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## FISCAL IMPACT REPORT

SPONSOR Alcon ORIGINAL DATE 01/22/21  
 LAST UPDATED 02/18/21 HJR 3

SHORT TITLE Veteran Property Tax Exemption Increase SB \_\_\_\_\_

ANALYST Graeser

### REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY21	FY22	FY23	FY24	FY25		
		No immediate fiscal impact: see Fiscal Implications			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	Secretary of State Operating General Fund

Parenthesis ( ) indicate expenditure decreases

Companion to HJR2. SJR16 is a duplicate of HJR2

### 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)

Department of Finance and Administration, Local Government Division (DFA - LGD)

Taxation and Revenue Department (TRD)

### SUMMARY

Synopsis of House Joint Resolution 3

House Joint Resolution 3 proposes an amendment to Article 8, Section 5 of the New Mexico Constitution to increase a property tax exemption for honorably discharged members of the armed forces and their widows and widowers from \$4 thousand to \$10 thousand.

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 time frame 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 - \$200 thousand depending upon the size and number of ballots and if additional ballot stations are needed.

However, 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 non-veteran property tax payers who could be required through the action of yield-control (7-37-7.1 NMSA 1978) to pay slightly more taxes than in the absence of the new exemptions and to local government jurisdictions, including school districts, that would experience a slight reduction in their maximum bonding authority.

If the proposal is implemented, the Veterans Services Department requests a budget increase to fund one additional range 50 interview analyst to certify the new level of exemption. Unlike HJR2 which expands the population eligible for an increased exemption for service-related disabled veterans, this proposal if enacted would not increase the population and the increased level of exemption could and would be administered by the county assessor's staff.

LFC staff created a rough model to determine the order of magnitude of the increase in property taxes shifted from veterans to non-veterans in the general public. This model is only approximate and contains a number of assumptions and ignores a number of specific features of the property tax code, including yield-control.

The rough conclusion is that this property tax exemption would create an annual average property tax reduction of \$180 for almost 100 thousand qualifying veterans. This would create an additional annual per capita burden of \$34 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 3 – Page 3

Geographic Area Name	Total -- Civilian population 18 years and over	Veterans -- Civilian population 18 years and over	Veterans Qualifying	Qualification %	Increase in Taxes shifted	Benefit per Qualifying Veteran	Per Owner Occupied Unit Shifting
Bernalillo County	523,423	48,191	30,353	63%	\$7,275,432	\$240	\$43.15
Catron County	3,071	401	352	88%	\$35,773	\$102	\$30.79
Chaves County	47,813	3,649	2,514	69%	\$322,255	\$128	\$20.09
Cibola County	20,520	1,791	1,230	69%	\$231,348	\$188	\$38.68
Colfax County	10,042	1,275	906	71%	\$148,501	\$164	\$35.72
Curry County	34,425	4,904	2,796	57%	\$386,116	\$138	\$36.51
De Baca County	1,512	262	164	63%	\$23,219	\$142	\$55.15
Doña Ana County	160,651	14,427	9,102	63%	\$1,580,908	\$174	\$32.19
Eddy County	42,106	3,606	2,506	69%	\$331,814	\$132	\$22.47
Grant County	22,170	2,622	1,785	68%	\$164,174	\$92	\$20.35
Guadalupe County	3,608	375	235	63%	\$37,534	\$160	\$43.29
Harding County	386	58	38	66%	\$4,543	\$120	\$32.92
Hidalgo County	3,326	321	227	71%	\$25,938	\$114	\$21.87
Lea County	48,956	2,374	1,586	67%	\$254,991	\$161	\$16.95
Lincoln County	15,869	2,142	1,726	81%	\$247,829	\$144	\$40.65
Los Alamos County	14,173	1,439	1,067	74%	\$157,054	\$147	\$26.72
Luna County	17,879	1,460	889	61%	\$121,204	\$136	\$22.35
McKinley County	51,481	2,992	2,122	71%	\$416,273	\$196	\$28.03
Mora County	3,711	339	290	86%	\$27,791	\$96	\$18.97
Otero County	47,847	8,070	5,181	64%	\$711,310	\$137	\$46.88
Quay County	6,515	564	347	62%	\$55,011	\$159	\$29.43
Rio Arriba County	29,981	2,268	1,743	77%	\$213,082	\$122	\$21.78
Roosevelt County	14,022	1,165	681	58%	\$94,329	\$139	\$23.68
Sandoval County	106,871	11,347	8,918	79%	\$1,726,115	\$194	\$43.06
San Juan County	92,651	7,115	5,053	71%	\$737,637	\$146	\$23.94
San Miguel County	22,383	2,099	1,476	70%	\$188,766	\$128	\$23.12
Santa Fe County	120,852	9,957	7,059	71%	\$977,107	\$138	\$22.26
Sierra County	9,339	1,527	1,129	74%	\$159,961	\$142	\$38.96
Socorro County	13,077	1,038	762	73%	\$138,861	\$182	\$41.88
Taos County	26,833	2,515	1,922	76%	\$181,018	\$94	\$19.57
Torrance County	12,302	1,551	1,291	83%	\$179,761	\$139	\$38.27
Union County	3,385	345	224	65%	\$29,146	\$130	\$32.17
Valencia County	57,629	6,075	4,950	81%	\$828,185	\$167	\$37.63
New Mexico	1,588,809	148,264	100,624	68%	\$18,012,985	\$179	\$34.12

