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

SPONSOR Neville **ORIGINAL DATE** 2/16/19
LAST UPDATED **HB**

SHORT TITLE Limit Property Valuation Increases **SB** 485

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17	FY18	FY19		
	**	***	****	****	Recurring	All Property Tax beneficiaries

(Parenthesis ( ) indicate revenue decreases

** The bill provides for increased assessments by increasing the three percent cap for FY16 to five percent. The bill simultaneously provides for decreased assessments by maintaining the (now) five percent cap for residential properties that are sold in the course of the tax year. Balancing these net changes will be a change in the extent to which yield control moderates net assessment increases.
*** The bill provides for increased assessments by increasing the three percent cap for FY17 to seven percent. The bill simultaneously provides for decreased assessments by maintaining the (now) seven percent cap for residential properties that are sold in the course of the tax year. Balancing these net changes will be a change in the extent to which yield control moderates net assessment increases.
**** The bill provides for increased assessments by increasing the three percent cap for FY18 et. seq. to ten percent. The bill simultaneously provides for decreased assessments by maintaining the (now) ten percent cap for residential properties that are sold in the course of the tax year. Balancing these net changes will be a change in the extent to which yield control moderates net assessment increases.

SOURCES OF INFORMATION

LFC Files

Responses Received From
Taxation and Revenue Department, Property Tax Division (TRD/PTD)

SUMMARY

Synopsis of Bill

Senate Bill 485 addresses the perennial problem of “tax lightning.” “Tax lightning” now occurs when a residential property is sold. The previous owner’s annual assessment increase would have been limited to 3% annual increase in assessment or market value at the time. However, at the time of the sale, the assessed value would be increased to “current and correct,” or market. This bill makes a number of changes:

- The current 3 percent annual increase limit is increased to 10 percent. Since this is substantially higher than market-driven increases, eventually, this provision would render all properties at current and correct.
- The higher limit would be phased in, with a 5 percent limit for the 2016 tax year, 7 percent increase for the 2017 tax year; and 10 percent increase limit for the 2018 and

subsequent tax years.

- It abandons the "tax lightning" provision altogether, by continuing a previous assessment through a change in ownership, but permitting the assessor to increase assessed valuations if the use or zoning of a property has changed or improvements have been added.
- The complicated requirement that assessors achieve and maintain a sales-assessment ratio of 85% or higher is effectively eliminated.

The effective date of the act is not stated – assume 90 days after adjournment or June 19, 2015. The provisions of the bill are applicable to the 2016 tax year which begins January 1, 2016.

FISCAL IMPLICATIONS

TRD notes in its analysis of this bill, "The proposed legislation could cause an increase in residential net taxable value. The resulting increase in net taxable value would generally be offset by reductions in rates that are subject to yield control. Voter approved mill rates, constitutionally protected debt rates wouldn't decrease. Hence some tax increases would likely result from enactment of the proposed bill, primarily as a result of revenue increases associated with rates not subject to yield control."

The fiscal impacts of the provisions of this bill will vary significantly from county to county because of regional market variations, the current level of sales values to assessment, the proportion of current properties protected by the three percent cap and the frequency with which residential properties change hands. Analyzing the effect of the provisions of this bill in any detail will be very difficult. However, overall, the effect of this bill will be to transfer tax obligations from new residential property owners to residential property owners who have held their properties for a number of years.

Complicating the analysis is the fact that the increase in annual taxable value attributed to the increased assessments from the increase in cap will be considered "valuation maintenance" for the purposes of Section 7-37-7.1 NMSA 1978, commonly referred to as "yield control". For the most part, the increase in annual cap by two percentage points for TY 2016, four percentage points for TY 2017 and seven percentage points for TY 2018 and subsequent years will be approximately revenue neutral to the beneficiaries for operating rates. The increase in total assessed value, however, will increase the bonding capacity in virtually all jurisdictions by the two, four and seven percentage point increases.

