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

**SPONSOR** SFl **ORIGINAL DATE** 03/18/09 **LAST UPDATED** **HB**

**SHORT TITLE** No Revaluation of Property Upon Sale **SB** 181/SFlS

**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 |

(Parenthesis ( ) Indicate Revenue Decreases)

## 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 |
| | | Indeterminate | | Indeterminate | Nonrecurring | Local Governments |

(Parenthesis ( ) Indicate Expenditure Decreases)

**SOURCES OF INFORMATION**
LFC Files

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

Other Input Received From
Tom Clifford, Research Director, New Mexico Tax Research Institute

**SUMMARY**

Synopsis of Bill

Senate Floor substitute for Senate Bill 181 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 apply the existing 3% limitation on increases in valuation of residential property to residential property that changed ownership in the previous year. For the 2010 property tax year, the values of residential property that changed hands or was valued

for the first time between 2001 and 2009 would be recalculated to their 2001 value, plus 3% per year (up to "current and correct" value). For 2011 and subsequent property tax years, the 3% cap on annual valuation increases to properties that change ownership would apply.
The bill also adds a new section to the Property Tax Code to create a new method of valuation for new residential construction. New residential construction shall be the market value of the property multiplied by the average ratio determined by the assessor and the Property Tax Division of TRD of assessed value to sales value of recently sold comparable existing properties in the county.

The bill also requires counties to provide an electronic version of the property tax schedule and a property tax calculator on a public web site maintained by the county.

The provisions of this Act apply to the 2010 and subsequent property tax years.

## FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) reports the bill would likely impose relatively minor overall revenue impacts on the State of New Mexico or local governments. Reductions in net taxable value caused by the limitation and revaluation may result in increased tax rates, where tax rates are not already limited by rate caps or by yield control. In general, the net effect of the changes in the property tax base and rates would be a shift of property taxes - reducing property taxes on homes affected by this bill but increasing property taxes on other residential and potentially nonresidential properties.

According to the New Mexico Municipal League, passage of this legislation could result in an inequity in the taxable value of similar pieces of property in a taxing district. It could also negatively impact the general obligation bonding capacity of a taxing district.

There is an indeterminate non-recurring cost associated with the requirement to develop an electronic schedule and property tax calculator. There is also an indeterminate recurring cost to host a website for public access to the calculator and electronic schedule.

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 bonding purposes and for assurance that property of a similar nature is valued in a similar manner. 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% annually.

This bill will prevent residential property from being valued at current and correct values when the property is sold. 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 because they are taxed on the previous year or previous two year assessed value. When a house is sold, the assessed value is calculated on thirty three and a third percent of the current market value. When current market value is used, taxes generally increase and this could harm property owners of lesser means. The proposed bill grants the new property owners 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.

## CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Duplicates HB160
Relates to HB34, HB251, HB261

## TECHNICAL ISSUES

Some residential property that was not in existence in 2001 (e.g., a home built in 2005 that the owner potentially sold in 2008), and it may be quite difficult to determine a 2001 value for such property.

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.

## OTHER COMMENTS

See Attached

## 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.

DL/mc:svb

MEMORANDUM

TO: Senator Mark Boitano, Senator Steven Neville, Senator Tim Eichenberg
FROM: Tom Clifford, Research Director, N.M. Tax Research Institute
SUBJECT: Potential fiscal impacts of Senate Floor Substitute for SB 181
COPY: Bill Fulginiti (NMML), Paul Gutierrez (NMAC)

This memo presents a summary of simulation models I have constructed to estimate potential fiscal impacts of the Senate Floor Substitute for SB 181. The simulations were done without the benefit of detailed property tax data, so they should be considered as "educated guesses" at the potential fiscal impacts.

**Impacts of Senate Floor Substitute for SB 181 on debt service capacity**

| **Property Tax Year** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** |
|---|---|---|---|---|---|---|
| **Impacts on residential net taxable value:** | | | | | | |
| Extend 3% limit to re-sold properties | -1.9% | -3.8% | -5.6% | -7.4% | -9.1% | -10.9% |
| Value new property at the average assessed value/market value | -0.9% | -1.7% | -2.4% | -3.2% | -3.9% | -4.7% |
| Rollback values for existing homes sold 2001-2009 with four year phase in | -1.6% | -3.5% | -5.9% | -8.7% | -8.7% | -8.7% |
| Rollback values for newly constructed homes 2001-2009 with four year phase in | -1.9% | -3.3% | -4.7% | -6.1% | -6.1% | -6.1% |
| **Total** | **-6.3%** | **-12.3%** | **-18.6%** | **-25.4%** | **-27.8%** | **-30.4%** |
| **Impacts on total net taxable value (excluding oil and gas)** | **-4.2%** | **-8.2%** | **-12.5%** | **-17.0%** | **-18.6%** | **-20.4%** |
| **Baseline growth in net taxable value** | **5.0%** | **10.0%** | **15.0%** | **20.0%** | **25.0%** | **30.0%** |
| **Net NTV growth after changes** | **0.8%** | **1.8%** | **2.5%** | **3.0%** | **6.4%** | **9.6%** |

Assumptions:

- 5% of existing homes turn over each year.
- 2.5% new homes are added each year.
- Average assessed value to market value currently equals 70%.
- Residential value comprises 2/3 of total residential & non-residential value.

- Net taxable value will grow by 5% per year for the next several years in the baseline. Although it is impossible to predict this value with certainty, the 3% limit provides some insurance that values will grow by at least that much. Over the last several years, values have grown by an average of 8% per year.

The bottom line of the table provides the approximate change in total debt service capacity – except for areas with oil and gas taxable value -- since the latter is a function of net taxable value.

**Other possible impacts of the Senate Floor Substitute for SB 181:**

Some tax liability would be shifted to other residential property owners. My best estimate is that these shifts would increase liabilities of other property owners by about 5% to 6% per year in the first several years of implementation. This amount represents about 1/7 of the amount these property owners are saving due to the 3% value limit.

Reduced taxable value of existing properties would push operating tax rates up through the yield control mechanism. The percentage increase in rates is roughly consistent with the percentage decrease in residential net taxable value. Some counties and municipalities have yield-controlled rates that are close to the imposed rates, which limits the amount by which yield control can increase their rates. These areas would suffer some reduction of operating revenue.

Reduced taxable value of newly-constructed property would reduce operating revenue because these values do not contribute to the yield control rate-setting process. My best estimate of this effect is that it would reduce operating revenue growth by about 1% per year.