

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the Legislature. LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

## FISCAL IMPACT REPORT

<b>SPONSOR</b> <u>Alcon/Garcia/Block/Martinez</u>	<b>LAST UPDATED</b> <u>2/10/23</u>
	<b>ORIGINAL DATE</b> <u>2/2/23</u>
<b>SHORT TITLE</b> <u>Extend Veteran Property Tax Exemption, CA – Proportional To Disability</u>	<b>BILL NUMBER</b> <u>House Joint Resolution 5</u>
	<b>ANALYST</b> <u>Graeser</u>

### REVENUE\* (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY23	FY24	FY25	FY26	FY27		
		--	(\$27,200.0)	(\$29,200.0)	Recurring	Counties, Municipalities, Property Taxing Districts Operating Levies
		--	(\$700.0)	(\$700.0)	Recurring	State General Obligation Bond Fund

Parentheses ( ) indicate revenue increases.

\*Amounts reflect most recent version of this legislation.

HJR5 is a companion to HJR6 and HJR10.

### Sources of Information

LFC Files

LFC analysis of 2021 HJR2 and HJR6 of 2022

American Community Survey 2019 5-yr S2101

American Community Survey 2019 5-yr DP04

Department of Finance and Administration, Local Government Property Tax Rate Sheets 2010 to 2020

Responses Received From

Taxation and Revenue Department (TRD)

No Response Received

Veteran's Services Department (VSD)

## SUMMARY

### Synopsis of House Joint Resolution 5

House Joint Resolution 5 proposes an amendment to Article 8, Section 15, of the New Mexico Constitution to extend the current property tax exemption for 100 percent disabled veterans and their widows and widowers to veterans with less than 100 percent disability and their widows and widowers, basing the amount of the exemption on a veteran's federal disability rating.

The question would be on the ballot at the next general election, or a special election called for the purpose.

See” Technical Issues” for discussion of the time frame for passage and implementation of these provisions if passed by the voters.

This bill does not contain an effective date, and as a result, would go into effect June 16, 2023, (90 days after the Legislature adjourns) if signed. The question would be on the ballot at the next general election and, if passed, would have implementing legislation presented in the 2025 legislative session.

## **FISCAL IMPLICATIONS**

The only immediate fiscal implications of a joint resolution proposing a constitutional amendment are the costs imposed on the Secretary of State.

**Election Costs.** Under Section 1-16-4 NMSA 1978 and the New Mexico Constitution, the Secretary of State (SoS) is required to print samples of the text of each constitutional amendment in both Spanish and English in an amount equal to 10 percent of the registered voters in the state. SoS is also required to publish the samples once a week for four weeks preceding the election in newspapers in every county in the state. The estimated cost per constitutional amendment is \$150 thousand to \$200 thousand depending on the size and number of ballots and if additional ballot stations are needed.

However, if the constitutional amendment is passed by the voters and enabling legislation is enacted by the Legislature and signed by the governor, there would be fiscal consequences to the veterans affected by the new property tax exemptions, to non-veteran property tax payers who could be required through the action of yield-control (Section 7-37-7.1 NMSA 1978) to pay slightly more taxes than in the absence of the new exemptions and to local government jurisdictions, including school districts, that would experience a slight reduction in their maximum bonding authority. Most counties keep debt rates constant and adjust the size of the bond issues based on the underlying net taxable value. The provisions of this bill will reduce net taxable value and therefore reduce bond capacity.

LFC staff created a rough model to determine the order of magnitude of the property taxes shifted from service-connected disabled veterans to nondisabled veterans and the general public for the virtually identical 2021 HJR2. This model is only approximate and contains several assumptions. LFC staff modeled the percentage disability for all disabled veterans from national data and used state statistics for the percentage of veterans who are homeowners. Median tax obligations by county were then determined from ACS data.

The rough conclusion is that this property tax exemption would create an annual average property tax reduction of \$767 for 29.4 thousand service-related disabled veterans with property tax liability. This would create an additional annual per capita burden of \$14 for the population in general. If the joint resolution is passed by the Legislature, presented and accepted by the people at a general election, then TRD or LFC will refine these estimates.

