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

		ORIGINAL DATE	02/14/11		
SPONSOR	SCORC	**LAST UPDATED**	03/05/11	**HB**	
SHORT TITLE	Extend Annual Property Valuation Increases			**SB**	CS/108/aSFC/aHTRC
				ANALYST	Golebiewski

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	**FY12**	**FY13**		
	($14,800.0)*	*	Recurring	General Obligation Bond Capacity

(Parenthesis ( ) Indicate Revenue Decreases)
* Please See Fiscal Implications

Relates to SB 189

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation & Revenue Committee amendment to Senate Bill 109 removes the emergency clause of the SCORC substitute for SB 108, and makes the effective date January 1, 2012.

Synopsis of SFC Amendment

The Senate Finance Committee amendment to Senate Bill 108 to the substitute for SB 108 changes how newly-constructed property would be valued: at market value, rather than sales price. The amendment also includes some technical corrections to the bill.

Synopsis of Original Bill

Senate Bill 108, as substituted, would extend the three percent limit in property assessed value growth to properties that change hands. Under current law, the three percent limit does not apply to valuation of a residential property in any tax year in which a change of ownership of the property occurred in the year immediately prior.

It would revalue properties that were sold during the period from property tax year 2004 to present, taking the property value in the period before the property was sold and growing that value at a rate of 3% per year, with the cap of current and correct value.

Finally, Senate Bill 108 would require new residential property to be valued by multiplying the sales price by the presales assessment ratio; it would also require the revaluation of any properties valued as new construction between property tax year 2004 and present. The revaluation of new property would reflect the sales price in the first tax year it was valued multiplied by the presales assessment ratio for the county tax year, increased by 3% per year, with a cap of current and correct value.

FISCAL IMPLICATIONS

The state's total net taxable value would decrease as a result of Senate Bill 108. The yield control efforts following this decrease in tax base would increase property tax rates. The immediate effect for counties and municipalities would be minimal; though, the policy change would effectively lower the tax burden for some households and increase it for others. Those individuals who purchased residential property in the last six years would see their assessed valuation decrease. The relative size of the value decrease and the rate increase would determine their net change in property tax payments. For those individuals that have benefited from the 3% limit over this period, their property tax would increase as a result of this policy.

Net taxable value also affects the state's General Obligation Bond capacity (GO Bond capacity is 1% of net taxable value). Based on the experience of Bernalillo County, the estimated decrease in net taxable value resulting from this change in property valuation is between 5 and 10 percent of residential taxable value. In FY11, this translates a decrease in the state's GO Bond capacity of approximately $14.8 million.

SIGNIFICANT ISSUES

TRD:

> The [revaluation upon sale of residential property] provision has given rise to what is referred to as "tax lightning," the sharp increase in value of a property upon transfer. One implication of the changes is that owner-occupied properties would not be reassessed to their current and correct value upon change in ownership.

Senate Bill 108 addresses many of the facets of property tax lightning, including the application of the limit going forward, the revaluation of property sold in the past (from property tax year 2004 through present), and the use of a presales assessment ratio to value property valued for the first time for property tax purposes.

The limitation has been in existence in current statute since property tax year 2001, but Senate Bill 108 revalues only those properties sold between property tax year 2004 and property tax year 2011. This may leave some properties sold between 2002 and 2004 that are not revalued.

ADMINISTRATIVE IMPLICATIONS

TRD:

> The proposal would impose substantial administrative costs on county assessors and, to a lesser extent, the Property Tax Division. Given these challenges, implementing the provisions before property tax year 2012 is probably not feasible.

Senate Bill 108 would require all assessors to have annual data on all properties in the county from property tax year 2004 forward. This data may not be available, or at least not in the detailed format that would lend itself to be used in revaluation. Relating to the presales ratio used to value and revalue new property, the county assessors will need to revisit these ratios, as they will likely need to be upgraded substantially before they are used to revalue properties. The revaluation process is likely to take a substantial amount of time, so at a minimum, it may be required that the process proposed in Senate Bill 108 be pushed back to property tax year 2012.

JAG/svb:bym