



*Property Tax In New Mexico:
Background, Recent Trends and Current
Issues*

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Presented to

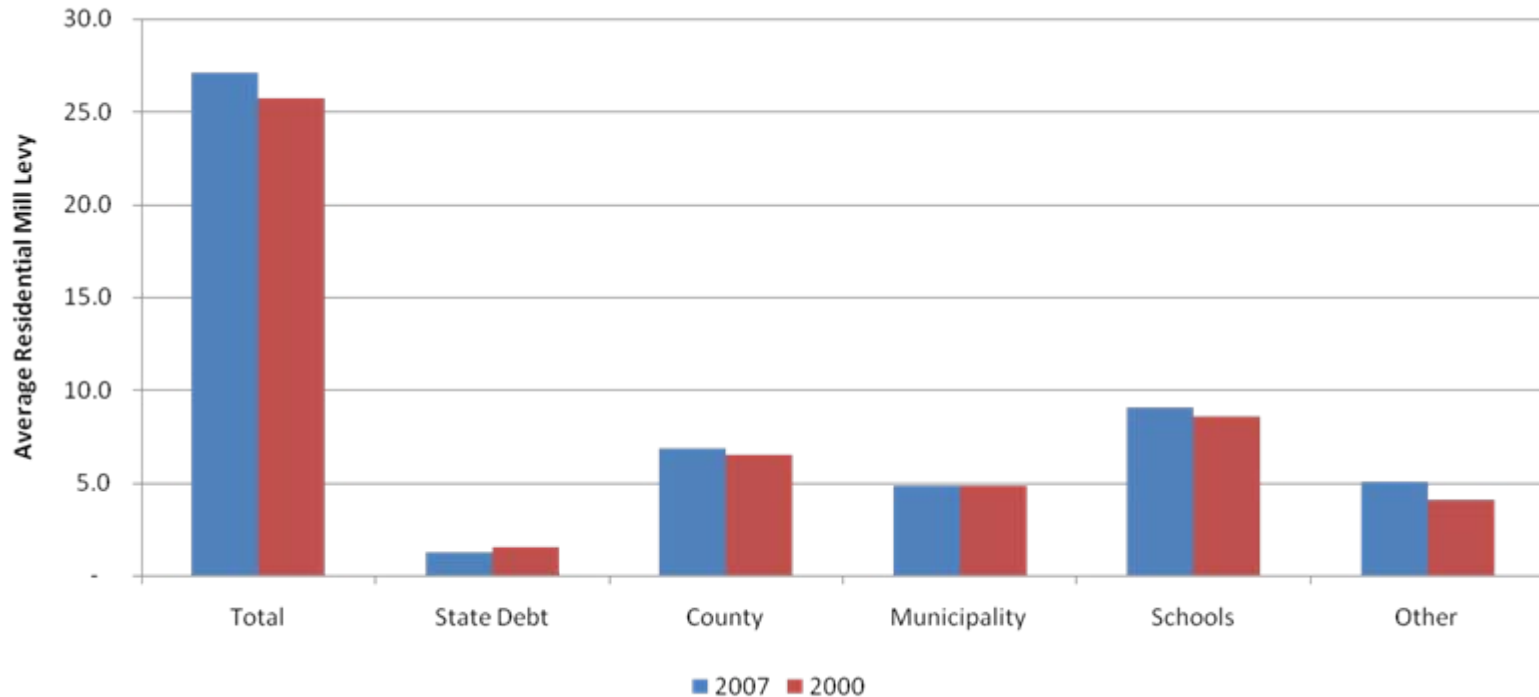
Public School Capital Outlay Task Force

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Background

- Property tax currently generates about \$1.3 billion in revenue annually from a taxable value base of about \$47 billion
- Taxable value is 1/3 of assessed value less certain exemptions
- 56% of the tax base is residential property, 30% is nonresidential and 14% is oil and gas or copper mineral property
- Rates vary by location from a low of about 10 mills (\$1 per \$1,000 of taxable value) to a high of about 45 mills with an average of about 27 mills, equal to about 0.9% of market value

Revenue Distribution: Residential Taxes



- About 1/3 of revenue goes to schools, mostly for capital outlay
- 1/4 goes to Counties, mostly for operating expenditures
- About 1/6 goes to municipalities, mostly for operating
- About 10% each goes to hospitals (primarily UNMH) and higher education and
- Slightly less than 5% goes to the state for GO bonds

Residential Property Tax Rates by Purpose (\$ per \$1,000 NTV)

