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

		ORIGINAL DATE	02/04/13		
SPONSOR	Harper	**LAST UPDATED**		**HB**	377
SHORT TITLE	Tax Growth Control Factor Calculation			**SB**	
				ANALYST	Smith

REVENUE (dollars in thousands)

Estimated Revenue					**Recurring or Nonrecurring**	**Fund Affected**
FY13	**FY14**	**FY15**	**FY16**	**FY17**		
****	****	****	****	****	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

Responses Not Received From
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

House Bill 3 allows local governments that impose property tax rates and the Department of Finance and Administration (DFA) to use a lower figure for inflation than otherwise prescribed in Section 7-37-7.1 for the factor “percent change I” in the yield control formula. Using a lesser inflation figure will lower the allowable property tax rate.

Effective Date: July 1, 2013

FISCAL IMPLICATIONS

Average property tax rates by county are shown in the attached map

*** TRD states that allowing a lower figure than otherwise prescribed in Section 7-37-7.1 for the factor “percent change I” in the yield control formula would decrease the property tax rates, excluding voter approved mill rates and the mill rates already limited by caps. Thus, the proposed bill could potentially incur a risk of negative fiscal impact to various property tax recipients (the State of New Mexico, municipalities, school districts and other entities).

SIGNIFICANT ISSUES

TRD notes that this bill amends Section 7-37-7.1 NMSA 1978 (being Laws 1979, Chapter 268, Section 1, as amended) in what appears to be a DFA supervised local option alternative to the inflation factors ("percent change I") used to calculate property tax rates in the yield control statute. The language in the bill creates an alternative method allowing an entity authorized to set or impose a rate or assessment requests, in a manner allowed by DFA, to utilize a lower inflation factor than that reached by DFA. DFA uses a percent not in excess of five percent that is derived by dividing the annual implicit price deflator index for state and local government purchases published by the Department of Commerce or a comparable source.

The risk of lowering the property tax rate following adoption of the bill could impact overall revenue and to the extent that this could impact ongoing obligations of the affected entity, it is vitally important to ensure legal obligations, such as debt service and reserve funds on bonds, are still met.

Yield control formula with standard accounting procedures has been in effect so that similar rates across the local governments are enforced year of year due to inflation. Allowing the authorized entities to set a rate (due to inflation) could cause significant rate discrepancies over time across the local entities.

TRD also states that “Depending on who is authorized to propose alternative ‘percent change I’, this legislation raises the concern of politicizing property tax rates. Beyond their demonstrated competence, DFA is empowered to set property tax rates because they are not subject to political influence or election year timing.”

PERFORMANCE IMPLICATIONS

This bill could delay DFA from setting property tax rates as statute requires on September 1 of every year. Alternative ‘percent change I’ submitted by authorized entities would have to be considered, which entails review of the budgets of the affected property tax beneficiaries and their sensitivity to inflation. They would also have to consider their capital reserves. The administrative impact of the legislation would increase if the methods prescribed by DFA require approval of the alternative rate from property tax beneficiaries.

TECHNICAL ISSUES

This bill does not contain a sunset date. The LFC recommends adding a sunset date.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

S3/bm