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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/22/21  
 SPONSOR Alcon LAST UPDATED 2/04/21 HJR 2  
 SHORT TITLE Veteran Property Tax Exemption SB \_\_\_\_\_  
 ANALYST Graeser

### REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY21	FY22	FY23	FY24	FY25		
		Indeterminate but Likely Significant			Recurring	

Parenthesis ( ) indicate revenue decreases

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY21	FY22	FY23	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>		\$150.0 - \$200.0		\$150.0 - \$200.0	Nonrecurring	General Fund

Parenthesis ( ) indicate expenditure decreases

Companion to HJR3; Duplicate of SJR16

### SOURCES OF INFORMATION

LFC Files

American Community Survey 2019 5-yr S2101

American Community Survey 2019 5-yr DP04

NM Department of Finance and Administration, Local Government Property Tax Rate Sheets 2010 to 2020

### Responses Received From

Veteran's Services Department (VSD)

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of House Joint Resolution

House Joint Resolution 2 proposes an amendment to Article 8, Section 15, of the New Mexico Constitution to extend the current property tax exemption for 100 percent disabled veterans and their widows and widowers to veterans with less than a 100 percent disability and their widows and widowers, basing the amount of the exemption on a veteran's federal disability rating.

The question would be on the ballot at the next general election or a special election called for the purpose.

See” Technical Issues” for discussion of the timeframe for passage and implementation of these provisions if passed by the voters.

## **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 1-16-13 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 ten percent of the registered voters in the state. The SoS is also required to publish them 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.

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 (7-37-7.1 NMSA 1978) to pay slightly more taxes, and to local government jurisdictions, including school districts, that would experience a slight reduction in their maximum bonding authority and possibly some reduction in revenues.

This bill creates or expands a tax expenditure with a cost that is difficult to determine but likely significant. LFC has serious concerns about the significant risk to state and local revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting.

LFC staff created a rough model to determine the order of magnitude of the property taxes shifted from service-connected disabled veterans to nondisabled veterans and the general public. This model is only approximate and contains several assumptions. LFC staff modeled the percentage disability for all disabled veterans from national data and used state statistics for the percentage of veterans who are homeowners. Median tax obligations by county were then determined from ACS data.

The rough conclusion is that this property tax exemption would create an annual average property tax reduction of \$767 for 29.4 thousand service-related disabled veterans with property tax liability. This would create an additional annual per capita burden of \$14 for the population in general. If the joint resolution is passed by the Legislature, presented and accepted by the people at a general election, then TRD or LFC will refine these estimates.

**House Joint Resolution 2 – Page 3**

Geographic Area Name	Total Population	Veterans Veterans	Veterans with any disability	Approx Veterans with Service-connected Disability	Approx Current Veteran's Deduction 100% Disabled	Approx Proposed Veteran's Percentage Disabled Deduction	Approx Amount of Property Taxes Shifted from Service-Connected Disability persons to others	Per Capita Amount of Shifting
Bernalillo County	523,423	48,191	13,855	10,560	\$2,602,136	\$12,633,458	\$10,031,322	\$19
Catron County	3,071	401	182	139	\$7,312	\$34,778	\$27,466	\$9
Chaves County	47,813	3,649	1,473	1,123	\$120,904	\$584,242	\$463,338	\$10
Cibola County	20,520	1,791	884	674	\$57,152	\$277,939	\$220,787	\$11
Colfax County	10,042	1,275	476	363	\$31,447	\$152,786	\$121,339	\$12
Curry County	34,425	4,904	1,185	903	\$85,782	\$415,538	\$329,756	\$10
De Baca County	1,512	262	148	113	\$13,000	\$61,800	\$48,800	\$32
Doña Ana County	160,651	14,427	4,558	3,474	\$507,363	\$2,455,740	\$1,948,377	\$12
Eddy County	42,106	3,606	1,169	891	\$97,667	\$473,056	\$375,389	\$9
Grant County	22,170	2,622	1,032	787	\$57,405	\$277,931	\$220,526	\$10
Guadalupe County	3,608	375	107	82	\$5,373	\$26,447	\$21,074	\$6
Harding County	386	58	18	14			\$0	\$0
Hidalgo County	3,326	321	89	68	\$3,424	\$16,178	\$12,754	\$4
Lea County	48,956	2,374	608	463	\$45,552	\$221,365	\$175,813	\$4
Lincoln County	15,869	2,142	553	421	\$59,472	\$286,581	\$227,109	\$14
Los Alamos County	14,173	1,439	219	167	\$42,218	\$202,869	\$160,651	\$11
Luna County	17,879	1,460	568	433	\$31,458	\$152,347	\$120,889	\$7
McKinley County	51,481	2,992	1,239	944	\$150,335	\$727,790	\$577,455	\$11
Mora County	3,711	339	142	108	\$9,264	\$45,239	\$35,975	\$10
Otero County	47,847	8,070	2,001	1,525	\$141,212	\$685,781	\$544,569	\$11
Quay County	6,515	564	240	183	\$11,928	\$57,027	\$45,099	\$7
Rio Arriba County	29,981	2,268	932	710	\$72,800	\$353,808	\$281,008	\$9
Roosevelt County	14,022	1,165	339	258	\$22,446	\$109,444	\$86,998	\$6
Sandoval County	106,871	11,347	3,116	2,375	\$514,292	\$2,495,276	\$1,980,984	\$19
San Juan County	92,651	7,115	2,610	1,989	\$259,875	\$1,258,719	\$998,844	\$11
San Miguel County	22,383	2,099	1,021	778	\$85,184	\$413,142	\$327,958	\$15
Santa Fe County	120,852	9,957	2,908	2,216	\$415,250	\$2,013,796	\$1,598,546	\$13
Sierra County	9,339	1,527	673	513	\$34,452	\$167,092	\$132,640	\$14
Socorro County	13,077	1,038	446	340	\$39,140	\$190,550	\$151,410	\$12
Taos County	26,833	2,515	626	477	\$66,474	\$321,291	\$254,817	\$9
Torrance County	12,302	1,551	382	291	\$28,974	\$140,217	\$111,243	\$9
Union County	3,385	345	102	78	\$5,625	\$26,750	\$21,125	\$6
Valencia County	57,629	6,075	2,176	1,658	\$235,994	\$1,145,517	\$909,523	\$16
New Mexico	1,588,809	148,264	46,077	35,118	\$5,860,910	\$28,424,495	\$22,563,585	\$14

