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

		ORIGINAL DATE	03/04/11		
SPONSOR	Sandoval	**LAST UPDATED**		**HB**	511
SHORT TITLE	Valuing Owner-Occupied Residential Property			**SB**	
				ANALYST	Golebiewski

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY12	**FY13**	**FY14**		
		$60,000.0	Recurring	GO Bond Capacity
	*	*	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		$150.0	$150.0	$300.0	Recurring	Taxation and Revenue Department

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Department of Finance and Administration (DFA)
New Mexico Association of Counties

SUMMARY

Synopsis of Bill

House Bill 511 replaces the existing caps on annual increases in valuation of residential property with a new system that includes valuation adjustments. The assessor would be required to value owner-occupied property at its market value. Applying the same uniform tax ratio (one-third) produces a number called the “ratio value.” The valuation adjustment is subtracted from the ratio value to yield taxable value. For nonresidential property and residential property other than owner-occupied property, taxable value equals assessed value divided by three. For all owner-occupied property other than property owned by low-income elderly and disabled persons, the valuation adjustment is designed to ensure that their taxable value cannot exceed 105 percent of the property’s taxable value in the previous year plus an adjustment. Lower limits would apply to property owned by low-income elderly and disabled persons. It also provides taxpayers with the opportunity to protest and make corrections to adjust the assessed value. The Property Tax Division shall be called upon to review and certify compliance with the conditions of this legislation annually.

FISCAL IMPLICATIONS

TRD:

> Impacts of the proposal would vary significantly from county to county because of regional housing market variety. Statewide, the proposal could cause an increase of up to 20 percent in residential net taxable value. Property tax rates would be adjusted downward through the normal rate-setting process. The yield control process would reduce operating tax rates on residential property only. The debt service rate setting process would reduce rates for both residential and non-residential property.
>
> General obligation bond capacity is determined as 1 percent of total net taxable value. The estimate shows the effects of a 20% increase in residential net taxable value.
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> The proposal would increase the growth rate of residential property values in the future.
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> Local governments and school districts often react to an increase of taxable value by proposing an increase in debt issuance to voters, using the argument that “your property tax won’t go up.” Under this approach, the proposal could lead to increased debt issuance and increased property tax liabilities.

SIGNIFICANT ISSUES

HB 511 corrects some of the issues associated with “property tax lightning”; that is, it brings all values up to current and correct. Going forward, the 5 percent annual growth limit is applied only to owner-occupied property. It also introduces differential valuation based on age, income, and disability status.

TRD:

> Properties that change classification between not owner-occupied to owner-occupied aren’t addressed in this legislation. The differential treatment would effectively impose tax lightning on properties that became owner-occupied after 2012. These properties should be adjusted to prevailing pre-sales assessments or current and correct values as appropriate at the time they change status.

ADMINISTRATIVE IMPLICATIONS

TRD:

The Property Tax Division would need to conduct or assist the Counties with greatly expanded Sales Ratio Studies and greater protest board responsibilities. The Property Tax Division would need to hire two full time employees at a likely cost of $90,000 per year. We would also have additional board meetings to finance along with legal council to defend us in litigation and oversee the additional productions of Decision and Orders. PTD estimates that this would increase protest board costs and approximately 50%, or, $60,000. Total anticipated cost to accommodate this change at PTD is $150,000 per year.

The revaluation methodology in this proposal is based on current and correct values and their relationship to existing values. It will call for increasing and rolling back residential assessments based on owner-occupancy, documentation of owner-occupied housing as distinct from properties not occupied as a primary residence and increasing the limitation on residential value increases from 3% to 5%. The condition requiring PTD to certify compliance with the conditions of this legislation annually comprises a large volume of sales ratio studies as well as complex statistical analyses on an individual property basis. Many County Assessors won’t be able to perform the massive revaluation necessary each year to meet the requirements of this legislation, particularly by the time they are required to mail their Notices of Valuation on April 1 of 2012. Many assessment practices, particularly the seventeen counties without Computer Assisted Mass Appraisal Systems don’t have estimates for the true market value of individual parcels under their jurisdictions.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Related to HB 451, SB 108, and SB 189.

TECHNICAL ISSUES

TRD:

The weakest technical aspect of this proposal is the method of establishing the tax ratio. The ratio should change every year and be tied to the pre-sales assessment from an expanded sales ratio study. The pre-sales ratio could be defined as: (a) The most recent assessed value of properties subject to the Limit on Residential Valuation (Section 7-36-21.2 NMSA 1978) divided by arm's length sales transactions or current appraisals or, (b) The ratio, from the Property Tax Division’s annual Sales Ratio Study, derived by dividing current year property assessments by current and correct values generated from arm's length sales transactions.

This legislation works best when repairing a relatively small differential between assessed value and current and correct. Tax increases on homes that are revalued at market are not minor shifts. This legislation addresses valuation methods for assessing new construction. It also contains provisions for low-income taxpayers and the disabled.

This proposal uses the 85% ratio as a proxy for current and correct. Mass appraisal doesn't hit to a single percentage, rather it incorporates ranges. Since this legislation does not include a way to verify owner occupancy of a primary residence. PTD suggests using the Head of Household Exemption (Section 7-37-4 NMSA 1978), but not every eligible party applies for this benefit.

ALTERNATIVES

TRD:

- Term all current assessments "transitional assessments."
- Define market values as "target assessments."
- Phase in the difference between transitional assessments and target assessments over a five-year period. Target assessments change every year with value. The five-year horizon is constant.
- Transitional assessments change every year with some exceptions.
- Owner-occupied residential properties never have a transitional assessment higher than market value multiplied by the pre-sales assessment ratio.
- The upward limit on property tax obligations is determined by household income. A circuit breaker, hypothetically 6% of effective gross income, would become the maximum property tax obligation in an owner-occupied property. This would require considerable verification work to protect the system and foregone taxes could become a lien on the property.

JAG/bym