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

ORIGINAL DATE 2/2/16
SPONSOR Ivey-Soto **LAST UPDATED** **HB**

SHORT TITLE Legislatively Limit Property Value Raises, CA **SJR** 14

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY16	FY17	FY18	FY19	FY20		
	(*)	(*)	(*)	(*)	NR	State, Local and School GOBs
						Local and School property tax operating rates

Parenthesis ( ) indicate revenue decreases

(*) This is a constitutional amendment that, if passed, would need implementing legislation, such as HB-174 of this session to allow local governments to designate economic development zones or revitalization zones that could take advantage of a ten-year property tax abatement. This would shift burden to the non-advantaged class of taxpayers, but would cause an insignificant decrease in state or local revenues.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY16	FY17	FY18	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	$0.0	$104.0	0.0	$104.0	Nonrecurring	SOS

Parenthesis ( ) indicate expenditure decreases

Relates to HB-174, which proposes to allow local governments to negotiate with firms that wish to construct commercial enterprises (including multi-family residential structures). The governments would be allowed under the joint authority of this CA and HB 174 to abate property taxes on the newly constructed structures for ten years.

SOURCES OF INFORMATION
LFC Files

<u>Responses Received on HB-174 From</u>
Department of Finance and Administration. Local Government Division (DFA/LGD)
Economic Development Department (EDD)
New Mexico Municipal League
State Land Office

SUMMARY

Synopsis of Bill

Senate Joint Resolution 14 proposes a constitutional amendment to allow the legislature the authority to enact legislation that would have the effect of allowing local governments to abate property taxes on some real property commercial projects if those projects were located in county-designated economic development zones or revitalization zones.

The constitutional amendment would be presented to the voters at the next general election in November 2016.

FISCAL IMPLICATIONS

The Secretary of State estimates the cost of placing a constitutional amendment on the ballot to be $104 thousand based on 2010 actual expenditures. This includes all necessary printing and advertising. The next general election is in 2016, FY17.

While this bill does not create a tax expenditure, enabling legislation could be quite expensive. The tradeoff is whether the enabling legislation provides for adequate safeguards and statutory requirements to ensure economic development. For example, in the FIR for HB 174, there are a number of suggestions to make the enabling legislation clear as to the difference between construction phase jobs and income and permanent jobs and income.

This constitutional amendment may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the increasing cost of tax expenditures revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

SIGNIFICANT ISSUES

The most difficult decision a county commission can make is whether to grant tax incentives or abatements in the hope that those tax reductions would stimulate economic activity and job formation. Sometimes, the costs of the abatements are near-term and the benefits are long term. Any enabling legislation, if this CA passes, should be well thought out to make sure that over the medium- and long-term that the county revenues and the personal incomes of county residents will be greater because of the short-term loss of revenues.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is <u>not</u> met since no entity is required – either in this CA or in the enabling legislation -- to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the abatement and other information to determine whether the deduction is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

While enabling legislation might have administrative consequences – particularly at the local level (see the FIR for HB 174), this CA will only require a modest amount of work for the Secretary of State.

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

LG/jle/jo