TRD noted in its analysis of HB 541 of the 2013 session:

> "The yield control statute requires rates to decrease when reassessment occurs, in a manner that prevents reassessment from generating increases in revenue yields. Rates that are subject to yield control consist mostly of operating rates, or rates that generate operating revenues of counties and municipalities. Many of the rates imposed in New Mexico, however, are not subject to the yield control statute, and would not fall as a result of revaluation required by the proposed measure. Rates that are not subject to yield control are typically imposed to repay debt on capital construction projects. Hence some substantial tax increases would likely result from enactment of the proposed bill, primarily as a result of revenue increases associated with debt-service rates. The Department of Finance and Administration (DFA) reports that "According to the Santa Fe Deputy Assessor, the bill would benefit Santa Fe residents because the number of properties identified as those below 90 percent of the current

> values is 5,144. Of those properties about 2,900 are not subject to the limitation. The county has approximately 52,233 residential properties. When the valuation adjustment was applied to the 2012 tax year data and filtered through yield control, the mill rate declined and the revenue to the county remained the same."

This bill seems to be consistent with the LFC tax policy principles of adequacy, efficiency, accountability and equity. It particularly seems to address the inequities caused by the three percent cap.

SIGNIFICANT ISSUES

TRD notes the following: "By striking the sales ratio requirement used to verify the relationship between assessments and market value, the bill removes a county assessor's ability to determine accurately the current and correct value of real property. The bill also proposes to eliminate a county assessor's ability to bring real property to its current and correct value based on information acquired after the sale of the real property. Removing these tools makes it less likely that a county assessor will be able to bring real property values to 75% of the current and correct value as required in the bill by tax year 2018. These two tools provided for in current law improve the county assessor's ability to keep real property values at current and correct values."

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is <u>not</u> met since TRD is <u>not</u> required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking advantage of this limitation. The DFA/Local Government Division annually computes the yield controlled operating rates, based on full disclosure from the County assessors regarding net new value and valuation maintenance. However, only the final results of these calculations are posted on-line.

ADMINISTRATIVE IMPLICATIONS

None on the state. These provisions will be somewhat difficult for assessors in each of the 33 counties to implement. TRD notes that, "… the eight counties on two year valuation cycles will have difficulty implementing a three year phase-in of higher limit values. If they implement changes in odd numbered years, they would have to increase values 12.35% in 2017 and forgo the additional 10% increase in 2018. The 2016 effective date of this legislation is at odds with the county assessor's ability to perform the revaluation necessary before they are required to mail their notices of valuation on April 1, 2016."

OTHER SUBSTANTIVE ISSUES

TRD suggests that this property tax reform measure could be strengthened by requiring that county assessors prepare and submit residential sales ratio studies conforming to International Association of Assessing Officers guidelines (not 7-36-18 NMSA which only gauges reassessments after a property is sold in the previous tax year) each year they increase values under the terms of this legislation. This sales ratio study should be submitted to the Taxation and Revenue Department for approval.

Further, TRD/PTD notes as follows:

> “The PTD disagrees with valuation increases without the commensurate protections to taxpayers. The IAAO 2013 standard on sales ratio studies states:
>
> > “When there is a revaluation, assessors should conduct at least four ratio studies to establish the following:
> >
> > 1. a baseline of current appraisal performance
> > 2. preliminary values so that any major deficiency can be corrected
> > 3. values used in assessment notices sent to taxpayers
> > 4. final values after completion of the first, informal phase of the appeals process”
>
> “All of New Mexico’s counties should move to a one-year valuation cycle to implement the changes in this legislation in a reasonable time frame. There are eight counties on two year valuation cycles.”

Since the purpose of this bill is property tax reform, perhaps some of TRD/PTD’s insights in reforming administrative procedures could be adopted.

