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

ORIGINAL DATE 1/20/2020
SPONSOR McQueen **LAST UPDATED** ________ **HB** 91

SHORT TITLE Limit Property Tax Valuation Increases **SB** ________

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY20	FY21	FY22	FY23	FY24 et seq		
			Moderate increases --see Fiscal Impact	Moderate increases --see Fiscal Impact	Recurring	State General Obligation Bond Fund
			Small increases --see Fiscal Impact	Small increases --see Fiscal Impact	Recurring	Counties, Municipalities, School Districts Operating
			Moderate increases --see Fiscal Impact	Moderate increases --see Fiscal Impact		Counties, Municipalities, School Districts GO Bond Revenues
			Small increases --see Fiscal Impact	Small increases --see Fiscal Impact	Recurring	Special Districts, Including SWCD and Conservancy Districts

Parenthesis ( ) indicate revenue decreases

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
New Mexico Counties (NMC)

SUMMARY

Synopsis of Bill

House Bill 91 would increase the current three percent limit on annual net taxable value currently applicable to all residential properties to ten percent on residential properties that are not occupied by their owners as their primary residences. Properties that are occupied by their owners would continue to be subject to the three percent limitation in net taxable value applicable to residential properties under current law.

The effective date of this bill is not stated. The provisions of the bill are applicable to the 2023 and subsequent property tax years. Adjusted tax payments would begin in November 2023 of FY 24.

FISCAL IMPLICATIONS

The fiscal effects of the provisions of this bill will vary, perhaps dramatically, on a county-by-by county basis. Overall, TRD expects the effects to be very moderate on revenues received by beneficiaries. One important point mentioned by TRD is that there may be some differences in how county assessors classify the increased revenues. If the increased assessments are considered "valuation maintenance," then operating rates would generally fall proportionally. If the increased assessments are considered "net new value," then revenues to all operating rate beneficiaries would increase proportionally. A technical suggestion would be to establish in the bill which of these two diametrically opposite treatments is assumed by the sponsor.

Assuming that the increased assessments are considered "valuation maintenance", LFC staff created the following rough chart of impact on operating rates and debt rates for various classes of properties. Impact on debt rates is more speculative than on operating rates, because jurisdictions tend to hold debt rates constant and borrow the amounts that the constant debt rates will allow. Note: the levy is the imposed rates times the net taxable value.

Property Class	Likely Change in Operating Levies	Likely Change in Debt Levies (constant debt rates)
Owner-occupied residential	Could be substantial decrease in taxes due to the action of yield control on tax-advantaged properties being brought up to current and correct.	No Change in current practice. Valuations generally increase 3% per year. Levies would increase at constant debt rates with increases in 3% limited valuation.
Second home, owner-occupied	Levies would increase in the short term, although some portion of the increase in taxable value would be moderated by the decrease in yield-controlled rates. When valuation was at current and correct, market would stabilize and further increases would be moderate.	Levies would increase in the short term as valuations increased. When valuation was at current and correct, market would stabilize. Levies would increase at constant debt rates with increases in current and correct valuation.
Recently purchased or built rental property (single family, duplex or triplex) subject to changed law.	Net taxable value would be maintained at current and correct. Levies would be reduced because of the action of yield control on tax-advantaged properties being brought up to current and correct.	Net taxable value would be maintained at current and correct. Levies would increase at constant debt rates with increases in current and correct valuation.
Recently purchased or built rental property (single family, duplex or triplex) not subject to changed law (by amendment of bill).	Property would start at current and correct and then be subject to modest decreases in levies due to the action of yield control on tax-advantaged properties being brought up to current and correct.	No Change in current practice. Valuations generally increase 3% per year. Levies would increase at constant debt rates with increases in 3% limited valuation.
Long-duration ownership (single family, duplex or triplex) subject to changed law.	Levies would increase in the short term, although some portion of the increase in taxable value would be moderated by the decrease in yield-controlled rates. When valuation was at current and correct, market would stabilize and further increases would be moderate.	Levies would increase in the short term as valuations increased. When valuation was at current and correct, market would stabilize. Levies would increase at constant debt rates with increases in current and correct valuation.
Long-duration ownership (single family, duplex or triplex) not subject to changed law (by amendment of bill).	Could be substantial decrease in taxes due to the action of yield control on tax-advantaged properties being brought up to current and correct.	No Change in current practice. Valuations generally increase 3% per year. Levies would increase at constant debt rates with increases in 3% limited valuation.
Recently purchased or built rental property (4 units or more in property) subject to changed law.	Net taxable value would be maintained at current and correct. Levies would be reduced because of the action of yield control on tax-advantaged properties being brought up to current and correct.	Net taxable value would be maintained at current and correct. Levies would increase at constant debt rates with increases in current and correct valuation.

