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

ORIGINAL DATE 2/1/08
SPONSOR Boitano **LAST UPDATED** 2/14/08 **HB**

SHORT TITLE Property Tax Valuation and Reassessment **SB** 450/aHHGAC

ANALYST Earnest/Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	FY09	FY10		
		See narrative	Recurring	General Obligation Bonding Capacity
*	*	*	Non-recurring	Property Tax Recipients

(Parenthesis ( ) Indicate Revenue Decreases)
*see narrative

Conflicts with SB333

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of the HHGAC Amendment

The House Health and Government Affairs Committee amendment changes the effective date of the legislation to January 1, 2010, and extends until 2009 the period of time in which transferred property is revalued at the 2004 assessment level. The amendment also changes the stipulation that transferred property must be, instead of must not exceed, the higher of 103% of the value in the prior tax year or 106.1% of the value in the tax year two years prior to the tax year in which the property is being valued.

Synopsis of Bill

Senate Bill 450 would amend the Property Tax Code to require revaluation of residential property that transferred between 2005 and 2008 at the property's 2004 assessed value for property taxation purposes. Once reassessed, the assessed value of the property would be subject to the 3% limitation on assessed value increases currently required by Section 7-36-21.2.

FISCAL IMPLICATIONS

The HHGAC amendment shifts the fiscal impact of the legislation to FY11. According to the Board of Finance, the decrease in property valuation identified by TRD of $1.8 billion in the original bill may result in lower general obligation bonding capacity of $18 million in FY09. A similar impact to bonding capacity would exist in FY11 under the amendment.

As TRD reports, Article IX of the New Mexico Constitution governs debt obligations approved by voters that may be issued by counties, municipalities, school districts. Article IX, Section 8 prevents the State of New Mexico from imposing debt obligations funded by property taxes in excess of 1% of statewide net taxable value. Article IX, Section 13 limits debt obligations serviced by issued by counties and municipalities to 4% of net taxable value. Section 11 of Article IX imposes a 6% limit on school district debt that may be financed by property taxes. By limiting growth in net taxable value, the proposed limitation may, at some point, cause some jurisdictions to be impacted by these limits.

The property tax recipients in the table include counties, school districts, municipalities and similar entities receiving revenues from property tax levies.

TRD reports that the data necessary to accurately estimate effects of the proposed measure is not available to the agency. However, general effects of the proposed measure would consist of 1) revenue losses to some property tax recipients that could not be offset by discretionary rate increases; and 2) rate increases among residential and nonresidential property owners – including taxpayers of transferred properties that would benefit from assessed value decreases. Hence the property tax burden would be redistributed among residential and nonresidential property owners in very complex ways that depend on a number of factors that vary widely with property location.

TRD provided the following discussion of the fiscal implications:

"Statewide residential net taxable value[1] grew from roughly $19.4 billion in 2004 to $25.7 billion in tax year 2007 – approximately $6.3 billion. The 33% increase was due to a combination of factors, including 1) new construction, 2) the 3% increase typically applied to all residential properties, and 3) increases due to reassessment that occurred when properties were sold.

Substantial variation in these components occurred among counties, municipalities and school districts during the 2004 to 2007 time period. *Very* rough estimates performed by the Department suggest that about $1.8 billion of the increase was due to increased assessed values of properties that were sold. Hence reducing net taxable values to 2004 tax year levels would reduce net taxable statewide by *approximately* 30%. If this were to occur, property tax rates would generally adjust upward. Essentially all rates that are dedicated to paying debt service would increase – on residential *and* nonresidential property. Residential operating rates and all

[1] For rate setting purposes.

