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

ORIGINAL DATE 2/4/08
SPONSOR Varela **LAST UPDATED** **HB** 617

SHORT TITLE Property Tax On Communications System Land **SB**

ANALYST Wilson

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	FY09	FY10		
$0.1	$0.1	$0.1	Recurring	Property Tax Recipients*

(Parenthesis ( ) Indicate Revenue Decreases)
* Counties, school districts, municipalities and other entities that receive revenues from property tax levies.

SOURCES OF INFORMATION
LFC Files

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

SUMMARY

Synopsis of Bill

House Bill 617 amends Section 7-36-2 NMSA 1978 of the Property Tax Code. The bill specifies the types of property that are subject to assessment for property tax purposes by the Taxation and Revenue Department's Property Tax Division (PTD). Property assessed by PTD and listed in 7-36-2 is commonly called "centrally assessed" or "state-assessed" property. It typically extends across county boundaries and is subject to "special assessment methods" of valuation via appraisal methods that differ from traditional appraisal procedures due to unusual characteristics of the property that is centrally assessed.

Property listed in Section 7-36-2 and thus subject to central assessment includes property of railroads, communications systems (as defined in Section 7-36-30), public utilities and airlines. The PTD has not assessed cable systems in the past, in part because the statute is unclear regarding the issue of whether this type of property is indeed subject to central assessment. The proposed legislation is designed to clarify the statute. It would amend the definition of "communication system" in Section 7-36-30 to include a system that provides for transmission or reception of information for use by another person for consideration. The definition of the term "plant" is also amended to mean all tangible property in New Mexico used for the transmission or reception of information rather than for the provision of communication service, as is the current law.

This bill has an emergency clause.

FISCAL IMPLICATIONS

The net taxable value for cable companies currently totals approximately $30 million statewide and generates a total of approximately $800,000 in property tax revenues. If the TRD were to determine that communication company property is under-assessed, provisions of the proposed measure would generate increases in assessed value of cable communication property which would generally be offset by rate reductions through the state's yield-control mechanism. Debt service rates would also presumably adjust. Hence, fiscal impacts on property tax recipients are likely to be minimal. Cable companies, however, would likely experience property tax increases.

SIGNIFICANT ISSUES

DFA notes this bill will allow local taxing entities to collect taxes on communication systems that under the previous language are excluded. This bill catches up the property tax collection system to new and development technologies, such as cable television. Previously, cable television was considered "reception of information" only, which exempted it from property taxation. This bill remedies this situation by defining communications systems as "transmission or reception" or both.

TRD provided the following:

> This bill is necessary to clarify that cable television systems are subject to central assessment even if not providing broadband or other two-way communication services. An emergency clause could, however, place undue burdens on taxpayers who, if the bill is signed before February 29, 2008, will have to file the annual reports required by Section 7-38-8 by February 29, 2008.
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> As communication systems evolved, the language of the special method applicable to the firms did not keep pace by anticipating the changes in digital media such as Voice Over Internet Protocol, streaming video, or digital gaming and bundling of technologies for multiple uses through single providers. Language of the proposed statute broadens the definitions of eligible technologies to incorporate large cross-county concerns such as cable-based providers of communication services. The principal benefit of this change is that cable companies and similar technology vendors will report to the Property Tax Division's State Assessed Properties Bureau for property tax assessment purposes.
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> The benefits of this change are:
> - single reporting point for communications companies;
> - the option of electing a depreciated cost or unitary valuation method, which is not currently employed by New Mexico's 33 County Assessors;
> - uniformity of assessment between communication companies that provide similar services, and
> - uniformity of reporting requirements for communication companies.

DW/bb