Long-duration ownership, rental property (4 units or more in property) subject to changed law.	Levies would increase in the short term, although some portion of the increase in taxable value would be moderated by the decrease in yield-controlled rates. When valuation was at current and correct, market would stabilize and further increases would be moderate.	Levies would increase in the short term as valuations increased. When valuation was at current and correct, market would stabilize. Levies would increase at constant debt rates with increases in current and correct valuation.

Note: under this likelihood analysis, new construction would no longer be disadvantaged.

This bill sustains the LFC tax policy principle of adequacy, efficiency, and equity.

TRD has included an extensive a bibliography and source documents related to the provisions of this bill. In particular, refer to New Mexico Property Tax Facts on the New Mexico Department of Finance and Administration Local Government Division website for additional details. The full list of sources and references is included as an appendix.

TRD submits the following analysis:

> Local impacts of HB-91 would vary widely because property tax conditions across New Mexico vary widely. Revenue impacts associated with HB-91 are likely to be small in most cases, however, because: 1) the rental properties that would be impacted by the proposed law represent only about 19 percent of net taxable value for property tax purposes; 2) growth limits in some jurisdictions prescribed by the bill would not impact jurisdictions that grow at lower rates than the limits prescribed by the bill, and 3) tax rates would likely decrease in response to the increased net taxable values caused by HB-91's value increases would tend to be mitigated by New Mexico's yield control statute (Section 7-37-7.1 NMSA 1978), and debt-service rate adjustments. Growth rate in residential property net taxable value averaged about three percent between the 2001 and 2018 tax years, as shown in Table 2 of this report.
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> Whether the yield control mechanism would come into play would be determined by whether county assessors classify the new value as valuation maintenance or net new property. Valuation maintenance is generally regarded as increases in net taxable value in response to market value increases in property values that are captured in assessment. Net new property is generally viewed as new construction, subdivisions, etc. Unfortunately, the term "valuation maintenance" is not defined in statute, a fact that has historically caused considerable confusion among New Mexico's county assessors.
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> According to the US Census Bureau's Quick Facts document[1] the state had 943,208 housing units on July 1, 2018, of which approximately 67 percent or 637,609 were occupied by their owners. Hence the tax increase would affect 33% of the value of New Mexico's residential properties, which comprise approximately 60% of the state's taxable value for property tax purposes, hence (.33 x 60%) or roughly 20 % of taxable value. The potential increase in total value attributed to the provisions of this bill would, however, be offset by decreases in operating and debt-service rates.

SIGNIFICANT ISSUES

TRD further expands on its analysis above.

> As suggested above, Section 7-36-21.2 of the Property Tax Code, i.e., Articles 35 through 38 of New Mexico Statutes Annotated 1978 (NMSA 1978) stipulates that assessed values of New Mex Mexico residential properties, including properties that are, and are not, occupied by their owners as a principal

[1] https://www.census.gov/quickfacts/fact/table/US/PST045219

place of residence, may not be increased by not more than three percent annually in counties where properties are reassessed annually and 6.1 percent in counties that reassess properties every two years. The three or six percent assessed value increase limitation does not, however apply to: 1) properties that are assessed for the first time; 2) improvements other than solar systems; 3) cases where changes in use or zoning occur, and, perhaps most important; 4) properties that are sold or otherwise transferred. When residential properties on the tax rolls at less than market value are sold, their assessed values are increased to estimated market value. Representatives of the Taxation and Revenue Department's Appraisal Bureau report that only two counties in New Mexico – Socorro and Luna – currently appraise residential properties on a two-year cycle. The remaining 31 counties appraise on an annual basis.

