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FISCAL IMPACT REPORT

ORIGINAL DATE 02/16/11

SPONSOR Boitano LAST UPDATED _____ HB _____

SHORT TITLE Residential Property Value Formula SB 310

ANALYST Lucero

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	Indeterminate	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		Unclear – possible administrative savings	Unclear – possible administrative savings	Unclear – possible administrative savings	Recurring	County Assessors

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 310 changes the method for determining the taxable value of residential property for property tax purposes. Instead of valuing residential property at its market value, the area of the residence in square feet would be multiplied by a factor expressing the value in dollars per square foot of residential property in the county or portion of the county. The factor is determined by dividing the assessed value in the prior year (including the assessed value of multifamily properties) by the total square feet in the county in that year.

The bill declares an emergency.

FISCAL IMPLICATIONS

According to the Taxation and Revenue Department (TRD):

Because the bill does not contain an escalation factor that would increase residential values in future years, the proposal appears to effectively freeze the taxable value of existing residential property at its current level in perpetuity. Whether this occurs depends on how the provisions are interpreted to interact with other provisions of present law. If residential property value is in fact frozen, operating tax rates on residential property would rise through the yield control process and debt service rates on both residential and non-residential property would rise. Total residential value would continue to rise due to new construction.

SIGNIFICANT ISSUES

Article VIII, Section 1 of the Constitution requires that property be taxed in proportion to its value, and that properties in the same class be treated in an equal and uniform manner.

The bill may address the issue of property “tax lightning”, or fairness of residential property valuation. 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.

The current statute limits how much the value of a residential property may increase. In terms of economic and public policy, the limit is intended to reduce the tax burden of individuals who may be priced out of their homes. This bill does not make a distinction between owner-occupied property and other residential property.

According to TRD:

The proposal appears designed to achieve administrative simplicity and also to improve the fairness of residential property valuation, but its impacts on both are uncertain. Impacts of the proposal on fairness are difficult to predict. At present, there is a wide variation in treatment of residential properties because of the application of the “3% value limit” in Section 7-36-21.2. Properties that have not changed hands in the last decade have had their value limited by the section, while others have been increased to their market value, which in some markets can be much higher.

In place of the current inequitable system, the proposal would substitute a uniform valuation procedure, setting all properties’ value at the per square foot average for the county. Values will vary only on the basis of the property’s size. Since an average value by definition would reduce the property value of higher-value homes and increase the value of lower-priced homes, owners of the latter could argue that they have been treated unfairly, while owners of the former would benefit. Exactly how a given homeowner comes out will depend on when they purchased their property, among other things.

ADMINISTRATIVE IMPLICATIONS

According to TRD:

Impacts of the proposal on administrative costs are unclear because it is not clear how the proposal would interact with the other provisions of the property tax code governing residential property valuation. For example, it is not clear from the amendment whether the

language of Section 7-36-21.2 (“Limitation on increases in valuation of residential property”) would continue to apply. If assessors are required by that or other statutes to continue to assess the market value of residential property, then they would not likely realize the administrative savings that appear to be the goal of the legislation.

The proposal would require assessors to compile and process information on square footage of residential property. Although they probably have some of this information currently, it may not be in a form that would enable the calculations required in the bill. Once the square footage has been established, it might be easier to maintain property values under the proposal than under current law, because assessors may not be tasked with determining the market value of property. This should create some administrative simplification. Determining accurate market value of all residential property is a costly process and is fraught with a significant amount of conflict between taxpayers and assessors. The proposal would seem to offer the potential for savings, although it might not eliminate all conflict. Some taxpayers might argue that the value of their home resulting from the new procedure does not accurately reflect its true value.

Since assessors are required to send out the notices of value for property tax year 2011 by April 1, the provisions could probably not be implemented this year, so an applicability date of property tax year 2012 would be appropriate.

RELATIONSHIP

The bill relates to Senate Bill 108 “Extend Annual Property Valuation Increases” and Senate Bill 189 “Property Tax Increases & Reevaluations”

TECHNICAL ISSUES

The phrase “the area of the residential property in square feet” in new section 7-36-15 C should be clarified to identify the areas subject to consideration (i.e. garages, cellars, sheds, accessory structures, etc.)

DL/mew