LG/aml/bb

Property Tax Recent History

	TY 2012			TY 2013			TY 2014			TY 2013 over TY 2012			TY 2014 over TY 2013		
	Taxable	Liabilities	Avg Rate	Taxable	Liabilities	Avg Rate	Taxable	Liabilities	Avg Rate	Taxable	Liabilities	Avg Rate	Taxable	Liabilities	Avg Rate
Bernalillo	$14,160,594,588	$571,420,835	$40.35	$14,243,476,048	$580,756,187	$40.77	$14,677,240,080	$597,891,127	$40.74	0.585%	1.634%	1.042%	3.045%	2.950%	-0.092%
Catron	$121,198,659	$1,691,961	$13.96	$123,992,815	$1,918,349	$15.47	$121,701,290	$2,126,957	$17.48	2.305%	13.380%	10.825%	-1.848%	10.874%	12.962%
Chaves	$1,129,650,437	$28,163,604	$24.93	$1,145,602,834	$28,862,899	$25.19	$1,174,056,125	$29,075,817	$24.77	1.412%	2.483%	1.056%	2.484%	0.738%	-1.704%
Cibola	$310,122,584	$8,913,733	$28.74	$311,345,382	$9,689,225	$31.12	$325,613,784	$10,580,334	$32.49	0.394%	8.700%	8.273%	4.583%	9.197%	4.412%
Colfax	$644,937,588	$13,127,605	$20.35	$623,863,938	$12,901,742	$20.68	$642,521,295	$13,977,080	$21.75	-3.268%	-1.721%	1.599%	2.991%	8.335%	5.189%
Curry	$734,467,704	$17,124,895	$23.32	$772,963,688	$17,360,318	$22.46	$790,106,063	$17,464,858	$22.10	5.241%	1.375%	-3.674%	2.218%	0.602%	-1.581%
De Baca	$58,744,182	$1,500,942	$25.55	$61,861,080	$1,556,282	$25.16	$67,086,979	$1,600,431	$23.86	5.306%	3.687%	-1.537%	8.448%	2.837%	-5.174%
Dona Ana	$3,826,117,423	$109,386,601	$28.59	$3,874,858,844	$111,627,209	$28.81	$3,970,534,033	$114,650,012	$28.88	1.274%	2.048%	0.765%	2.469%	2.708%	0.233%
Eddy	$3,937,238,388	$77,118,003	$19.59	$4,335,095,515	$84,206,310	$19.42	$5,156,441,094	$105,349,384	$20.43	10.105%	9.192%	-0.830%	18.946%	25.109%	5.181%
Grant	$702,741,153	$13,810,382	$19.65	$748,601,307	$14,686,083	$19.62	$791,414,221	$15,160,128	$19.16	6.526%	6.341%	-0.174%	5.719%	3.228%	-2.356%
Guadalupe	$115,270,892	$3,146,527	$27.30	$122,108,862	$3,379,913	$27.68	$129,576,769	$3,645,129	$28.13	5.932%	7.417%	1.402%	6.116%	7.847%	1.631%
Harding	$111,689,449	$2,061,381	$18.46	$110,453,194	$2,238,880	$20.27	$124,710,467	$2,663,405	$21.36	-1.107%	8.611%	9.826%	12.908%	18.961%	5.361%
Hidalgo	$147,658,795	$3,163,127	$21.42	$155,721,854	$3,325,409	$21.35	$160,126,258	$3,415,613	$21.33	5.461%	5.130%	-0.313%	2.828%	2.713%	-0.113%
Lea	$3,539,824,919	$94,432,083	$26.68	$3,566,667,211	$96,969,749	$27.19	$4,189,410,181	$112,873,127	$26.94	0.758%	2.687%	1.914%	17.460%	16.400%	-0.902%
Lincoln	$1,105,798,545	$25,143,999	$22.74	$1,131,149,006	$26,281,909	$23.23	$1,163,765,087	$27,693,253	$23.80	2.293%	4.526%	2.183%	2.883%	5.370%	2.417%
Los Alamos	$696,865,402	$15,534,567	$22.29	$691,665,036	$15,542,898	$22.47	$665,525,266	$15,319,373	$23.02	-0.746%	0.054%	0.806%	-3.779%	-1.438%	2.433%