Changes in Present Law Proposed by HB19

As indicated above, provisions of HB91 amend present law to stipulate that, for the 2001 through 2021 tax years, owner-occupied properties must be assessed as required under current law. However, for the 2022 and subsequent tax years, rental properties and second homes must be assessed at no greater than 10 percent annually. Hence non-owner occupied that are assessed less than market value would be allowed to approach market value assessment much more rapidly than their owner-occupied counterparts that would continue to be limited to 3 percent annual increases in net taxable value. HB91's long-term effect would therefore be to effectively eliminate the three percent valuation increase on rental properties once their assessed values reach market value assuming their annual market value increases did not exceed 10 percent.

Illustration: $500,000 Apartment Complex

Effects of HB91's provisions are illustrated in Table 1, where it is assumed that a hypothetical apartment building is currently assessed at $500 thousand but whose market value is, say $800,000 in tax year 2022. Under current law the property would probably be increased annually at a 3 percent rate as is shown in column 2 of Table 1. If HB91 were enacted, the property net taxable value rental residential property would be increased at an annual rate of 10 percent until it reached $800,000 in 2027 as shown in the table, at which time its value would grow at a rate of 3 percent -- the approximate current statewide average, as illustrated in Table 2 of this report.

Table1: $500,000 Apartment Illustration

	Growth Rate		Tax Liability at 30 Mills	
Tax Year	3%	10%	3%	10%
2022	$500,000	$500,000	$15,000	$15,000
2023	$515,000	$550,000	$15,450	$16,500
2024	$530,450	$605,000	$15,914	$18,150
2025	$546,364	$665,500	$16,391	$19,965
2026	$562,754	$732,050	$16,883	$21,962
2027	$579,637	$805,255	$17,389	$24,158
2028	$597,026	**$829,413**	$17,911	**$24,882**
2029	$614,937	**$854,295**	$18,448	**$25,629**
2030	$633,385	**$879,924**	$19,002	**$26,398**
2031	$652,387	**$906,322**	$19,572	**$27,190**
2032	$671,958	**$933,511**	$20,159	**$28,005**
2033	$692,117	**$961,517**	$20,764	**$28,845**
2034	$712,880	**$990,362**	$21,386	**$29,711**
2035	$734,267	**$1,020,073**	$22,028	**$30,602**
2036	$756,295	**$1,050,675**	$22,689	**$31,520**
2037	$778,984	**$1,082,195**	$23,370	**$32,466**
2038	$802,353	**$1,114,661**	$24,071	**$33,440**

The final two columns in Table 1 indicate the tax liability that would result from the appropriate values assuming a 30 mill, i.e., $30 per $1,000 in net taxable value. The bold print in the lower middle- and right-hand portion of the table illustrate obligations that would occur once the new taxable value rate reverts to 3 percent. As shown in the bottom line of the table, the tax liability of the owners would be $33,400 in 2038 – approximately 38 percent above the value of a property that would occur under present law.

> ***"Tax lightning"*** *refers to a major increase in a homeowner's assessed property value, immediately after the home is bought, to reflect the current market rate. Until a home changes hands, state law prevents the county assessor from increasing its taxable value by more than 3 percent each year. The Santa Fe New Mexican, Feb 20, 2012*

Supporting TRD's analysis, the New Mexico Counties Assessors Affiliate Chair supports removing 3 percent cap off non-primary residential property. "Removing the 3 percent cap is a step in the right direction and will help with some of the unintended consequence created by tax lightning and is an opportunity to move assessments to "fair & equitable" and "current & correct."

