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FISCAL IMPACT REPORT



SPONSOR: Hanosh DATE TYPED: 02/05/02 HB HJR 22

SHORT TITLE: Property Tax Exemption for Veterans SB _____

ANALYST: Gilbert

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY02	FY03			
	\$ (0.1) See Narrative	\$ (0.1) See Narrative	Recurring	Local Government
	\$ (0.1) See Narrative	\$ (0.1) See Narrative	Recurring	School Districts

(Parenthesis () Indicate Revenue Decreases)

Relates to: HJR 2

SOURCES OF INFORMATION

LFC Files

Response Received

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Joint Resolution 22 proposes a constitutional amendment that, if adopted, would exempt all honorably discharged veterans from property taxation on property used as their primary residences.

Significant Issues

Property taxes in New Mexico provide funding for school construction, county and municipal government and a variety of other public entities, which benefit veterans and their families.

Currently, approximately 81,000 veterans claim the existing \$2,000.00 veterans exemption against property taxes, which is limited to veterans that served in the armed services during periods of armed conflict.

New Mexico property obligations totaled approximately \$830.0 million in the 2001 tax year. The residential portion of this total is approximately \$441.0 million.

FISCAL IMPLICATIONS

If implemented, the Taxation and Revenue Department (TRD) estimates that approximately \$31.0 million in property tax obligations would be shifted from veterans to non-veterans. This would occur mostly through property tax rate increases. The measure would also likely reduce the property tax revenues flowing to school districts, counties and municipalities.

Potential revenue effects of exempting all veterans from property tax obligations are estimated in the attached TRD chart. However, arriving at an accurate revenue impact is very difficult because preliminary 2000 census data does not provide information regarding where veterans live in New Mexico, what fraction of the total consists of renters, and what the average value of their homes is. Additionally, data on average values of homes for all property by location in New Mexico is also difficult to acquire because the state does not have a uniform disclosure law. Therefore, TRD made several basic assumptions in arriving at their revenue estimates (see chart footnote).

ADMINISTRATIVE IMPLICATIONS

The New Mexico Veteran's Service Commission reports that they do not have sufficient staff to handle the certifications that would be required to process the proposed exemptions. Counties may also need additional staff to process exemption applications.

CONFLICT/DUPLICATION/COMPANIONSHIP/RELATIONSHIP

House Joint Resolution 2 proposes amending Article 8, Section 5 of the Constitution to raise the property tax exemption for all honorably discharged veterans from \$2,000.00 to \$4,000.00 per calendar year. The exemption is raised \$500.00 each year beginning in 2003 until the \$4,000.00 exemption is reached in 2006.

HJR 2 differs substantially from HJR 22. First, the \$2,000.00 veterans exemption increase proposal only relieves veterans from an average of about \$54.00 in property tax obligations. Secondly, increasing the \$2,000.00 veterans exemption would result in increased rates paid by all residential property owners, including veterans. HJR 22 totally absolves all veterans from their current residential property tax obligation.

OTHER SUBSTANTIVE ISSUES

According to TRD, this measure would reduce bonding capacity among school districts, municipalities and counties by about 3.7 percent. As a result, debt service rates would increase, thus shifting a portion of the property tax burden from residential to non-residential property owners.

Exempting veterans from property taxation in a manner advocated by the proposed bill would not consider financial conditions of the exemption recipients, many of whom are quite wealthy. The measure would thus create prospects for increasing taxes among individuals who are in many cases not well off financially for the purpose of providing tax reductions to individuals who are. Also, by

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removing the property tax obligation from veterans, fewer veterans may participate in school bonding elections and other political issues where their input would be valuable.

RLG/ar
Attachment

Attachement – House Joint Résolution 22

*** Estimated Effects of Exempting All Veterans From Property Tax Obligations**
(Source: Taxation and Revenue Department)

Column:	(1)	(2)	(3)	(4)	(5)	(6)	(8)
	Popu-	Residential Net Taxable Value	Number of Veterans Exemption Claimants	Estimated Claimants If All Vets Claim Col. (3) x	Col. (4) Adjusted Renters Col. (4)	Share of County Population Col. (5)/(1)	Current Actual Operating Rate* Estimated Rate if All Vets are Exempt (1+
County							
Berna-					43,523	7.8	6.045
Catron					360	13.5	11.630
Chaves					4,342	6.8	7.092
Cibola					1,309	5.1	9.210
Colfax					1,418	9.7	11.294
Curry					2,864	5.6	10.397
DeBaca					241	9.7	9.688
Dona Ana					10,285	5.7	8.173
Eddy					3,447	6.2	6.550
Grant					2,698	8.5	7.042
Guadalupe					320	7.8	7.943
Harding					102	11.5	6.556
Hidalgo					268	4.1	11.233
Lea					2,730	4.7	6.889
Lincoln					1,749	10.9	4.933
Los Ala-					1,250	6.5	5.060
Luna					1,727	6.9	7.984
McKinley					1,431	2.0	5.251
Mora					486	10.2	7.233
Otero					5,964	10.4	7.869
Quay					984	9.8	10.527
Rio Ar-					2,113	5.5	4.644
Roosevelt					1,015	5.0	4.952
San Juan					4,745	4.4	6.551
San Mi-					2,082	7.1	5.543
Sandoval					7,008	7.5	5.532
Santa Fe					7,692	6.0	5.111
Sierra					1,535	13.5	9.017
Socorro					1,211	7.2	10.874
Taos					2,147	8.0	6.664
Torrance					1,210	8.1	11.808
Union					372	8.9	7.118
Valencia					4,835	7.2	6.385
Totals					123,462	6.8	

*11.85 Mill Maximum Information sources: Abstract Reports submitted by County assessors and rate certificates issued by Department of Finance & Administration and U.S. census.

* Major assumptions underlying the above calculations are that 1) the distribution of all veterans by county is identical to the distribution of current veterans exemption claimants, and 2) 70 percent of the veterans live in owner occupied homes -- the same proportion as the total population. Figures in column 6 of the table display the estimated fraction of residential net taxable value in each county owned and occupied by veterans. These percentages reflect potential loss in residential value, as well as percent increases in property tax bills that would accrue to non-veterans if veterans were exempted from property taxation. Shifts would occur through rate increases -- against debt as well as operating rates. Rate increases could not in all cases offset base reductions. Under current statutes, county-operating rates may not exceed 11.85 mills, municipal rates are limited to 7.65 mills, and school district operating rates may not exceed .5 mills. Hence figures in column 8 of the table address this particular issue for county operating rates. They suggest all county operating rates for all counties other than the one for Socorro County could adjust to an extent that would offset the reduction in net taxable value. There are other cases where rate increases would not be able to offset reductions in net taxable, however -- in some municipalities and in cases where the .5 mill school operating rates are at their maximum. Examples include the .5 mill rate in the Cimarron School District in Colfax County, the .5 mill rate in the Tucumcari School District in Quay County, and 7.65 municipal rates currently in place in Grady and Red River, as well as the 7.62 rate currently imposed in Los Lunas.