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

		ORIGINAL DATE	02/04/11		
SPONSOR	Neville	**LAST UPDATED**		**HB**	
SHORT TITLE	Property Tax Increases and Revaluations			**SB**	189
				ANALYST	Golebiewski

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	**FY12**	**FY13**		
		$8,400.0	Recurring	General Obligation Bond Capacity
		Indeterminate	Recurring	Property tax beneficiaries

(Parenthesis ( ) Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		*	*		Recurring	Property tax assessors
		*	*		Recurring	Taxation and Revenue Department

(Parenthesis ( ) Indicate Expenditure Decreases)
*Please see Administrative Implications below.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

Senate Bill 189 would require all counties to revalue their residential properties to their current and correct values, but would do so on a gradual basis from tax year 2012 through tax year 2016.

Property tax assessors would then be required to revalue all residential properties on an annual basis. Beginning in tax year 2016, the assessors would apply a 3% limit on the increase in value of owner-occupied, residential property, with no distinction between properties that change hands and those that remain with the same owner. It does not address the newly constructed property tax lightning. Senate Bill 189 requires the Taxation and Revenue Department to review and certify the revaluations.

FISCAL IMPLICATIONS

Fiscal impacts are only approximate as the necessary information to calculate precise estimates is not available. Senate Bill 189 increases all residential property to its current and correct value, which would result in an increase in statewide net taxable value, with differential effects on counties based on the proportion of properties that are residential. Last year, LFC estimated that bringing all properties to current and correct values would increase statewide residential taxable value by 14 percent, or about $4.2 billion. One consequence of the higher residential property tax values would be an increase of state General Obligation Bond capacity. State General Obligation Bond Capacity is equal to 1% of statewide net taxable value. Fiscal impacts for FY12 reflect a one-time 2.8 percent increase (one-fifth of 14 percent) in residential net taxable value in the 2012 property tax year.

Because of the yield control[1] that modifies mill levies in response to changes in the base, the expected change in revenues to property tax beneficiaries is minimal, but unknown. The main effect of Senate Bill 189 would be the distribution of property tax burden. In the immediate future, property owners that have benefited from the 3% limit may experience an increase in property tax burden, depending on the net effects of an increasing property value and a decreasing mill levy. Additionally, going forward, the property owners that live in their property will have a decreasing burden relative to other residential property owners that do not live in their residential properties, regardless of when they purchased their homes.

SIGNIFICANT ISSUES

Senate Bill 189 addresses part of the property "tax lightning" issue that exists in New Mexico because of the differential valuation of residential property that is sold versus that which remains with the same owner. Current statute requires residential property to be valued at its current and correct value when it is sold, whereas if a residential property is not sold, a 3% limit on the increase in valuation is applied. Senate Bill 189 requires all property to be revalued at its current and correct value by tax year 2016 and applies the 3% limit to all owner-occupied, residential property. Though, the property tax lightning problem is still persistent in the valuation of newly-constructed residential property.

Additionally, the requirement that the residential property be owner-occupied is a new feature of Senate Bill 189. Current statute allows the limit to be applied to all residential property, whether or not it is owner-occupied. In terms of economic policy, the limits are usually intended to reduce the tax burden of individuals who may be priced out of their homes, so the owner-occupied restriction is consistent with this end. As time progresses and residential property

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[1] Yield control is the practice at the Department of Finance and Administration of lowering mill rates in the event of an increase in tax base, and raising mill rates when tax base decreases. Senate Bill 189 would increase the property tax base, by raising residential property values to current and correct.

values increase, more of the tax burden shifts from owners of owner-occupied property to owners of other property.

ADMINISTRATIVE IMPLICATIONS

Property tax assessors and the Taxation and Revenue Department may face difficulty in complying with the requirements outlined in Senate Bill 189. The most difficult provision to administer is identifying which properties are owner-occupied. Additionally, re-assessing every property annually would increase the administrative cost to the county assessors and estimating a property's current and correct value following almost a decade of residential assessments limited by the 3% maximum increase will be complex.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Other bills that address the property tax include HB 335, HB 327, SJR 9, HB 25, HJR 13, HJR 14, and SB 108.

TECHNICAL ISSUES

An additional issue may exist with properties that can change classifications upon ownership changes from not owner-occupied to owner-occupied, and vice-versa. The differential treatment between owner-occupied and non-owner-occupied may affect the market for residential properties, in that two identical homes would have different assessed values based on their classification under the previous owner.

Additionally, "owner-occupied" should be given a specific definition within Senate Bill 189.

JAG/svb