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

ORIGINAL DATE 02/19/09
SPONSOR Boitano **LAST UPDATED** **HB**

SHORT TITLE Property Taxation and Valuation Upon Sale **SB** 537

ANALYST Gutierrez

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	**FY10**	**FY11**		
	Indeterminate See Narrative	Indeterminate See Narrative	Recurring	Property Tax Recipients*

(Parenthesis ( ) Indicate Revenue Decreases)

*Counties, school districts, municipalities and similar entities receiving revenues from property tax levies.

Relates to SB457, HB261, HB160, SB181

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		Indeterminate but could be substantial	Indeterminate but could be substantial		Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 537 amends Section 7-36-21.2 NMSA 1978 by removing the valuation of a residential property in any tax year in which a change of ownership of the property occurred in the prior tax year. This bill also requires that for the 2010 tax year, residential property be reassessed and shall be valued at the current and correct value. Any increase or decrease in the value of a residential property as a result of the reassessment shall be phased in over a period of four years in amounts as nearly equal as practical.

The criteria for determining whether taxable values of residential properties are "current and correct" is based on a statistical measure of the median ratio of assessed value to sales price. A county's median sales ratio must be determined to be .92 (currently .85) for the county's residential properties to be considered current and correct; that is, assessed values must average 92 percent of market value as reflected in sales prices. The Taxation and Revenue Department must determine that sales ratios for all counties meet this standard for the 2010 tax year, or, if statistically valid ratios cannot be established, establish the ratios using independent appraisals and sales data available to the Department. In counties where the 92 percent ratio is not reached, the 3% percent limitation would not apply until the 92 percent ratio was established via reappraisal.

FISCAL IMPLICATIONS

TRD:
Provisions of the proposed measure would produce no revenue increases if two conditions are met: the yield control provisions of Section 7-37-7.1 NMSA 1978 must be applied correctly to tax rates that are subject to it; and all (typically debt service) rates that are not subject to the yield control statute must adjust in inverse proportion to the assessed value increases that would result from the proposal – as was assumed would be the case when the Legislature enacted yield control. It is not certain, however, that either condition – particularly the latter one – would occur. In other terms, property tax recipients that impose voter-approved capital construction projects and associated debt-service rates may not decrease the rates in proportion to assessed value increases, in which case taxpayers in their districts would experience property tax increases.

Major effects of the proposed measure would likely be increased assessed value among property owners who are currently assessed at less than current and correct levels and rate decreases among essentially *all* property owners, including owners of non-residential properties as their debt service rates decrease. Hence owners of residential properties that are currently assessed at market value would experience rate and tax reductions. Owners of residential property that is assessed at below market value due to an incorrect appraisal or the 3% increase limitation would experience simultaneous increases in assessed value and rate reductions. They would likely be subject to higher tax bills than prior to enactment of the proposed legislation, but the rate increases would offset much of the effect of reappraisal. The final result of the tax burden shift that would occur due to the proposal would be property taxation in which residential tax obligations are in rough proportion to property value.

SIGNIFICANT ISSUES

Currently, 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 face much higher tax bills than owners who remain in their existing homes, and are protected to a great extent from property tax increases by the 3% valuation increase limit. The proposed measure is intended to remedy this problem.

ADMINISTRATIVE IMPLICATIONS

Provisions of the proposed measure may impose substantial administrative impacts on the Taxation and Revenue Department, depending on the extent of data available from county assessors. Provisions of the measure would also impose tremendous administrative impacts on all of New Mexico's County Assessors Offices. The legislation would require widespread reappraisal of all properties in the assessor's jurisdiction.

RELATIONSHIP

Senate Bill 537 relates to:

- SB457 - 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
- HB160/SB181 - eliminates the provision requiring revaluation of residential property upon change in ownership
- HB261 - amends the Real Estate Disclosure Act to require disclosure of estimated future property taxes to a buyer of residential real property

TECHNICAL ISSUES

TRD:
This proposal would profit from additional measures of assessment equity and uniformity. 95% to 105% of market value is an acceptable range for individual properties if all properties in the same class have similar assessments relative to market. The measure could also benefit from language that would insure that debt-service rates would move inversely and proportionately with assessed value increases.

It would also be useful, for purposes of the proposed legislation, to add a clear definition of the term "valuation maintenance" to the Property Tax Code to insure that the yield control statute functions as originally intended.

BLG/svb

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