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

ORIGINAL DATE 2/6/08
SPONSOR Boitano **LAST UPDATED** **HB**

SHORT TITLE Property Valuation Updating & Increases **SB** 448

ANALYST Wilson

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
Significant	Significant	Significant	Recurring	property tax recipients

(Parenthesis ( ) Indicate Revenue Decreases)
*counties, school districts, municipalities and similar entities receiving revenues from property tax levies

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total	$0.1	$0.1	$0.1	$0.1	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)
Relates to SB 450

SOURCES OF INFORMATION
LFC Files

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

SUMMARY

Synopsis of Bill

Senate Bill 448 proposes the following important property tax reform actions:

(1) repeals the provision that requires revaluation of properties when they sell;

(2) to make this valuation limitation at the time of sale work, the bill requires that county assessors reassess all residential property for the 2009 property tax year to "current and correct" values and prove to the satisfaction of the TRD that sales-assessment ratios are 92% or greater for the 2009 property tax year.

(3) if property tax ratios are at least 92% for the 2009 property tax year, then the bill limits increases in property tax assessed value in conforming counties thereafter to 3% over the prior year or 6.1% over two years prior.

(4) if the sales-assessment ratio for 2009 property tax year is less than 92%, then that county is prohibited from limiting the residential property value in-crease for 2009 and the TRD is required to perform a full reassessment effective for the 2010 property tax year.

The limitation is on assessed value persists when a property is sold, unlike the current limitation which allows county assessors to increase the assessed value to market or near market when a property is sold.

FISCAL IMPLICATIONS

The Property Tax Division (PTD) of the TRD estimates that the total assessed value of residential property in New Mexico is approximately 65% of current market value. Removing the 3.0% valuation limitation on residential property might increase net taxable value by about $18.34 billion.

TRD provided the following:

> Provisions of the proposed measure will produce no revenue increases if two conditions are met: the yield control provisions of Section 7-37-7.1 NMSA 1978 must be applied correctly to tax rates that subject to it; and all (typically debt service) rates that are not subject to the yield control statute must adjust in inverse proportion to the assessed value increases that will result from the proposal – as was assumed will by the case when the Legislature enacted yield control. It is not certain, however, that either condition – particularly the latter one – will occur. In other terms, property tax recipients that impose voter-approved capital construction projects and associated debt-service rates may not decrease the rates in proportion to assessed value increases – in which case taxpayers in their districts will experience property tax increases.
>
> Major effects of the proposed measure will likely be increased assessed value among property owners who are currently assessed at less than current and correct levels and rate decreases among essentially all property owners, including owners of non-residential properties as their debt service rates decrease. Hence owners of residential properties that are currently assessed at market value will experience rate and tax reductions. Owners of residential property that is assessed at below market value due to an incorrect appraisal or the 3% increase limitation will experience simultaneous increases in assessed ***
> Provisions of the proposed measure will produce no revenue increases if two conditions are met: the yield control provisions of Section 7-37-7.1 NMSA 1978 must be applied correctly to tax rates that subject to it; and all (typically debt service) rates that are not subject to the yield control statute must adjust in inverse proportion to the assessed value increases that will result from the proposal – as was assumed will by the case when the Legislature enacted yield control. It is not certain, however, that either condition – particularly the latter one – will occur. In other terms, property tax recipients that impose voter-approved capital construction projects and associated debt-service rates may not decrease the rates in proportion to assessed value increases – in which case taxpayers in their districts will experience property tax increases.

Major effects of the proposed measure will likely be increased assessed value among property owners who are currently assessed at less than current and correct levels and rate decreases among essentially all property owners, including owners of non-residential properties as their debt service rates decrease. Hence owners of residential properties that are currently assessed at market value will experience rate and tax reductions. Owners of residential property that is assessed at below market value due to an incorrect appraisal or the 3% increase limitation will experience simultaneous increases in assessed value and rate reductions. They will likely be subject to higher tax bills than prior to enactment of the proposed legislation, but the rate increases will offset much of the effect of reappraisal. The final result of the tax burden shift that will occur due to the proposal will be property taxation in which tax residential tax obligations are in rough proportion to property value.

SIGNIFICANT ISSUES

Transferred property is not subject to the 3% limitation on assessed value increases that was enacted by Laws, 2000, Ch 21, Section 1, applicable to the 2001 and successive tax years. Hence increases in housing values between when the law was enacted and when many properties transferred created a condition where owners of transferred properties face much higher tax bills than owners who remain their existing homes, and are protected to a great extent from property tax increases by the 3% valuation increase limit. The proposed measure is intended to remedy this problem.

This proposal will profit from additional measures of assessment equity and uniformity. 95% to 105% of market value is an acceptable range for individual properties if all properties in the same class have similar assessments relative to market. The measure could also benefit from some sort of statutory language that will insure that debt-service rates will move inversely and proportionately with assessed value increases.

DFA provided the following:

> New Mexico's "proposition 13" has not had the intended effect -- of slowing the growth in property tax collections. This is largely because voters throughout the state have approved historically high levels of debt in the years after the limitation became effective. The valuation limitation has not helped most taxpayers. It has, however, provided an unwelcome "welcome stranger" feature to the state's property tax system.
>
> The State's property tax system is unacceptably inequitable between counties. Some county as-sensors do an excellent job of keeping values current and correct. Other assessors have allowed assessments to fall well below the 85% figure in current statue, let alone the 92% sales assess-ment ratio mentioned in this bill.
>
> One way of improving the assessment practice is to move forward with state appropriation sup-port for computerized mass appraisal systems for residential properties. However, it is question-able whether these systems can be in place in time to do a full reappraisal for 2009.
>
> It should also be pointed out that because of inequitable assessment practices, State debt is un-fairly paid by Bernalillo County and, perhaps, Santa Fe County taxpayers, with a relative lighter burden experienced by rural and smaller city taxpayers.

ADMINISTRATIVE IMPLICATIONS

Provisions of the proposed measure may impose substantial administrative impacts on TRD, depending on the extent of data available from county assessors. Provisions of the measure will also impose tremendous administrative impacts on all of New Mexico's County Assessor's Offices. The legislation will require widespread reappraisal of all properties in the assessor's jurisdiction.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB 448 is similar to SB 450, Property Tax Valuation & Reassessment

TECHNICAL ISSUES

TRD suggests that this bill should include a clear definition of the term "valuation maintenance" to the Property Tax Code to insure that the yield control statute functions as originally intended.

DW/mt