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## FISCAL IMPACT REPORT

<b>SPONSOR</b> <u>Borrego</u>	<b>LAST UPDATED</b> <u>3/2/23</u> <b>ORIGINAL DATE</b> <u>2/9/23</u>
<b>SHORT TITLE</b> <u>Increase Veteran Property Tax Exemption, CA</u>	<b>BILL NUMBER</b> <u>House Joint Resolution 10/aHGEIC</u>
<b>ANALYST</b> <u>Graeser</u>	

### REVENUE\* (dollars in thousands)

Estimated Revenue Impact*					Recurring or Nonrecurring**	Fund(s) Affected
FY23	FY24	FY25	FY26	FY27		
--	--	--	(\$1,280)	(\$1,280)	Recurring	Counties, Municipalities, Property Taxing Districts
--	--	--	(\$33)	(\$33)	Recurring	State General Obligation Bond Fund

Parentheses ( ) indicate revenue decreases.  
 \*Amounts reflect most recent analysis of this legislation.

Conflicts with House Joint Resolution 6  
 Companion to House Joint Resolution 5  
 Relates to House Joint Resolution 11

### Sources of Information

LFC Files  
 LFC Analysis of 2021 HJR3

Response Received from  
 Taxation and Revenue Department (TRD)

No Response Received  
 Veterans Services Department

## SUMMARY

### Synopsis of HGEIC amendment to House Joint Resolution 10

House Government, Elections and Indian Affairs Committee amendment to House Joint Resolution 10 clarifies that the increase in veteran’s property tax exemption to \$5,000 effective for taxable year 2024 would be permanent and apply to each taxable year after 2024.

### Synopsis of House Joint Resolution 10

House Joint Resolution 10 proposes a constitutional amendment to increase the veteran’s property tax exemption for honorably discharged members of the armed forces and their widows and widowers from \$4,000 to \$5,000. The question would be presented to the voters for approval

or rejection at the next general election or a special election called for that purpose, and if passed, implementation legislation would be presented in the 2025 legislative session.

## FISCAL IMPLICATIONS

The only immediate fiscal implications of a joint resolution proposing a constitutional amendment are the costs imposed on the Secretary of State.

**Election Costs.** Under Section 1-16-4 NMSA 1978 and the New Mexico Constitution, the Secretary of State (SoS) is required to print samples of the text of each constitutional amendment in both Spanish and English in an amount equal to 10 percent of the registered voters in the state. SoS is also required to publish the samples once a week for four weeks preceding the election in newspapers in every county in the state. The estimated cost per constitutional amendment is \$150 thousand to \$200 thousand depending on the size and number of ballots and if additional ballot stations are needed.

**Impact of Constitutional Amendment.** If the constitutional amendment is passed by the voters and enabling legislation is enacted by the Legislature and signed by the governor, there would be fiscal consequences to the veterans affected by the new property tax exemptions, to nonveteran property taxpayers who could be required through the action of yield-control ( Section 7-37-7.1 NMSA 1978) to pay slightly more taxes than in the absence of the new exemptions and to local government jurisdictions, including school districts, that would experience a slight reduction in their maximum bonding authority.

TRD reports on the methodology used to create the estimated revenue impact:

It is assumed for this analysis that the proposed amendment is approved by the voters in the November 2024 general election and would come into force for FY2026 after enabling legislation is enacted.

There are approximately 74,000 veterans claiming the \$4,000 property deduction (per Article VII, Section 5 of the constitution) per tax year 2020 county reports. Tax & Rev assumes that number remains flat for the estimate.

Estimate for taxable property values in New Mexico is based on the median listing price of homes in New Mexico, according to the housing trends published by the Federal Reserve<sup>1</sup>. The value is then grown at the average rate of increase in the median listing price of homes in New Mexico between 2017 and 2021 to exclude methodology changes in the calculation of median price of property in 2022 that cause an abnormal growth rate for that year. To estimate the loss in revenue from the proposed amendment, the average mill rate in the state according to the 2021 New Mexico Property Tax Facts published by New Mexico Department of Finance and Administration was used<sup>2</sup>.

Local impacts of the legislation proposed in this bill will vary widely across the state depending on the local trends in property values, the per capita population of veterans in the county, as well as the remaining local authority to adjust property tax rates.

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<sup>1</sup> <https://fred.stlouisfed.org/series/MEDLISPRINM#0>

<sup>2</sup> <https://www.nmdfa.state.nm.us/local-government/budget-finance-bureau/property-taxes/property-tax-facts/>

To finally estimate the impact of this legislation, Tax & Rev accounted for adjustment in property tax rates that are likely to happen in response to this amendment per the yield control statute (Section 7-37-7.1 NMSA 1978). According to the 2021 Annual Report published by the New Mexico Department of Veterans Services, 63% of the veteran population is concentrated in Bernalillo, Dona Ana, Sandoval, Santa Fe and Otero counties. The weighted average of the remaining authority to adjust the mill rates in these counties compared with the rest of New Mexico was considered to account for the extent of the revenues lost that will be absorbed by yield control. It was found that approximately 40% of the lost revenue will be mitigated as a result of yield control. However, this effect will vary depending on how willing and able the local administrations are in utilizing their remaining operating rate authority. The loss is mostly to local authorities, with approximately 2.5% to the state General Obligation Bond (GOB) fund, which is used to make debt service payments on State GOBs.

