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FISCAL IMPACT REPORT

ORIGINAL DATE 01/25/12

SPONSOR Garcia, M.P. LAST UPDATED _____ HJR 9

SHORT TITLE Property Tax for Low Incomes, CA SB _____

ANALYST Hoffmann

REVENUE (dollars in thousands)

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY12	FY13	FY14	FY15	FY2016		
--	--	--	See Fiscal Implications	***	R	Property Tax Recipients
-	-	-	(\$3,300.0)	(\$3,450.0)	R	GO Bond Capacity

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

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY12	FY13	FY14	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$104.0		\$104.0	Nonrecurring	Secretary of State Operating

(Parenthesis () Indicate Expenditure Decreases)

Companion to House Joint Resolution 8

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)
 Department of Finance and Administration (DFA)
 Attorney General's Office (AGO)

The Attorney General's Office issues the following disclaimer for their analysis. "This analysis is neither a formal Attorney General's Opinion nor an Attorney General's Advisory Opinion letter. This is a staff analysis in response to the agency's, committee's or legislator's request."

SUMMARY

Synopsis of Bill

House Joint Resolution 9 (HJR9) proposes an amendment to the New Mexico Constitution to

exempt from taxation the property, including the community or joint property of a husband and wife, of a 100 percent permanently disabled person whose modified gross income is \$15,000 or less if the person occupies the property as that person's principal place of residence.

The resolution contains a provision that would index the person's modified gross income (including income from the person's spouse and dependents) by inflation in order to keep the exemption meaningful in regard to inflation.

The constitutional amendment proposed by HJR9 would become effective upon adoption by the electorate.

FISCAL IMPLICATIONS

The following analysis, provide by the TRD, relates to the "Estimated Revenue Impact" table above.

HJR9 would impose no fiscal impacts on the State of New Mexico or local governments unless voters approved the amendment it proposes. The reduction in the property tax base due to this exemption would cause tax rates to rise, where not already limited by caps or by yield control, to compensate for the loss in the base.

Because of yield control, operating rates would increase proportionally to any reduction in net taxable value created by this low income, 100% disabled property owner exemption. Similarly, debt rates would be set slightly higher to cover the loss of net taxable value. There would be a small shift in tax burden, with low income, 100% disabled homeowners experiencing a full exemption of property taxes and all other residential and non-residential taxpayers experiencing a small increase in property taxes. Cities, counties, special districts operating levies and all debt service levies would be approximately held harmless.

State general obligation (GO) bond capacity would decrease a small amount, as would city, county, and school district debt capacity. The State GO bond capacity is 1% of assessed value. School district debt limit is 6% of assessed value. County and municipal GO limit is 4%. Few jurisdictions are fully bonded. The state is usually fully bonded up to the 1% limit."

The potential total amount of increased payments that would have to possibly be absorbed by non-exempt property tax payers would is \$123,050 (see calculation below).

Calculation for possible amount non-exempt property tax payers must absorb:

1. Statehealthfacts.org reports that 4.9% of the New Mexico population aged 18 to 64 receive Social Security Disability Insurance (SSDI) compared to 4.5% of the U.S. population in December of 2010.
2. The U.S. Census Bureau reports that 18.2% of New Mexico's population receives income below the poverty level compared to 14.3% for the U.S. in 2009.
3. Assume that 1/3 of homeowners would qualify for this property tax exemption.
4. 2011 State Debt Rate = 1.362 (determined by DFA/LGD)
5. 2011 Total State Residential Valuation = \$30,069,455,982 (determined by DFA/LGD)
6. There are approximately 900,000 residential properties in the state.

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- $900,000 \times .049 \times .182 \div 3 = 2,675$ possible properties exempt
- $(\$30,069,455,982 \div 1000) \times 1.362 = \$40,954,599 \div 900,000 = \46 per homeowner property tax average
- $2675 \times \$46 = \$123,050$ to be possibly absorbed by non-exempt taxpayers.

A reduction in the residential property tax base of 1% is estimated to reduce general obligation bond capacity by about \$3-4 million per year beginning in property tax year 2014 (beginning on Sept 1, 2014) with larger impacts in later years.

The earliest this constitutional amendment will have any effect on revenues is FY2015 assuming the amendment is submitted for voter approval in the November 2012 general election.

The Secretary of State reports that in accordance with Section 1-16-4 NMSA 1978, upon receipt of the certified proposed constitutional amendment or other question from the Secretary of State, the county clerk shall include it in the proclamation to be issued and shall publish the full text of each proposed Constitutional amendment or other question in accordance with the constitution of New Mexico.

Although the county clerk includes the proposed amendments in the clerk's proclamation, it is the responsibility of the State to pay for the costs associated with the publication per Section 1-16-13 NMSA 1978, including printing samples of the text of each constitutional amendment in both Spanish and English in an amount equal to ten percent of the registered voters of the state. There are currently 1.7 million registered voters in the state. Voters whose election mail is returned as undeliverable will be sent the proper notice under federal law in 2012, and if they do not vote in the next two federal elections, may be purged in 2015. Under these timelines, the voter roll is expected to increase until the purge in 2015.

In 2010, the publication cost was \$520,000 for 5 constitutional amendments, or approximately \$104,000 per amendment. Although the SOS is continually seeking ways to reduce publication costs, it believes the 2010 figure is a reasonable projection for 2012 costs, given the increasing number of voter registrations.

SIGNIFICANT ISSUES

The AGO points to a recent study by the Institute on Taxation and Economic Policy (ITEP) found that property taxes are regressive in that lower income residents tend to pay a higher portion of taxes than higher income residents. This is due to the fact that property taxes are not linked to income but only to home values which rise without regard to the homeowner's ability to pay. HJR9 would allow enabling legislation to provide an exemption from taxation for a 100 percent disabled person whose gross modified income is \$15,000 or less. This enabling legislation would account for and address regressive property taxation issues for this identified population.

ADMINISTRATIVE IMPLICATIONS

The TRD comments that relatively minor administrative costs associated with the proposed measure would be borne primarily by counties; county assessors will need to modify their procedures to verify and track the proposed exemptions if approved by the voters.

COMPANIONSHIP

House Joint Resolution 8 proposes a constitutional amendment to provide a property tax exemption for low-income persons over the age of 75.

TECHNICAL ISSUES

Both the TRD and the AGO shared the following concern. HJR9 provides that the burden of proving eligibility for the exemption would lie on the person claiming the exemption. A statutory or regulatory definition of “one-hundred-percent disabled” will be required to implement this provision.

POSSIBLE QUESTIONS

Does the bill meet the LFC tax policy principles?

Adequacy: Revenue should be adequate to fund needed government services.

Efficiency: Tax base should be as broad as possible and avoid excess reliance on one tax.

Equity: Different taxpayers should be treated fairly.

Simplicity: Collection should be simple and easily understood.

Accountability: Preferences should be easy to monitor and evaluate

CH/svb