New Mexico Counties Assessors Affiliate Chair also provides the following perspective:

"The argument exists that elimination of multi-family residential properties from the cap might cause apartment complex owners to see a large spike in their tax bills and then pass on that increase through rent to financially disadvantaged low-income working, nonworking, or elderly renters with a "claim" to raise rents. "Claim," because most landlords charge what the market will bear regardless of taxes. The argument that rents will go up is unwarranted because it is the market that determines rates not an apartment owner's expenses – the owner will simply make a little less profit. New apartment owners are paying market and yet they can only charge what the market demands. The older apartment owners thus have an advantage and make more profit.

Again, inequity exists with the current ta lightning legislation. New owners pay taxes on full market value vs. long time property owners whose taxes are based on the imposed substantially lower market rates receiving a 3 percent increase per year (unit current full market value is reached).

ADMINISTRATIVE IMPLICATIONS

TRD notes that provisions of HB91 could easily be administered by New Mexico state and county governments.

The Assessors as a group, though, have some administrative concerns:

It may be somewhat difficult to differentiate between primary residences and second homes. This may require a declaration or affidavit from the property owner annually. Upon sale, it will be the responsibility of the assessors to determine if the property is the new owner's primary residence, or not, and classify it appropriately accordingly.

The assessors also note that an effective date for 2022 tax year assessments will give the assessors' time to rewrite software and notify property owners.

TECHNICAL ISSUES (SUGGESTED AMENDMENTS)

TRD suggests that inserting definitions of valuation maintenance and net new value into New Mexico's yield control statute would probably make provisions of the proposed legislation able to achieve their intended objective than otherwise. The proposed bill could probably benefit from a definition of "principal place of residence". One possibility would be to use the homeowner's exemption declaration as a surrogate for occupancy as a principal residence.

OTHER SUBSTANTIVE ISSUES

TRD provides the following extensive discussion of the policy issues involved with this bill:

> Policy issues associated with the 3 percent cap on residential values and House Bill 647 sponsored by Representative Matthew McQueen in the 2019 Legislative Session are discussed in articles by Thom Cole, a reporter for the Santa Fe New Mexican. The articles are listed in the appendix.
>
> The impetus for passing the proposed legislation likely stem partially from 1) inequities that resulted from passage of the three percent limitation enacted in 2001, caused by the fact that long-term homeowners may be taxed at higher effective rates than those faced by recent purchasers of residential property and 2) inequities resulting from the fact that (often wealthy) rental property owners receive a portion of the tax breaks that are aimed at long-term homeowners

The Three Percent Limitation

> The three or six percent assessed value increase limitation was enacted in the 2000 legislative session in response to gentrification that occurred largely in the City of Santa Fe as new, typically high-income residents, purchased homes primarily on Santa Fe's east side and caused market values and property taxes paid by their owners to increase dramatically and created a condition where some of the residents were "taxed out of their homes" because they could not afford to pay their property taxes. This condition caused activist John Rupel, who served on then Governor King's property task force intended to address the issue to name the condition "tax lightning" rather than the term "pecuniary externality" used by economists. In economic literature pecuniary externalities, sometimes known as third-party effects, result from changes in market prices in response to shifts in supply and demand. They may be positive or negative. Real or technological externalities, a tern also commonly used in economic literature cause direct resource effect on third parties, pollution from a factory that harms the environment is an example, as is second-hand smoke can be either positive or negative and may be caused by production and consumption activities. These types of externalities are often characterized as a type of market failure and a basis for government intervention in markets.
>
> The extent to which New Mexico residential properties are assessed at less than market value (caused partially by the three percent limitation) is unknown. It is, however, most likely substantial. According to a recent opinion article in the Santa Fe New Mexican, for example, representatives of Santa Fe County stated that only 8,900 homes are currently assessed at market value, while 26,000 or approximately 75 percent of the total number of residential properties in Santa Fe are assessed at less than market value – apparently due to the three percent limitation.