For the five counties and the largest city in each county, the imposed rates are (approximately) as follows:

	Bernalillo	Bernalillo	Dona Ana	Otero	Sandoval	Santa Fe
County Operating	10.750	10.750	11.850	11.850	10.350	11.850
ABQ Operating	6.550	6.550				
Las Cruces Operating			5.150			
Alamogordo Operating				7.650		
Rio Rancho Operating					7.650	
Santa Fe Operating						3.200

In general, the counties are at the 11.85 mills statutory maximum operating rate, although Bernalillo County has 1.1 mills remaining authority and Sandoval County 1.5 mills. Also, in general, the municipalities have rarely imposed the 7.65 mills allowed in statute. However, of the cities and counties listed, only Albuquerque has shown evidence of raising its operating rate. In all cases listed, the rates in 2009 were only marginally different than the 2022 rates. This may have a great deal to do with the imposition of the 3 percent annual increase limit on residential property assessed value. Thus, with few exceptions, yield control will moderate at least 40 percent of the losses to the jurisdictions of operating revenue from the provisions of this constitutional amendment.

For 2021 HJR3, which was virtually identical to this proposal, LFC staff created a rough model to determine the order of magnitude of the increase in property taxes shifted from veterans to non-veterans in the general public. This model is only approximate and contains a number of assumptions and ignores a number of specific features of the property tax code, including yield-control.

The rough conclusion is that this property tax exemption would create an annual average property tax reduction of \$180 for almost 100 thousand qualifying veterans. This would create an additional annual per capita burden of \$34 for the population in general. If the joint resolution is passed by the Legislature and presented and accepted by the people at a general election, then TRD or LFC will refine these estimates.

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Geographic Area Name	Total -- Civilian population 18 years and over	Veterans -- Civilian population 18 years and over	Veterans Qualifying	Qualificatio n %	Increase in Taxes shifted	Benefit per Qualifying Veteran	Per Owner Occupied Unit Shifting
Bernalillo County	523,423	48,191	30,353	63%	\$7,275,432	\$240	\$43.15
Catron County	3,071	401	352	88%	\$35,773	\$102	\$30.79
Chaves County	47,813	3,649	2,514	69%	\$322,255	\$128	\$20.09
Cibola County	20,520	1,791	1,230	69%	\$231,348	\$188	\$38.68
Colfax County	10,042	1,275	906	71%	\$148,501	\$164	\$35.72
Curry County	34,425	4,904	2,796	57%	\$386,116	\$138	\$36.51
De Baca County	1,512	262	164	63%	\$23,219	\$142	\$55.15
Doña Ana County	160,651	14,427	9,102	63%	\$1,580,908	\$174	\$32.19
Eddy County	42,106	3,606	2,506	69%	\$331,814	\$132	\$22.47
Grant County	22,170	2,622	1,785	68%	\$164,174	\$92	\$20.35
Guadalupe County	3,608	375	235	63%	\$37,534	\$160	\$43.29
Harding County	386	58	38	66%	\$4,543	\$120	\$32.92
Hidalgo County	3,326	321	227	71%	\$25,938	\$114	\$21.87
Lea County	48,956	2,374	1,586	67%	\$254,991	\$161	\$16.95
Lincoln County	15,869	2,142	1,726	81%	\$247,829	\$144	\$40.65
Los Alamos County	14,173	1,439	1,067	74%	\$157,054	\$147	\$26.72
Luna County	17,879	1,460	889	61%	\$121,204	\$136	\$22.35
McKinley County	51,481	2,992	2,122	71%	\$416,273	\$196	\$28.03
Mora County	3,711	339	290	86%	\$27,791	\$96	\$18.97
Otero County	47,847	8,070	5,181	64%	\$711,310	\$137	\$46.88
Quay County	6,515	564	347	62%	\$55,011	\$159	\$29.43
Rio Arriba County	29,981	2,268	1,743	77%	\$213,082	\$122	\$21.78
Roosevelt County	14,022	1,165	681	58%	\$94,329	\$139	\$23.68
Sandoval County	106,871	11,347	8,918	79%	\$1,726,115	\$194	\$43.06
San Juan County	92,651	7,115	5,053	71%	\$737,637	\$146	\$23.94
San Miguel County	22,383	2,099	1,476	70%	\$188,766	\$128	\$23.12
Santa Fe County	120,852	9,957	7,059	71%	\$977,107	\$138	\$22.26
Sierra County	9,339	1,527	1,129	74%	\$159,961	\$142	\$38.96
Socorro County	13,077	1,038	762	73%	\$138,861	\$182	\$41.88
Taos County	26,833	2,515	1,922	76%	\$181,018	\$94	\$19.57
Torrance County	12,302	1,551	1,291	83%	\$179,761	\$139	\$38.27
Union County	3,385	345	224	65%	\$29,146	\$130	\$32.17
Valencia County	57,629	6,075	4,950	81%	\$828,185	\$167	\$37.63
					\$18,012,98		
New Mexico	1,588,809	148,264	100,624	68%	5	\$179	\$34.12

On 2021’s HJR3, the Local Government Division of the Department of Finance and Administration also commented on this proposal on the fiscal implications of this change, if enacted, approved by the voters and implemented.