Luna	$518,987,665	$11,315,229	$21.80	$533,967,808	$12,194,806	$22.84	$549,718,676	$12,444,654	$22.64	2.886%	7.773%	4.750%	2.950%	2.049%	-0.875%
McKinley	$756,912,235	$25,644,899	$33.88	$819,302,678	$28,457,619	$34.73	$828,686,423	$28,159,484	$33.98	8.243%	10.968%	2.518%	1.145%	-1.048%	-2.168%
Mora	$114,377,633	$2,480,580	$21.69	$118,241,121	$2,557,575	$21.63	$126,173,425	$2,653,722	$21.03	3.378%	3.104%	-0.265%	6.709%	3.759%	-2.764%
Otero	$989,782,896	$23,440,768	$23.68	$1,031,184,626	$24,306,810	$23.57	$1,064,379,222	$25,408,433	$23.87	4.183%	3.695%	-0.469%	3.219%	4.532%	1.272%
Quay	$183,103,935	$4,290,376	$23.43	$192,450,182	$4,638,914	$24.10	$176,769,255	$4,576,932	$25.89	5.104%	8.124%	2.873%	-8.148%	-1.336%	7.416%
Rio Arriba	$1,651,095,304	$36,203,603	$21.93	$1,360,279,905	$32,180,063	$23.66	$1,434,904,540	$32,725,955	$22.81	-17.613%	-11.114%	7.889%	5.486%	1.696%	-3.593%
Roosevelt	$324,032,087	$7,402,070	$22.84	$340,077,016	$7,419,505	$21.82	$345,581,308	$7,704,551	$22.29	4.952%	0.236%	-4.494%	1.619%	3.842%	2.188%
San Juan	$4,063,851,736	$97,014,024	$23.87	$3,653,470,195	$90,771,207	$24.85	$3,699,760,378	$89,054,738	$24.07	-10.098%	-6.435%	4.075%	1.267%	-1.891%	-3.118%
San Miguel	$522,275,901	$12,876,875	$24.66	$538,325,884	$13,083,654	$24.30	$548,760,802	$13,310,000	$24.25	3.073%	1.606%	-1.424%	1.938%	1.730%	-0.204%
Sandoval	$3,156,898,770	$104,629,188	$33.14	$3,152,673,758	$106,207,335	$33.69	$3,218,987,082	$107,476,313	$33.39	-0.134%	1.508%	1.644%	2.103%	1.195%	-0.890%
Santa Fe	$6,878,101,797	$146,485,053	$21.30	$6,755,055,876	$146,924,966	$21.75	$6,515,268,763	$157,944,353	$24.24	-1.789%	0.300%	2.127%	-3.550%	7.500%	11.456%
Sierra	$282,972,417	$6,566,611	$23.21	$298,794,409	$6,340,810	$21.22	$298,497,807	$6,966,738	$23.34	5.591%	-3.439%	-8.552%	-0.099%	9.871%	9.981%
Socorro	$236,787,993	$7,164,078	$30.26	$244,291,271	$7,419,195	$30.37	$255,665,987	$7,544,984	$29.51	3.169%	3.561%	0.380%	4.656%	1.695%	-2.829%
Taos	$1,312,495,033	$21,445,778	$16.34	$1,349,589,815	$23,344,151	$17.30	$1,382,827,714	$24,093,243	$17.42	2.826%	8.852%	5.860%	2.463%	3.209%	0.728%
Torrance	$341,035,712	$7,407,581	$21.72	$351,607,630	$8,096,829	$23.03	$358,726,441	$8,431,182	$23.50	3.100%	9.305%	6.018%	2.025%	4.129%	2.063%
Union	$189,827,049	$3,494,106	$18.41	$194,946,009	$3,506,622	$17.99	$202,581,553	$3,661,469	$18.07	2.697%	0.358%	-2.277%	3.917%	4.416%	0.480%
Valencia	$1,264,212,404	$38,441,108	$30.41	$1,283,250,950	$39,203,422	$30.55	$1,316,346,298	$40,694,033	$30.91	1.506%	1.983%	0.470%	2.579%	3.802%	1.192%
	$54,129,671,276	$1,542,042,174	$28.49	$54,236,935,745	$1,567,956,847	$28.91	$56,473,464,667	$1,646,336,815	$29.15	0.198%	1.681%	1.479%	4.124%	4.999%	0.841%