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

SPONSOR Park **ORIGINAL DATE** 02/02/09 **LAST UPDATED** 03/18/09 **HB** 160/aHBIC/aHTRC/ aSFC

SHORT TITLE No Revaluation of Property Upon Sale **SB**

ANALYST Lucero

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	**FY10**	**FY11**		
$0.01	$0.01	$0.01	Recurring	State and local government funds that receive property tax

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total	$0.01	$0.01	$0.01	$0.03	Recurring	Local Governments

SOURCES OF INFORMATION
LFC Files

Responses Received From
New Mexico Municipal League
Taxation and Revenue Department (TRD)
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee (SFC) amendment to HB160 strikes the HTRC amendment and replaces Section 1 of the original bill. In addition the amendment requires that the values of properties that first changed ownership between 2001 and 2009 equal their pre-sale values plus an annual increase of the lesser of 3% or the annual percentage increase in assessed values of existing property values in the county. A similar valuation is required for new residential properties, using the original market values as the base values to which annual increases would apply. This requirement would apply only if properties were assessed at their current and correct values during the year in which the change of ownership or initial valuations occurred. The amendment additionally requires county assessors to make available electronically a property tax calculator to allow users to calculate potential property tax liabilities.

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee (HTRC) amendment to HB160, as amended, would restore much of the language in the statute the original bill proposed to delete.

Additionally, the amendment would add language specifying that if a residential property is sold and the sale results in an increased property value, then the increased value shall not be immediately applied to the assessed value for property tax purposes (as is now the case). Instead, the increased value shall be phased in incrementally at a rate of 20% per year until the increase has been fully applied to the assessed value of the property.

Synopsis of HBIC Amendment

House Business and Industry Committee (HBIC) amendment changes the applicability of the bill from the 2009 and subsequent property tax years to 2010 and subsequent property tax years. To resolve the technical issues identified below.

Synopsis of Original Bill

House Bill 160 proposes to amend Section 7-36-21.2 NMSA 1978; Property Tax Code to eliminate the provisions requiring revaluation of residential property upon change in ownership. The bill would prohibit the value of such property from exceeding the higher of 103 percent of the value in the previous tax year or 106 and one-tenth percent of the value two years prior to the tax year in which the property is being valued.

The provisions of this act apply to the 2009 and subsequent property tax years.

FISCAL IMPLICATIONS

The bill as amended would prevent residential property from being valued at current and correct values when the property is sold; instead the property value would be equal to their pre-sale values plus an annual increase of the lesser of 3% or the annual percentage increase in assessed values of existing property values in the county.

According to the New Mexico Municipal League, passage of this legislation could result in an inequality in the taxable value of similar pieces of property in a taxing district. It could also have a significant effect on future bonding capacity for municipalities and may affect a municipality's ability to provide infrastructure, (i.e. streets, roads, libraries, jails

The Taxation and Revenue Department (TRD) reports the bill would likely impose relatively minor overall fiscal impacts on the State of New Mexico or local governments. Reductions in net taxable value caused by the limitation and revaluation may, cause tax rates to rise, where not already limited by rate caps, or by yield control for residential property tax payers.

In general, the net effect of the changes in the property tax base and rates would be a continual shift in property taxes through 2013 by reducing property taxes paid on homes affected by this bill and increasing property taxes on other residential and potentially nonresidential properties.

Also, it is possible that the state, and some or all counties, municipalities, schools districts and other entities imposing debt levies in the jurisdiction(s) would be forced to increase debt service rates to meet existing debt obligations.

SIGNIFICANT ISSUES

Municipalities rely on the accurate valuation of property for purposes of bonding and for assurance that property of a similar nature is valued in a similar manner. The sale of property within one year of a general revaluation is a very good indicator of the current value of the property in most cases.

This bill will prevent residential property from being valued at current and correct values when the property is sold, so that the values will never be corrected to fair market value if increases in value are more than 3 percent annually. The effect of the bill relative to current law would be to shift property tax burdens from newly-acquired residential to residential property that has not been sold and commercial property.

The statute currently protects property owners who have owned the land for more than one year and have not made significant improvements in that they are taxed on the previous year or previous two year assessed value rather than on thirty three and a third percent of the current market value. If the current market value base was to be used, the tax increases could compromise property owners of lesser means. The proposed bill grants the new property owner the same taxing opportunities given to a long time resident.

The bill seems to be focused on established communities with infrastructure, safety and fire protection elements in place. Counties and municipalities with expanding communities or newly created subdivisions may come short of the additional property tax revenue needed to enhance the services and protection requirements of its residents.

DUPLICATION, RELATIONSHIP

Duplicates SB181 and relates to HB34, HB251, HB261

TECHNICAL ISSUES

Under Section 7-38-20, assessors are required to mail valuation notices with the current year's value by April 1 of each year. Because the bill would become effective on June 19, 2009, well into the 2009 property tax valuation and assessment cycle, it would be very difficult for county assessors to apply the law for the 2009 tax year.

The proposed legislation needs clarification of what constitutes "a residential property in the first tax year that it is valued for property taxation purposes" in Section 7-36-21.2A(1). The taxation and revenue department property tax division may choose to create a rule that clarifies the language if not already defined elsewhere in statute or provide a reference to a section of the statute that defines it.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

If this bill is not enacted the County Assessor will be remain required to use the value of a home that is sold within one year of a general revaluation in determining its value for property tax purposes.

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