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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/06/09

SPONSOR Boitano LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE 2005 Value for Certain Transferred Properties SB 457

ANALYST Gutierrez

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
		Indeterminate See Narrative	Recurring	General Obligation Bonding Capacity
		See Narrative	Non-Recurring	Property Tax Recipients

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Taxation and Revenue Department (TRD)

Department of Finance and Administration (DFA)

### SUMMARY

#### Synopsis of Bill

Senate Bill 457 provides for residential property that changed ownership during the period January 1, 2005, through December 31, 2009, shall be reassessed for the 2010 tax year and the value shall be based on the property's 2005 value for property taxation purposes. Once reassessed, the assessed value of the property would be subject to the limitations on assessed value increases currently required by Section 7-36-21.2.

The effective date of this bill's provisions is January 1, 2010.

### FISCAL IMPLICATIONS

The property tax recipients in the table include counties, school districts, municipalities and similar entities receiving revenues from property tax levies. The bill would impose relatively minor fiscal impacts on these recipients. Reductions in net taxable value caused by the change in

assessed value would, for the most part, be offset by very minor property tax rate increases applicable to essentially all taxpayers.

## SIGNIFICANT ISSUES

### TRD:

N.M. Const. Art. VIII, Sec. 1 states that “taxes levied upon tangible property shall be in proportion to the value thereof.” The value of property in 2005 is probably not the value in 2010. The constitution allows the legislature to provide by law limits on annual increases on valuation of property, but does not permit the legislature to arbitrarily define “value” as not current value.

### DFA:

Local governments rely on revenues derived from property tax to meet their operating needs, and also may have imposed General Obligation Bonds that are repaid from property tax revenue. Reassessing properties based on 2005 valuation will have a detrimental effect on their budgets and revenue which in turn impact services typically provided by these governments, (ie. public safety).

## PERFORMANCE IMPLICATIONS

### DFA:

The Local Government Division of the Department of Finance and Administration is charged with the responsibility of certifying property tax rates. These rates are calculated based on certified prior and current year valuations. Typically, when valuations go down, rates generally go up, and because the rate is calculated on the cumulative valuations for residential properties in a specified district, the increased rate would be applied to all properties within that district, having the effect of all residents making up for the savings allowed those residents that have changed ownership during this period.

## ADMINISTRATIVE IMPLICATIONS

### DFA:

The administrative impact of SB 457 will be on the county assessors. They will have to determine properties that have changed ownership during the period of January 1, 2005 to

***The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:***

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

***More information about the LFC tax policy principles will soon be available on the LFC website at [www.nmlegis.gov/lcs/lfc](http://www.nmlegis.gov/lcs/lfc)***

December 30, 2009, and reassess those properties based on 2005 valuations. Some county assessors may have difficulties retrieving prior year valuations, due to outdated computer programs or software conversions.

### **TECHNICAL ISSUES**

TRD notes that some residential property that changed ownership after January 1, 2005 was not in existence in 2005 (e.g., a home built in 2008 that the original owner sold in 2009), and it may be quite difficult to determine a 2005 value for such property.

### **OTHER SUBSTANTIVE 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 in their existing homes, and are protected to a great extent from property tax increases by the 3 percent valuation increase limit. The bill still allows for valuation to be based upon a change of ownership beginning in the year following the tax year in which the property was reassessed due to this bill (tax year 2011).

BLG/mc