has very low property tax rates relative to the rest of the country due to the 33% assessment factor and the low reliance on property taxes to fund schools and municipalities.

TRD:

"Current and Correct" values of property referenced in SM-45 and Section 7-36-16 NMSA are defined in the associated regulation 3.6.5.23 C. as:

(1) For residential property purchased in the year prior to the current tax year the phrase means its market value during the year of purchase;

(2) For residential property not purchased in the year prior to the current tax year, when utilizing a one year reappraisal cycle, the phrase means its' market value of the year prior to the current tax year, and

(3) For residential property not purchased in the year prior to the current tax year, and non-residential locally assessed property, when utilizing a two year reappraisal cycle, the phrase means its market value in the tax year 2001 and, for each of the following odd-numbered tax year, its market value during the preceding odd-numbered tax year.

The memorial's statement that county assessors do not uniformly employ "sales price disclosure data" in revaluing property apparently refers to information on transfer affidavits disclosing sales prices required under Section 7-38-12.1. Section 7-38-12.1 B. states that information on the affidavits may be used "only for analytical and statistical purposes in the application of appraisal methods". Meaning of this provision has never been clear, although it seems to suggest that information disclosed may not be the basis for appraising property whose sales price is disclosed. Section 7-38-12.1 C. also states that information from the affidavits must be maintained as confidential data and that its contents are not part of assessor valuation records – containing information on which, for the most part, is considered part public records. In any case, the affidavit data is confidential and may not, as a practical matter, be used in appraisal because it can not be employed in protest hearings. Until intent of the disclosure provision is clarified, assessors will probably continue to "not uniformly use sales price disclosure in revaluing property upon transfer".

The Department is required (by Section 7-36-18) to "prepare and publish annually comprehensive sales-ratio studies comparing value of property determined for property taxation purposed by each county assessor . . .". The sales-ratio studies are intended to "promote uniformity and overall compliance by each county with the Property Tax Code". Sales assessment studies reported by the Department have traditionally been severely limited for a number of reasons. Among these is insufficient data on particular property types available to the Department due extremely limited numbers of sales occurring within certain jurisdictions. In Harding County, for example, so few sales often occur that meaningful sales/assessment ratio studies applicable to Harding County are often impractical.

A paper published in the National Tax Journal by Arthur O'Sullivan, Terri Sexton and Steven Sheffrin in 1994 concluded that California's Proposition 13 tends to benefit low-income and elderly homeowners because high-income individuals tend to move more frequently than their indigent counterparts, and thus pay higher effective property tax rates than their lower-income and older counterparts. Similar effects are likely to result from the three-percent limitation on assessed value increases imposed under New Mexico law.

County assessors are elected officials. The Department is given supervisory power over assessors for the purposes of insuring compliance with the Property Tax Code under Section 7-35-3 NMSA 1978. As a practical matter, this supervisory power is limited, however, by, among other things, Department budget limitations and staffing considerations. As long as assessors are elected, it is likely that variations in appraisal practices mentioned in SM-45 will continue.

ADMINISTRATIVE IMPLICATIONS

TRD: The study requested by the proposed memorial could easily require services of one full time employee at a cost of $75,000, including salary, equipment and benefits. No appropriation to the Department is called for in the Memorial.

NF/csd