Similarly, TRD estimated the amount of tax shifting:

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. TRD calculated the associated fiscal impact based on increasing the property deduction to \$10,000 for the current population.

Estimates for taxable property values (with moderate yearly increases) using United States 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 percent (weighted by value) of the residential property in the state still allows yield control, meaning only about 40 percent 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 4percent of all property tax revenue is distributed to the state general obligation bond fund under the state millage rate.

(\$4,000)	(\$4,000)	(\$4,000)	R	County Treasurers – for distribution to various property taxing authorities
(\$200)	(\$200)	(\$200)	R	State General Obligation Bond Fund

DFA/LGD also comments on the fiscal implications of this change, if enacted, approved by the voters and implemented.

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.)

**SIGNIFICANT ISSUES**

TRD notes the following significant issue:

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

LFC staff note that this constitutional amendment creating a property tax exemption may serve to provide tax relief to only a portion of veterans. The exemption only applies to owner-occupied residences used as a principal resident. Thus, it excludes any veteran who is institutionalized, homeless or who is 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 tax benefit would range from \$240 in Bernalillo County to under \$100 in Grant, Mora and Taos Counties.

New Mexico has traditionally valued its veterans, and the provisions of this bill would increase the benefits accorded to our veterans.

DFA notes the following:

The proposed tax exemption increase in HJR3 is similar to existing tax exemptions found in Article VIII, Section 15 of the New Mexico Constitution, in which the legislature exempts from taxation 100% of the property, including community or joint property if married, of every 100% disabled veteran of the armed forces if the veteran occupies the property as a primary place of residence. This exemption continues for the widow or widower of the veteran as long as the widow or widower continues to occupy the property as a primary place of residence. This bill is also similar to HJR2 which proposes to extend the disabled veterans exemption in Article VIII, Section 15 to partially disabled veterans based on their federal veterans disability rating percentage. The burden of proof of exemption eligibility is on the person claiming the exemption.

## **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 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 using largely 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. Unlike HJR2, which would increase the eligible population, this proposal could and would be administered by the county assessors with little increase in the number of claimants. LFC staff anticipates no increase in certification workload at VSD.

DFA notes there would be administrative impacts.

If voters approve the property tax exemption in HJR3, county assessors would need to update their records for taxpayers that meet the conditions and provide proof for the exemption. This would need to be accomplished by January 1st after the successful election in order to meet the statutory deadline of April 1st for mailing notices of value to taxpayers for the next up-

coming tax year.

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

HJR2, seeks a constitutional amendment to expand the current 100 percent exemption for 100 percent service-related disabled veterans to allow a deduction for disabled veterans with less than 100 percent service-related disability. The new exemption would be equal to the federal percent of service-related disability. SJR16 duplicates the provisions of HJR2.

### **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 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 of 2023 and fiscal impact, including any modification of yield-controlled rates, affecting the November 2023 property tax payments. Unlike the exemption for service-related disability in 7-35-5.1 NMSA, this exemption is not mandatory if the people approve the constitutional amendment.

### **OTHER SUBSTANTIVE ISSUES**

TRD notes the following associated issue:

The Constitution presently states that the exemption is “from taxation.” Some have questioned whether the exemption from taxation applies to the value of the property or the taxable value of the property (which is 1/3<sup>rd</sup> of the value of the property). TRD proposes no change to the HJR or Constitution to clarify “from taxation” because it would create an inconsistency with Section 7-37-4 NMSA 1978, head of household exemption and possible inconsistent application of exemptions.

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