Tax Shifting

> Opponents of legislation similar to the proposed bill have expressed concern regarding whether the measure would cause multifamily property owners to increase rents and therefore shift portions of the increase in taxes associated with the proposal to pay higher rents than they otherwise would. There is no easy way to quantify the issue. It should be noted, however, that the ability to shift tax burdens similar to the ones that would result from the proposal are fairly closely associated with monopoly power possessed by the rental property owners. As an example, consider what would likely occur if the proposed measure affected a multifamily rental property located in a small town where the subject property was the only rental property within miles of the town. Its owners could easily raise rental rates because they have no competition from neighboring properties. Hence the degree of shifting is closely related to market conditions. As long as entry into the affected market is relatively free, shifting is unlikely to be extensive.

Regressive Effects

A progressive tax is one whose rate increases with its base or item taxed and therefore low-income taxpayers. A regressive tax has the opposite effect on low-income taxpayers. A regressive tax has the opposite effect and benefits high-income taxpayers and harms low-income taxpayers. Whether HB91's provisions would make the New Mexico property tax system more or less regressive is uncertain. If, for example, the owners of a multifamily property have sufficient market power to raise rents on low-income taxpayers, the effect of the measure would be progressive. If the burden is shifted to high-income renters the effects of the measure would be progressive.

Property Classification and Yield Control

It should be noted that nonresidential tax rates in large municipalities where multifamily dwelling units tend to be located tend to be higher than residential rates. The rate differences are a result of the state's yield control statute (Section 7-37-7.1 NMSA 1978). In Albuquerque, for example, the residential rate in tax year 2018 is 41.751 mills; the nonresidential rate is 46.833 mills. A property whose net taxable value totaled say $200,000 would therefore be taxed at $9,367 if taxed as a nonresidential property, but $8,350 if taxed as a residential one – over a $1,000 difference. In Santa Fe, the residential rate is 24.583 mills residential vs 32.900on nonresidential property, a difference of 8.317 mills. Hence multifamily property owners currently lower tax than they would due to the fact that they are classified as residential rather than commercial property.[2]

The extent to which New Mexico residential properties are assessed at less than market value (caused partially by the three percent limitation) is unknown. However, according to a recent opinion article in the Santa Fe New Mexican, representatives of Santa Fe County stated that only 8,900 homes are currently assessed at market value, while 26,000 or approximately 75 percent of the total number of residential properties are assessed at less than market value.

New Mexico Residential Property Growth Rates in Recent Years

Table 2 below was designed to provide its viewers with a fairly concrete picture of growth rates in assessed values of New Mexico residential property assessed in recent years. Note the relatively high growth rates in the current oil boom in the southwestern corner of the state – Lee and Eddy Counties – due to expansion of oil production in the counties. Also note that the growth rate in McKinley County has been low during the 2001 to 2018 period and negative in recent years. A number of other unusual figures appear in the table, for example, the 21.7 percent growth rate listed in Catron County between 2011 and 2012. Employees in county Assessors' offices around the state would probably be able to explain how the unusual numbers occurred.

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[2] Nonresidential property under section 7-36-2G NMSA 1978 is defined as "property that is not residential property." Section 7-35-2 NMSA 1978: states that "residential property" means property consisting of one of more dwellings together with appurtenant structures, the land underlying both the dwellings and the appurtenant structures and a quantity of land reasonably necessary for parking and other uses that facility of the dwellings and appurtenant structures…"

Table 2: New Mexico Residential Property Net Taxable Value Growth Rates by County, 2007 to 2018