**House Joint Resolution 5 – Page 3**

Geographic Area Name	Total Population	Veterans Veterans	Veterans with any disability	Approx Veterans with Service-connected Disability	Approx Current Veteran's Deduction 100% Disabled	Approx Proposed Veteran's Percentage Disabled Deduction	Approx Amount of Property Taxes Shifted from Service-Connected Disability persons to others	Per Capita Amount of Shifting
Bernalillo County	523,423	48,191	13,855	10,560	\$2,602,136	\$12,633,458	\$10,031,322	\$19
Catron County	3,071	401	182	139	\$7,312	\$34,778	\$27,466	\$9
Chaves County	47,813	3,649	1,473	1,123	\$120,904	\$584,242	\$463,338	\$10
Cibola County	20,520	1,791	884	674	\$57,152	\$277,939	\$220,787	\$11
Colfax County	10,042	1,275	476	363	\$31,447	\$152,786	\$121,339	\$12
Curry County	34,425	4,904	1,185	903	\$85,782	\$415,538	\$329,756	\$10
De Baca County	1,512	262	148	113	\$13,000	\$61,800	\$48,800	\$32
Doña Ana County	160,651	14,427	4,558	3,474	\$507,363	\$2,455,740	\$1,948,377	\$12
Eddy County	42,106	3,606	1,169	891	\$97,667	\$473,056	\$375,389	\$9
Grant County	22,170	2,622	1,032	787	\$57,405	\$277,931	\$220,526	\$10
Guadalupe County	3,608	375	107	82	\$5,373	\$26,447	\$21,074	\$6
Harding County	386	58	18	14			\$0	\$0
Hidalgo County	3,326	321	89	68	\$3,424	\$16,178	\$12,754	\$4
Lea County	48,956	2,374	608	463	\$45,552	\$221,365	\$175,813	\$4
Lincoln County	15,869	2,142	553	421	\$59,472	\$286,581	\$227,109	\$14
Los Alamos County	14,173	1,439	219	167	\$42,218	\$202,869	\$160,651	\$11
Luna County	17,879	1,460	568	433	\$31,458	\$152,347	\$120,889	\$7
McKinley County	51,481	2,992	1,239	944	\$150,335	\$727,790	\$577,455	\$11
Mora County	3,711	339	142	108	\$9,264	\$45,239	\$35,975	\$10
Otero County	47,847	8,070	2,001	1,525	\$141,212	\$685,781	\$544,569	\$11
Quay County	6,515	564	240	183	\$11,928	\$57,027	\$45,099	\$7
Rio Arriba County	29,981	2,268	932	710	\$72,800	\$353,808	\$281,008	\$9
Roosevelt County	14,022	1,165	339	258	\$22,446	\$109,444	\$86,998	\$6
Sandoval County	106,871	11,347	3,116	2,375	\$514,292	\$2,495,276	\$1,980,984	\$19
San Juan County	92,651	7,115	2,610	1,989	\$259,875	\$1,258,719	\$998,844	\$11
San Miguel County	22,383	2,099	1,021	778	\$85,184	\$413,142	\$327,958	\$15
Santa Fe County	120,852	9,957	2,908	2,216	\$415,250	\$2,013,796	\$1,598,546	\$13
Sierra County	9,339	1,527	673	513	\$34,452	\$167,092	\$132,640	\$14
Socorro County	13,077	1,038	446	340	\$39,140	\$190,550	\$151,410	\$12
Taos County	26,833	2,515	626	477	\$66,474	\$321,291	\$254,817	\$9
Torrance County	12,302	1,551	382	291	\$28,974	\$140,217	\$111,243	\$9
Union County	3,385	345	102	78	\$5,625	\$26,750	\$21,125	\$6
Valencia County	57,629	6,075	2,176	1,658	\$235,994	\$1,145,517	\$909,523	\$16
New Mexico	1,588,809	148,264	46,077	35,118	\$5,860,910	\$28,424,495	\$22,563,585	\$14

TRD also analyzed the provisions of this bill and determined that, if passed by the voters and implemented, the property taxes shifted would be as follows:

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2023	FY2024	FY2025	FY2026	FY2027		
--	--	--	(\$27,200)	(\$29,200)	R	Counties, Municipalities, Property Taxing Districts
--	--	--	(\$700)	(\$700)	R	State General Obligation Bond Fund

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

**Methodology for Estimated Revenue Impact:** It is assumed for this analysis that the proposed amendment is approved by the voters in the November 2024 general election and would come into force for FY26 after enabling legislation is enacted.

There are approximately 74 thousand veterans claiming the \$4,000 property deduction (per Article VII, Section 5 of the constitution) per tax year 2020 county reports. According to data released by Workforce Solutions Department, 34 percent of New Mexico veterans reported having a disability<sup>1</sup>. The Taxation and Revenue Department (TRD) then assumes that the average percentage of disability among veterans is 50 percent.

Estimate for taxable property values in New Mexico in FY21 is based on the median value of homes sold in New Mexico in 2020 and 2021, according to the housing trends published by the New Mexico Realtors Association<sup>2</sup>. The value is then grown at the average rate of increase in median home values in New Mexico between 2012 and 2019, in order to exclude the abnormal growth in property values witnessed between 2019 and 2022. To estimate the loss in revenue from the proposed amendment, the average mill rate in the state according to the 2021 New Mexico Property Tax Facts published by New Mexico Department of Finance and Administration was used<sup>3</sup>.

