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

		ORIGINAL DATE	3/8/19		
SPONSOR	HTRC	**LAST UPDATED**		**HB**	429/a HTRCS
SHORT TITLE	Property Tax Increase Limit For Some People			**SB**	
				ANALYST	Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY19	**FY20**	**FY21**	**FY22**	**FY23**		
	Minimal	Minimal	Minimal	Minimal	Recurring	General Obligation Bond Rate
	Over time, could cause a significant reduction in state GO bond capacity				Recurring	General Obligation Capacity
	Could potentially cause significant reductions in revenue in some communities					Local Beneficiaries Property Tax Operating & Debt Rates

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		Minimal	Minimal	Minimal	Recurring	Local Assessors

Parenthesis ( ) indicate expenditure decreases

SOURCES OF INFORMATION
LFC Files

Responses Received (on SB220) From
Department of Finance and Administration, Local Government Division (DFA/LGD)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Taxation and Revenue Committee Substitute for House Bill 429 proposes a restructuring and modest increase in income levels necessary to qualify for a property tax valuation freeze in Section 7-36-21.3 NMSA 1978. The modified gross income limits proposed are increased from $32,000 to $35,000. This income limit is indexed to the Consumer Price Index (CPI-U), with a base year of 2020 and a calculation year of September of the year before the tax year. This restructuring will allow indexing to actually work to increase the $35,000 limit each year to account for inflation.

There is no effective date of this bill. It is assumed that the effective date is 90 days after this session ends, or June 14, 2019. The new provision would affect the 2020 property tax year.

FISCAL IMPLICATIONS

	Freeze Limit	Eligible Elderly	Total Elderly	% of Elderly Householders	% Of All Householders
Statewide Elderly with income at 2017 levels					
7-36-21.3B	$32,000	89,447	206,198	43%	18.8%
7-36-21.3D	$35,000	108,947	206,198	53%	22.9%
Statewide, All Householders			474,801		

The table above was generated from the American Community Survey for 2017 (5 year) using the age and income extract for New Mexico and its counties. Data for homeowners were selected and then smoothed to generate an estimate of eligible elderly homeowners.

The provisions of this bill would have a small, but noticeable effect on homeowners, but minimal effect on revenue beneficiaries for several reasons:

- About four percent more homeowners would be eligible for a valuation freeze. This equates to 19,500 more taxpayers whose valuations would not increase by 3 percent (plus the value of any improvements installed during the previous tax year), but would be eligible for a valuation freeze to tax year 2020 levels. Initially, this would have minimal impact on revenues shifted to other taxpayers, but over time could have a significant effect on total valuations.
- Residential property tax operating rates are yield-controlled. Thus, if the proposed valuation freeze caused a slight reduction in "valuation maintenance", the rate would be slightly adjusted upwards (with the slight exception of newly imposed rates or rates imposed in jurisdictions with falling property tax values. The beneficiaries would largely be held harmless to the new provisions, but the entire class of taxpayers that were not benefitted by the new limits would pay slightly more in taxes.
- Property tax debt rates are similarly adjusted for changes in the tax base. Thus, if the proposed valuation freeze caused a slight reduction in total taxable values, the resulting debt rate would be slightly adjusted upwards. The beneficiaries would largely be held harmless to the new provisions, but the entire class of taxpayers that were not benefitted by the new limits would pay more in taxes.

An analysis of data on total householders in the state, some of whom live in rental housing and others in owned homes, reveals that the income limits in this bill embrace a substantial fraction of the total community. As shown in the table above, the provisions of this bill might increase the fraction of homeowners eligible for a freeze by 4 percentage points. Again, this will have minimal effect on overall revenues, but could result in significant increases in tax rates for the non-advantaged population of elderly renters, higher income homeowners and homeowners under the age of 65.

Similar comments apply to the state's disabled homeowners, although there are far fewer disabled homeowners that would qualify pursuant to the provisions of this bill.
A substantial number of relatively moderate-income elderly and disabled individuals live in rental housing. Renters would not benefit from the provisions of this bill. In fact, to a very moderate extent, moderate-income elderly and disabled renters would see their monthly rental costs increase to a slight degree.

DFA/LGD notes as follows: "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 operating 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.)"

And again, "…however, there would be a positive impact to taxpayers receiving cost of living increases on an annual basis on social security income who may have reached the existing $32,000 income limit and could once again be eligible for the valuation limitation if the income limit increases to $35,000."

This bill expands a tax expenditure with a cost that is difficult to determine but could be significant for some counties or municipalities. LFC has serious concerns about the significant risk to these revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. This bill may be counter to the LFC tax policy principle of adequacy, efficiency, and equity. Due to the increasing cost of tax expenditures, revenues may be insufficient to cover growing recurring appropriations.

SIGNIFICANT ISSUES

DFA/LGD notes that the change proposed in this bill is authorized by Article VIII, Section 1.B. of the New Mexico Constitution which states "The legislature shall provide by law for the valuation of residential property for property taxation purposes in a manner that limits annual increases in valuation of residential property. The limitation may be applied to classes of residential property taxpayers based on owner-occupancy, age or income."

As noted in the Fiscal Implications section, increasing the income limits in this bill has the potential for shifting significant property tax burden for some communities. This could result in significant increases in tax rates for the non-advantaged population of renters, higher income homeowners and homeowners under the age of 65.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is <u>not</u> met since TRD is <u>not</u> required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking advantage of this freeze. There is no means of determining whether the property tax freeze is meeting its purpose. In general, TRD/Property Tax Division is not privy to the numbers of homeowners allowed a property tax valuation freeze. Nor are these data reported to the Local Government Division of DFA.

ADMINISTRATIVE IMPLICATIONS

DFA/LGD notes that if HB429 is enacted, county assessors would need to update their records with new taxpayers that would now qualify for the property tax valuation limitation. This would need to be accomplished by January 1, 2020 in order to meet the statutory deadline of April 1st for mailing notices of value to taxpayers for the Tax Year 2020.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HJR2 and HJR3 propose ***property tax exemption*** for seniors and 100 percent disabled homeowners with income less than $15 thousand.

SB220 proposes an increase to $35 thousand as the limit.

HB429/HTRCCS proposes an increase to $35 thousand as the limit and fixes the indexing provisions.

ALTERNATIVES

The legislature could consider imposing a reporting requirement on County Assessors to report the number of homeowners qualifying for this valuation freeze. This could be straightforward, since DFA/LGD requires a significant amount of information from assessors in order to administer the provisions of the yield control statute.

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