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

SPONSOR Wirth

ORIGINAL DATE 1/21/19
LAST UPDATED 2/5/19

HB

SHORT TITLE Certain Property Tax Increase Limits

SB 220

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
	Minimal	Minimal	Minimal	Minimal	Recurring	General Obligation Capacity
	Minimal	Minimal	Minimal	Minimal		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 From
Department of Finance and Administration, Local Government Division (DFA/LGD)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 220 proposes to add a category to the three existing valuation freezes in Section 7-36-21.3 NMSA 1978. The new category parallels that enacted for 2009 and subsequent years. New income limits for property tax valuation freeze are proposed for low income homeowners over 65 and low-income homeowners who are blind or disabled. The modified gross income limits proposed are increased from $32,000 to $35,000. Both the 2009 or the 2020 income limits are tested based on the $18,000 original limit indexed to the Consumer Price Index (CPI-U), with a base year of 2000 and an calculation year of September of the year before the tax year.

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 2020 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 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% (plus the value of any improvements installed during the previous tax year), but would be eligible for a valuation freeze to TY2020 levels. In intially, this would have minimal impact on revenues shifted to other taxpayers, but over time could have a significant effect on total valuations. There may be about a 4% increase in number of homeowners qualifying under the new provision.
- 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. 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 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, 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.

The indexing provisions of 7-36-21.3 NMSA 1978 are curious. To a first glance, the indexing provisions should provide for an annual increase in the freeze limits to keep up with inflation. However, section I of the current statute and section J of the proposed limit only index the $18,000 limit in section A. In the table to the right, this index is calculated through tax year 2025 and does not exceed $32,000 of section B of 7-36-21.3 NMSA 1978. Apparently, with the 2009 amendment, this elderly property tax freeze is keeping up with inflation.

		MGI limits
Tax Year	CPI	7-36-21.3B
2000	173.7	18,000
2019	255.3	$27,000
2020	260.9	$27,600
2021	265.9	$28,100
2022	272.2	$28,800
2023	278.5	$29,500
2024	285.0	$30,200
2025	291.4	$30,800

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since TRD is not 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 SB220 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% disabled homeowners with income less than $15,000.

HB429 proposes an increase to $50,000 as the limit.

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.

LG/al/gb