Local impacts of the legislation proposed in this bill will vary widely across the state depending on the local trends in property values, the per capita population of veterans in the county, as well as the remaining local authority to adjust property tax rates.

To finally estimate the impact of this legislation, TRD accounted for adjustment in property tax rates that are likely to happen in response to this amendment per the yield control statute (Section 7-37-7.1 NMSA 1978). According to the 2021 Annual Report published by the New Mexico Department of Veterans Services, 63 percent of the veteran population is concentrated in Bernalillo, Dona Ana, Sandoval, Santa Fe, and Otero Counties. The weighted average of the remaining authority to adjust the mill rates in these counties compared with the rest of New Mexico was considered to account for the extent of the revenues lost that will be absorbed by yield control. It was found that approximately 40 percent of the lost revenue will be mitigated as a result of yield control. However, this effect will vary depending on how willing and able the local administrations are in utilizing their remaining operating rate authority. The loss is mostly to local authorities, with approximately 2.5 percent to the state General Obligation Bond (GOB) fund, which is used to make debt service payments on state GOBs.

Neither estimate includes the operation of reduced bond capacity.

## SIGNIFICANT ISSUES

TRD notes the following significant issue:

---

<sup>1</sup> <https://www.dws.state.nm.us/Portals/0/DM/LMI/2020%20Veterans%20Profile.pdf>

<sup>2</sup> <https://www.nmrealtor.com/housing-trends/>

<sup>3</sup> <https://www.nmdfa.state.nm.us/local-government/budget-finance-bureau/property-taxes/property-tax-facts/>

An expansion of a property tax exemption for veterans with disability will continue to erode horizontal equity in property taxes. By basing the exemption on profession, taxpayers in similar economic circumstances or with similar disability designations are no longer treated equally. The other side of this exemption is the broader public-good to maintain home ownership and quality of life for veterans with a range of disabilities. These veterans sacrificed their health and wellbeing through service to the United States, and as a result of disability may have diminished earnings and ability to maintain home ownership.

The bill would represent a significant erosion of the local property tax base, on which most local governments rely for their budgets and operations.

This constitutional amendment creating a property tax exemption may serve to provide tax relief to only a portion of service-related disabled veterans. The exemption only applies to owner-occupied residences used as a principal residence. Thus, it excludes any service-related disabled veteran who is institutionalized, homeless, or occupying a rental unit. The value of the exemption is also highly variable depending on the city, county, and school district property tax rates in effect at the location of the veteran's principal residence. Per the LFC rough model, the average tax benefit would range from over \$1,000 in Los Alamos and Bernalillo counties to under \$300 in Catron, Hidalgo, and Quay counties.

HJR6, a companion to HJR5, seeks a constitutional amendment to increase the current \$4,000 veteran's property tax exemption to \$10 thousand for all veterans who occupy the taxed residence as a principal residence. This proposal also excludes providing benefits to institutionalized veterans and veterans who occupy rental units but would (at greater amounts of tax shifted) benefit more veterans.

New Mexico has traditionally valued its veterans, and the provisions of this bill would increase the benefits accorded to our veterans.

## **PERFORMANCE IMPLICATIONS**

This proposed constitutional amendment has no implications about performance or accountability. However, if the CA is approved by the voters and the legislature enacts implementing legislation, that legislation would not meet the LFC tax policy of accountability. This is a general criticism of all property tax issues, largely because the property tax valuation is administered by 33 county assessors using largely archaic technology. The state-level administration of the property tax is shared between the Property Tax Division of the Taxation and Revenue Department and the Local Government Division of the Department of Finance and Administration.

In addition, this joint resolution makes no attempt to establish criteria for evaluating the unstated purpose of the exemption.

## **ADMINISTRATIVE IMPLICATIONS**

See note at fiscal implications regarding costs imposed on the Secretary of State.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

This is a companion to HJR6, which proposes to increase the Veteran's Property Tax exemption

from \$4,000 to \$10 thousand and HJR10, which proposes to increase the Veteran's Property Tax exemption from \$4,000 to \$5,000.

Similar to HJR6 (2022 Regular Legislative Session)

## **TECHNICAL ISSUES**

The new provisions, if passed by the voters at the general election in November 2024, would require enabling legislation to amend Section 7-35-5.1 NMSA 1978. This amendment could be passed with emergency clause to make the new proportional exemption applicable to the 2025 property tax year beginning January 1, 2025, with valuations published in May of 2025 and fiscal impact, including any modification of yield-controlled rates, affecting the November 2025 property tax payments. This change is mandatory if the people approve the constitutional amendment.

If the Constitution is amended, Section 7-37-5.1 NMSA 1978 should be amended to be consistent with the Constitution.

LG/al/ne