County	2018/17	17/16	16/15	15/14	14/13	13/12	12/11	11/10	10l09	09/08	08/07	Average	Median
Bernalillo	4.0%	4.3%	3.8%	2.6%	3.0%	1.8%	1.4%	1.8%	-3.3%	4.1%	7.3%	2.8%	3.0%
Catron	1.8%	1.4%	0.4%	2.6%	-0.2%	8.2%	27.1%	5.4%	3.9%	10.4%	12.5%	6.7%	3.9%
Chaves	2.7%	2.1%	3.4%	3.6%	3.5%	4.8%	1.8%	3.6%	4.7%	7.5%	8.5%	4.2%	3.6%
Cibola	-0.8%	2.2%	1.8%	0.8%	6.1%	3.8%	4.6%	0.1%	7.3%	5.6%	5.8%	3.4%	3.8%
Colfax	1.8%	1.7%	1.2%	1.8%	1.0%	0.5%	4.9%	-2.6%	4.9%	4.9%	6.9%	2.5%	1.8%
Curry	3.3%	0.7%	4.9%	5.4%	2.6%	8.0%	3.9%	10.3%	6.5%	7.1%	7.5%	5.5%	5.4%
De Baca	3.3%	3.9%	4.6%	5.4%	7.1%	4.2%	3.8%	4.7%	5.5%	4.4%	5.2%	4.7%	4.6%
Dona Ana	4.2%	3.5%	3.2%	3.2%	1.9%	1.4%	2.2%	0.1%	4.3%	5.5%	10.5%	3.6%	3.2%
Eddy	4.0%	6.4%	7.6%	6.1%	6.9%	6.3%	4.8%	5.6%	6.5%	8.0%	4.3%	6.0%	6.3%
Grant	2.6%	3.2%	1.0%	0.6%	2.9%	3.1%	0.9%	2.5%	5.7%	4.4%	3.4%	2.8%	2.9%
Guadalupe	3.3%	2.0%	2.8%	4.1%	1.2%	4.7%	-0.1%	7.0%	-2.1%	6.5%	0.9%	2.8%	2.8%
Harding	7.5%	1.9%	0.5%	4.8%	2.1%	3.3%	1.0%	5.2%	-1.6%	-1.7%	11.3%	3.1%	2.1%
Hidalgo	4.5%	1.2%	1.8%	2.8%	2.2%	6.6%	1.4%	14.0%	16.0%	3.4%	0.0%	2.4%	2.2%
Lea	3.2%	5.3%	8.2%	6.4%	8.5%	5.9%	4.3%	4.3%	5.1%	11.6%	12.0%	6.8%	5.9%
Lincoln	3.1%	1.4%	2.6%	3.0%	1.9%	-0.8%	5.0%	2.6%	2.2%	11.0%	7.5%	3.6%	2.6%
Los Alamos	4.7%	4.1%	1.7%	1.7%	-4.9%	-1.0%	0.2%	1.4%	-3.1%	-3.0%	1.5%	0.3%	1.4%
Luna	0.9%	5.0%	0.8%	1.8%	1.0%	0.6%	2.4%	4.6%	1.3%	5.9%	7.4%	2.9%	1.8%
McKinley	-1.8%	-0.3%	0.6%	0.0%	0.5%	0.3%	0.7%	1.6%	0.8%	4.7%	3.0%	0.9%	0.6%
Mora	0.5%	2.8%	5.0%	2.9%	5.0%	3.0%	2.8%	5.1%	3.8%	10.8%	5.9%	4.3%	3.8%
Otero	2.6%	2.7%	3.0%	2.9%	3.1%	3.6%	4.1%	5.2%	5.0%	3.6%	4.8%	3.7%	3.6%
Quay	-3.9%	8.8%	3.3%	9.1%	-19.4%	1.7%	5.6%	3.5%	5.1%	9.3%	7.6%	2.8%	5.1%
Rio Arriba	0.8%	-2.5%	2.3%	1.1%	1.8%	3.2%	8.9%	1.8%	0.6%	7.2%	5.6%	2.8%	1.8%
Roosevelt	3.6%	4.0%	4.2%	3.5%	6.7%	5.2%	4.5%	4.8%	5.1%	4.0%	5.1%	4.6%	4.5%
San Juan	1.8%	2.5%	2.7%	2.7%	3.1%	3.7%	3.7%	6.3%	0.7%	-6.6%	22.1%	3.9%	2.7%
San Miguel	2.8%	2.8%	0.9%	6.1%	1.5%	4.9%	0.7%	1.6%	4.8%	7.7%	1.6%	3.2%	2.8%
Sandoval	4.2%	3.4%	2.1%	1.3%	2.0%	0.7%	-0.8%	-3.3%	0.5%	7.3%	11.9%	2.7%	2.0%
Santa Fe	3.8%	4.5%	4.1%	-0.3%	-6.2%	-1.4%	2.0%	0.4%	3.2%	4.4%	6.2%	1.9%	3.2%
Sierra	1.7%	0.6%	1.5%	0.2%	1.1%	2.0%	3.2%	4.3%	4.7%	7.9%	6.8%	3.1%	2.0%
Socorro	2.3%	2.7%	1.2%	2.4%	2.5%	3.1%	-0.1%	3.0%	3.3%	5.3%	1.4%	2.5%	2.5%
Taos	2.0%	2.0%	3.7%	0.7%	1.7%	2.2%	1.2%	1.9%	2.0%	7.5%	7.2%	2.9%	2.0%
Torrance	0.8%	1.5%	0.4%	2.3%	1.3%	4.0%	5.5%	4.4%	2.2%	5.1%	4.3%	2.9%	2.3%
Union	1.0%	2.3%	5.3%	3.1%	5.0%	2.2%	3.3%	1.9%	4.9%	3.5%	7.5%	3.6%	3.3%
Valencia	2.9%	3.1%	1.8%	2.5%	1.9%	3.0%	2.5%	3.4%	1.7%	7.7%	7.7%	3.5%	2.9%
Average	2.4%	2.8%	2.8%	2.9%	1.8%	3.1%	3.6%	2.7%	3.4%	5.6%	6.7%%	3.4%	2.9%