such rates that are subject to the yield control statute would typically increase also. In some cases -- DeBaca County as shown in the illustration on page 3, however, the rates could *not* increase because the actual rate – imposed rate after operation of yield control – is the same as the imposed rate, and the rate imposed is the maximum rate allowed by law. Hence, DeBaca County would experience operating revenue losses under the proposed statute. In cases where rate adjustments did not offset revenue shortfalls, governing bodies of property tax recipients would be able to impose rate increases up to the maximum amounts allowed by law – 11.85 mills for counties, 7.65 mills for municipalities and .5 mills among school districts. As shown on the attached table, however, only 14 of the state's counties would be allowed to increase their rates because they have no remaining authority. The rate increases they imposed would apply to residential and nonresidential property. Estimating probable impacts of the proposal would require detailed data on the numbers of properties that transferred in each county municipality, school district and jurisdictions of other property tax recipients -- and the extent that the transfers increased residential property values. This information is not available to the Taxation and Revenue Department."

SIGNIFICANT ISSUES

Transferred property is not subject to the 3% limitation on assessed value increases that was enacted by Laws, 2000, Ch 21, Section 1 -- applicable to the 2001 and successive tax years. Hence increases in housing values between when the law was enacted and when many properties transferred created a condition where owners of transferred properties are faced with much higher tax bills than owners that remain their existing homes, and are protected to a great extent from property tax increases by the 3 percent valuation increase limit. The proposed measure is intended to remedy this problem.

TECHNICAL ISSUES

TRD notes that the effect of the third HHGAC amendment would be to *require* the value of transferred properties to increase at 3% annually, rather than limit the increases to 3% annually. This language may create conditions where assessed values of properties *exceed market value* and thus be the basis of protests – when, for example, market values are declining.

ADMINISTRATIVE IMPLICATIONS

No significant administrative implications were identified.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to Senate Bill 448.

BE:NF/mt:nt

Attachment to Fiscal Impact Report of Senate Bill 450

Illustration: Tax Year 2007 County Operating Rates

County	Residential	Non-Residential	Rate Imposed	Maximum Allowed	Remaining Authority
Bernalillo	6.183	10.800	10.900	11.85	0.950
Catron	10.850	8.583	10.850	11.85	1.000
Chaves	6.766	10.350	10.350	11.85	1.500
Cibola	8.131	11.850	11.850	11.85	0.000
Colfax	6.195	7.913	10.350	11.85	1.500
Curry	9.544	9.850	9.850	11.85	2.000
DeBaca	11.850	10.868	11.850	11.85	0.000
Dona Ana	7.812	11.850	11.850	11.85	0.000
Eddy	6.598	7.500	7.500	11.85	4.350
Grant	6.108	11.850	11.850	11.85	0.000
Guadalupe	7.949	11.850	11.850	11.85	0.000
Harding	8.075	10.850	10.850	11.85	1.000
Hidalgo	11.456	11.850	11.850	11.85	0.000
Lea	8.688	10.600	10.600	11.85	1.250
Lincoln	4.795	8.850	11.600	11.85	0.250
Los Alamos	4.406	7.610	8.850	11.85	3.000
Luna	8.227	11.850	11.850	11.85	0.000
McKinley	5.209	11.850	11.850	11.85	0.000
Mora	6.723	10.866	11.850	11.85	0.000
Otero	7.126	11.850	11.850	11.85	0.000
Quay	5.274	10.350	11.850	11.85	0.000
Rio Arriba	4.314	10.222	11.850	11.85	0.000
Roosevelt	9.793	10.850	10.850	11.85	1.000
Sandoval	5.116	5.354	10.350	11.85	1.500
San Juan	5.951	8.000	8.500	11.85	3.350
San Miguel	5.447	11.850	11.850	11.85	0.000
Santa Fe	4.415	9.989	11.850	11.85	0.000
Sierra	9.256	11.850	11.850	11.85	0.000
Socorro	7.772	11.721	11.850	11.85	0.000
Taos	4.911	9.450	11.850	11.85	0.000
Torrance	11.156	11.814	11.850	11.85	0.000
Union	7.051	9.150	9.150	11.85	2.700
Valencia	6.379	11.850	11.850	11.85	0.000

Information source: DFA Local Government Division