Revenue generated from both operating levies and debt levies imposed by the various taxing entities such as the state (for GO bonds), municipalities, counties, public schools, and certain special districts, could be impacted. Furthermore, there could be substantial shifts in relative tax burden between the members of the protected class and other residential taxpayers. (Note: residential and non-residential rates are separately subject to yield control, so the exemption for a protected class would not shift burden from residential property to non-residential property but would shift burden within the residential property class.)

**SIGNIFICANT ISSUES**

TRD notes the following significant issue:

An expansion of a property tax exemption for veterans will erode horizontal equity in property taxes. By basing the exemption on profession, taxpayers in similar economic circumstances are no longer treated equally. The other side of this exemption is the broader public-good to maintain home ownership and quality of life for veterans. These veterans and their spouses sacrificed for them to serve in the United States military, and as a result they may have diminished earnings and ability to maintain home ownership.

The bill would represent a significant erosion of the local property tax base, on which most local governments rely for their budgets and operations.

LFC staff note this constitutional amendment creating a property tax exemption may serve to provide tax relief to only a portion of veterans. The exemption only applies to owner-occupied residences used as a principal resident. Thus, it excludes any veteran who is institutionalized, homeless, or occupying a rental unit. The value of the exemption is also highly variable depending on the city, county, and school district property tax rates in effect at the location of the veteran's principal residence. Per the LFC rough model, the tax benefit would range from \$240 in Bernalillo County to under \$100 in Grant, Mora, and Taos counties. Of note, the exemption from motor vehicle registration fee allowed by 66-6-7 NMSA 1978 is only allowed to veterans whose exemption value exceeds the property taxes imposed on tangible personal property and real property owned by the veteran and only the difference may be applied to motor vehicle registration fees, limited to the taxes imposed on \$2,000 exemption in the school district in which the veteran resides.

New Mexico has traditionally valued its veterans, and the provisions of this bill would increase the benefits accorded to veterans.

## **PERFORMANCE IMPLICATIONS**

This proposed constitutional amendment has no implications about performance or accountability. However, if the amendment is approved by the voters and the Legislature enacts implementing legislation, that legislation would not meet the LFC tax policy of accountability. This is a general criticism of all property tax issues, largely because the property tax valuation is administered by 33 county assessors using largely archaic technology. The state-level administration of the property tax is shared between the Property Tax Division of the Taxation and Revenue Department and the Local Government Division of the Department of Finance and Administration.

In addition, this joint resolution makes no attempt to establish criteria for evaluating the unstated purpose of the exemption.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

House Joint Resolution 5 seeks a constitutional amendment to expand the current 100 percent exemption for 100 percent service-related disabled veterans to allow a deduction for disabled veterans with less than 100 percent service-related disability. The new exemption would be equal to the federal percent of service-related disability.

House Joint 6 seeks a constitutional amendment to expand the veteran’s property tax exemption from \$4,000 to \$10 thousand.

House Joint Resolution 11 seeks a constitutional amendment to allow a \$5,000 exemption for full time, professional firefighters.

## **TECHNICAL ISSUES**

The new provisions, if passed by the voters at the general election in November 2024, would require enabling legislation to amend Section 7-37-5 NMSA 1978 in the course of the 2025 legislation session. In most cases in the past, the effect of a tax decrease for all taxpayers can be backdated to the current tax year. However, this proposal results in a shift of taxes between tax-advantaged veterans and nontax-advantaged property owners. It is safer to assume the provisions of this bill will apply to the 2026 tax year, with valuations published in May 2026 and fiscal impact, including any modification of yield-controlled rates, affecting the November 2026 property tax payments. Unlike the exemption for service-related disability in Section 7-35-5.1 NMSA, this exemption is not mandatory and automatic if the people approve the constitutional amendment but will require enabling legislation.

TRD notes the following:

The proposed exemption amount for tax year 2025 and each subsequent year, is to be adjusted for inflation. There is no methodology or definitions of how this adjustment is to occur. Tax & Rev recommends defining the inflation adjustment process to include a specific inflation metric, such as the Consumer Price Index, and a specific date each year that the CPI will be compared to the prior year.

## **OTHER SUBSTANTIVE ISSUES**

In its review of 2021 HJR3, TRD noted the following associated issue:

The Constitution presently states that the exemption is “from taxation.” Some have questioned whether the exemption from taxation applies to the value of the property or the taxable value of the property (which is 1/3<sup>rd</sup> of the value of the property). TRD proposes no change to the HJR or Constitution to clarify “from taxation” because it would create an inconsistency with Section 7-37-4 NMSA 1978, head of household exemption and possible inconsistent application of exemptions.

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