Source: calculated from data in Property Tax Rate Certificates published by the NM Department of Finance & Administration Local Government Division

Somewhat duplicating TRD's table 2, LFC staff compared growth of housing value determined from American Community Survey data to growth of net taxable value by county. Included in this analysis was a similar determination of average duration of ownership of residential properties. For the state as a whole, the 2010 mean was about 13 years. By 2018, this duration had increased to 14 years.

Geographic Area Name	Average Annual Change Median Housing Value	Average Annual Change Taxable Value	Taxable Value in Excess of Increase in Housing Value	2010 Mean Tenancy (years)	2018 Mean Tenancy (years)
Bernalillo County	0.36%	2.34%	1.98%	11	13
Catron County	2.83%	5.97%	3.14%	16	20
Chaves County	2.94%	3.60%	0.66%	13	15
Cibola County	1.88%	4.42%	2.54%	18	17
Colfax County	0.51%	1.74%	1.23%	16	15
Curry County	3.30%	-0.57%	-3.86%	12	12
De Baca County	3.77%	4.72%	0.95%	19	18
Doña Ana County	0.40%	2.89%	2.48%	11	13
Eddy County	6.34%	6.35%	0.01%	14	14
Grant County	0.17%	2.59%	2.43%	14	15
Guadalupe County	1.72%	2.82%	1.10%	19	17
Harding County	2.10%	2.78%	0.68%	21	17
Hidalgo County	-1.06%	2.72%	3.78%	18	17
Lea County	4.44%	5.88%	1.44%	14	14
Lincoln County	2.73%	2.54%	-0.18%	13	13
Los Alamos County	-0.21%	1.03%	1.24%	14	14
Luna County	-1.02%	2.11%	3.12%	12	13
McKinley County	-0.89%	-0.13%	0.77%	18	18
Mora County	-0.50%	3.64%	4.14%	21	21
Otero County	0.45%	3.57%	3.12%	12	13
Quay County	1.28%	2.58%	1.30%	15	15
Rio Arriba County	2.40%	2.01%	-0.39%	18	19
Roosevelt County	2.31%	4.80%	2.49%	13	13
Sandoval County	0.46%	1.51%	1.05%	11	14
San Juan County	0.08%	2.87%	2.79%	14	15
San Miguel County	1.58%	2.95%	1.37%	15	18
Santa Fe County	-0.40%	1.56%	1.96%	12	14
Sierra County	2.37%	2.03%	-0.34%	15	14
Socorro County	-1.35%	2.27%	3.63%	16	17
Taos County	1.36%	2.04%	0.68%	17	18
Torrance County	2.52%	2.33%	-0.18%	14	16
Union County	-1.52%	3.27%	4.79%	16	15
Valencia County	0.58%	2.57%	1.99%	13	16
New Mexico	0.65%	2.31%	1.66%	13	14

Source: Taxable value columns calculated from data in Property Tax Rate Certificates published by the NM Department of Finance & Administration Local Government Division. Housing value columns calculated from data published by American Community Survey available from Census.gov.

