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

SPONSOR Boitano **ORIGINAL DATE** 2/09/07 **LAST UPDATED** 2/22/07 **HB**

SHORT TITLE Revaluation Upon Change in Property Ownership **SB** 695

ANALYST Earnest

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
		($0.1)	Non-Recurring	General Obligation Bond Capacity

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates House Bill 1074

SOURCES OF INFORMATION
LFC Files

Responses Received From
Department of Finance and Administration (DFA)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 695 amends the property tax code to eliminate the provision for revaluation of residential property upon change of ownership and any language related to “change of ownership”. Change of ownership would not trigger an upward revision of property valuation to something approximating the market value of the property.

FISCAL IMPLICATIONS

SB695 would limit increases in value of property to no higher than 103% of the value in the prior tax year or 106 1/10th% of the value in the tax year two-years prior to the tax year is being valued.

DFA finds that such a limitation could have a substantial fiscal impact on NM local governments, but does not provide an estimate. A cap on revaluation would reduce the amount assessed and taxed. This reduction to the NM local government coffers could directly impact operating and capital budgets, thus affecting provided services.

However, rather than face a reduction of revenue from elimination of revaluation, counties may choose to raise property taxes, making the fiscal impact indeterminate.

SB 695 would impact 2008 general obligation bond capacity. Current projections show residential property growth of 3.1 percent, but past years have been much higher.

SIGNIFICANT ISSUES

DFA also notes that the bill would freeze the notorious inequities in the property valuation system, with no means of fixing the inequities.

According to TRD, provisions of the proposed measure would:

1. make property tax obligations more predictable to home purchasers than they currently are;
2. limit growth in bonding capacity[1] and thus the amount of projects that could be constructed with voter-approved bond issues repaid with property taxes;
3. perpetuate existing differences between market value and assessed value among property owners, partially because many properties were assessed at much less than market value when the 3 percent limit on residential valuation was enacted in 2000;
4. increase prices of properties subject to the new legislation because their assessed values would essentially never be allowed to increase by more than 3 percent annually, and thus provide their owners with lower property tax bills than would be the case in the absence of the proposed legislation; and
5. decrease values of newly-constructed residential properties because taxes on the new properties would typically be substantially more than taxes on comparable properties that are subject to the three percent limitation. The proposal may also increase the cost of borrowing among property tax recipients (counties, school districts, the State of New Mexico and other entities) due to decreased ratings and increased interest charges on bonds.

DUPLICATION

Senate Bill 695 duplicates House Bill 1074.

BE/csd

[1] Bonding capacity is the extent to which governments are allowed to borrow – typically to repay debt on capital construction projects. In New Mexico, for example, counties and municipalities may issue general obligation bonds totaling no more than 4% of net taxable value.