TRD has analyzed the bill and determined that, if passed by the voters and implemented, the property taxes shifted would be as follows:

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2021	FY2022	FY2023	FY2024	FY2025		
--	--	(\$12,800)	(\$12,900)	(\$12,900)	R	County Treasurers – for distribution to various property taxing authorities
--	--	(\$600)	(\$600)	(\$600)	R	State General Obligation Bond Fund

TRD describes its methodology as follows:

It is assumed for this analysis that the proposed amendment is approved by the voters in the November 2022 general election and would come into force for FY2023 after enabling legislation.

There are approximately 62,000 veterans claiming the \$4,000 property deduction under Article 7 Section 5 of the Constitution. Based on information from the NM Department of Veteran Services, the Taxation and Revenue Department (TRD) estimates that approximately half of those veterans are disabled. TRD then assumes that the average percentage of disability is 50%.

Estimates for taxable property values (with moderate yearly increases) using United State Census median home value for New Mexico and New Mexico Realtors Association average sale prices and millage rates were then used to determine the loss of tax revenue. This estimate establishes an aggregate impact to the state but mill rates and property values vary county to county. The impact to a specific county will also depend on the per capita population of veterans in the county.

Note that property tax is handled differently than nearly all other tax programs in that it has yield control which adjusts the tax rates (where possible) to make up for reductions in the tax base through exemptions. About 60% (weighted by value) of the residential property in the state still allows yield control, meaning only about 40% of revenue losses will be realized. County treasurers collect residential property tax and then distribute it to all property taxing authorities, which include counties, municipalities, school districts, hospital authorities, and various special districts. About 4% of all property tax revenue is distributed to the state General Obligation Bond fund under the state millage rate.

Note that the LFC staff estimate shows almost twice the amount of shifted revenues than does the TRD estimate. Neither estimate includes the operation of yield control on the loss of operating revenues.

## **SIGNIFICANT ISSUES**

This constitutional amendment creating a property tax exemption may serve to provide tax relief to only a portion of service-related disabled veterans. The exemption only applies to owner-occupied residences used as a principal residence. Thus, it excludes any service-related disabled 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 average tax benefit would range from over \$1,000 in Los Alamos and Bernalillo counties to under \$300 in Catron, Hidalgo, and Quay counties.

HJR3, a companion to HJR2, seeks a constitutional amendment to increase the current \$4,000 veteran's property tax exemption to \$10 thousand for all veterans who occupy the taxed residence as a principal residence. This proposal also excludes providing benefits to institutionalized veterans and veterans who occupy rental units but would (at greater amounts of tax shifted) benefit more veterans.

TRD notes similar concerns:

An expansion of a property tax exemption for veterans would erode horizontal equity in property taxes. Taxpayers in similar economic circumstances or with similar disability designations are no longer treated equally. All other taxpayers in counties with room to adjust their yield control may see their property tax rates increase. However, this exemption accomplishes the broader public-good to maintain home ownership and quality of life for veterans with a range of disabilities.

### **PERFORMANCE IMPLICATIONS**

The LFC tax policy of accountability is not met because TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers claiming the exemption and other information to determine whether the exemption is meeting its purpose. This is a general criticism of all property tax issues, largely because the property tax valuation is administered by 33 county assessors and primarily with 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.

### **ADMINISTRATIVE IMPLICATIONS**

TRD would incur modest additional administrative burden – primarily designing application documents and instructing county assessor staff members.

Veterans Services Department anticipates needing 1 full FTE to process an anticipated large increase in the number of claimants that would have to be certified. However, this request would not be necessary until after the constitutional amendment were passed and enabling legislation enacted.

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

Related to HJR3, which seeks a constitutional amendment to increase the current \$4,000 veteran’s property tax exemption to \$10 thousand for all veterans who occupy the taxed residence as a principal residence. SJR16 is a duplicate.

### **TECHNICAL ISSUES**

The new provisions, if passed by the voters at the general election in November 2022, would require enabling legislation to amend Section 7-37-5.1 NMSA 1978. This amendment could be passed with emergency clause to make the new proportional exemption applicable to the 2023 property tax year beginning January 1, 2023, with valuations published in May 2023 and fiscal impact, including any modification of yield-controlled rates, affecting the November 2023 property tax payments. This enabling legislation may be mandatory if the people approve the constitutional amendment. The phrase is, “The legislature *shall* exempt from taxation the property ... of every veteran ...”