POSSIBLE AMENDMENTS (ALTERNATIVES)

Based on previous year's opposition to the proposal, TRD suggests a five-year phase in to the full 10 percent limit. This may mute opposition – particularly in Santa Fe County.

The New Mexico Counties Assessor's Affiliate also suggests some possible alternatives:

- ❖ Exclude the limitation (remove 3 percent cap) on residential properties with units containing 4 units or more which could then be more easily maintained. This includes apartments and large multiple family units – moving to current and correct and will protect the single-family resident owners while increasing the tax base and possibly lowering the mill rate.
- ❖ By changing the definition of "residential property" to exclude "apartments," the valuation shift is not significant. If rental units and secondary homes are also excluded from the classification of residential property, which are not owner occupied, it would be a significant shift in valuation and more difficult for Assessors to maintain.
- ❖ The current *Head of Family Taxpayer Benefit* can be used as an indicator of occupancy, but is not an absolute indicator. Per statute, a property owner does not have to reside in a property to claim the Head of Family exemption, they simply have to reside in New Mexico and own the property

(this presents a maintenance issue if it includes individual home rentals and secondary homes owned by the same owner).

- Apartments (the biggest beneficiaries of the current 3 percent cap) if excluded, would be subject to the change for 2021 and we could simply reclassify those as nonresidential properties and the cap would then not apply.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

All of the current disadvantages of the property tax system will continue. This bill does not reverse all of the problems caused by the 3 percent limitation, but, as mentioned by the New Mexico Counties Assessors Affiliate Chair, this is a good start.

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

Additional Information Sources:

Santa Fe New Mexico New Mexican Articles Related to HB-9

"Taxing inequities: Effects of cap on residential property increases vex policymakers" Santa Fe New Mexican, February 9, 2019 February 9, 2019:
https://www.santafenewmexican.com/news/local_news/taxing-inequities-effects-of-cap-on-residential-property-increases-vex/article_1440b04e-4515-5d91-927b-8bf67f99f8f5.html

"Smith criticizes cap on property valuation increases" Santa Fe New Mexican, February 11, 2019:
https://www.santafenewmexican.com/news/legislature/smith-criticizes-cap-on-property-valuation-increases/article_2b61250c-586d-5efb-b891-f4f557c1f967.html

"Luján intended to ease burden on homeowners" Santa Fe New Mexican, Feb 9, 2019
https://www.santafenewmexican.com/news/local_news/luj-n-intended-to-ease-burden-on-homeowners/article_53b18a63-700f-50bd-a982-fa098f670961.html

"House committee debates bill eliminating tax break for apartments," February 26, 2009
https://www.santafenewmexican.com/news/legislature/house-committee-debates-bill-eliminating-tax-break-for-apartments/article_99643a2b-751b-5cf6-92da-d3cd66d2a59.html

"OUR VIEW A fix for an inequitable property tax system?" Santa Fe New Mexican, Feb 19, 2019
https://www.santafenewmexican.com/opinion/editorials/a-fix-for-an-inequitable-property-tax-system/article_3993f3c1-90c8-552f-9242-c276efb1c939.html

NM Taxation & Revenue Department

Fiscal Impact Reports:
http://www.tax.newmexico.gov/legislative-updates-proposed-legislation.aspx

Yield Control:
http://www.nmdfa.state.nm.us/Yield_Control_Formula.aspx
http://www.tax.newmexico.gov/property-tax-reports.aspx,
See "Yield control FIR" and "A Technician's Guide".

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