Category	2000	2007	Change	Percent Change	Percent of 2007 Total
State Debt	1.53	1.22	(0.31)	-20.3%	5%
County Operating	5.63	5.97	0.34	6.0%	22%
County Debt	0.79	0.81	0.02	2.3%	3%
County Other (YC)	0.06	0.06	0.00	2.9%	0%
County Other (Not YC)	0.21	0.06	(0.15)	-70.7%	0%
Muni Operating	1.85	2.27	0.43	23.3%	8%
Muni Debt	2.90	2.54	(0.35)	-12.2%	9%
Flood Control	0.07	-	(0.07)	-100.0%	0%
School Operating	0.24	0.23	(0.01)	-2.8%	1%
School Debt	4.35	4.99	0.64	14.7%	18%
School Capital	1.93	1.91	(0.03)	-1.3%	7%
School Building (YC)	1.95	1.86	(0.08)	-4.3%	7%
School technology (Not YC)	0.10	0.09	(0.01)	-7.6%	0%
Hospitals Operating	1.71	2.63	0.92	54.0%	10%
Hospitals Debt Service	-	0.57	0.57	N/A	2%
Higher Education Operating	1.77	1.83	0.06	3.4%	7%
Higher Education Debt	0.58	0.57	(0.01)	-2.3%	2%
Conservation districts (YC)	0.02	0.02	(0.00)	-6.2%	0%
Total	25.69	27.09	1.40	5.5%	100%
Subtotal--Yield Controlled	13.23	14.88	1.66	12.5%	55%
Subtotal--Not Yield Controlled	12.46	12.21	(0.25)	-2.0%	45%
Subtotal--County	6.70	6.90	0.21	3.1%	25%
Subtotal--Municipality	4.74	4.82	0.08	1.6%	18%
Subtotal--Schools	8.56	9.08	0.52	6.0%	34%
Subtotal--Hospitals	1.71	3.20	1.49	87.4%	12%
Subtotal--Higher Education	2.36	2.40	0.05	2.0%	9%
Subtotal--Other	0.09	0.02	(0.07)	-78.7%	0%

Constitutional Provisions: Article VIII

- **Section 1:**
 - Levies shall be in proportion to value
 - Levies shall be equal and uniform on properties of the same class
 - Tax shall be levied against no more than 33 and 1/3% of the value of property
 - Legislature shall limit annual increases in residential value based on owner-occupancy, age or income
- **Section 2:**
 - Total tax levy is limited to no more than 20 mills except for payment of debt service on voter-approved debt issues
- **Section 3:**
 - Exempt from tax are properties of U.S., State and Local governments, churches, educational and charitable institutions
- **Section 5:**
 - \$2,000 exemption for head of household
 - \$4,000 exemption for veterans
- **Section 15:**
 - Property of disabled veterans is exempt

Constitutional Provisions: Article IX

- Section 8:
 - State debt is limited to no more than 1% of total assessed value
- Section 11:
 - School district debt is limited to 6% of assessed value in the district
- Section 12:
 - Municipal debt is limited to the amount that can be serviced by a 12 mill levy
- Section 13:
 - County and municipal debt is limited to no more than 4% of total assessed value

Statutory Provisions

- Tax Administration (7-35 NMSA 1978)
 - Property Tax Division Director has supervisory power over county assessors
 - Director may suspend assessor for failure to perform
- Property Valuation (7-36):
 - County assessors responsible for valuing all property except: railroads, pipelines, communications, utilities, airlines and construction work in progress
 - Exemptions allowed for property purchased with IRB's, other public instruments
 - Oil, gas and copper-producing properties are valued under separate statutes
 - Tangible personal property is subject to tax if used for business purposes
 - Assessors are required to maintain current and correct values – i.e. market values
 - Assessors are required to prepare sales ratio reports
 - Assessors may reappraise every year or every other year
 - Special methods are provided for agriculture, mining, manufactured homes, pipelines, power generation, railroads, aircraft and construction work in progress

- Tax imposition (7-37)
 - Rates imposed on residential and nonresidential property shall be the same except for the provisions of yield control
 - Maximum rates imposed for operating purposes are limited to 20 mills, divided as follows: 11.85 mills by the County; 7.65 mills by a Municipality and 0.5 mills by a school district.
 - Taxes may be imposed for debt service on general obligation debt without limit except as provided in the Constitution
 - Other voter-approved levies are also authorized

- Other Administration (7-38):
 - Most property is valued as of January 1 each year
 - Transferors of residential property are required to report value to the assessor
 - Property is presumed to be nonresidential unless the owner declares otherwise
 - DFA sets property tax rates based on value information from the PTD
 - Tax payment is due in two installments, Nov. 10 and April 10

Yield Control

- Revenue increase from existing properties cannot exceed rate of government services inflation (or 5%, whichever is lower)
 - rates will *increase* if values grow by less than inflation
 - rates will *decrease* if values grow by more than inflation
- New construction not affected
- Formula applied separately to residential and nonresidential property
- YC applies to rates imposed for*:
 - County, municipal and school operating levies (7-37-7(B))
 - Municipal flood control (3-41-2)
 - Special hospital districts (4-48A-16)
 - Branch community colleges (21-14-6, 6.1)
 - Technical and vocational institute (21-16-12)
 - Conservancy district operations (73-18-8(A)(3), (4))
 - Public school capital 22-25; 22-26
- YC does *not* apply to rates imposed for:
 - Statutory exemptions, e.g. G.O. debt service
 - Payment of a definite amount for a specific benefit, e.g. county improvement districts, drainage districts, certain conservancy districts
 - Rates imposed on other base besides value, e.g. per square foot

*Section 7-37-7.1(A) and NMAC 3.6.6.14

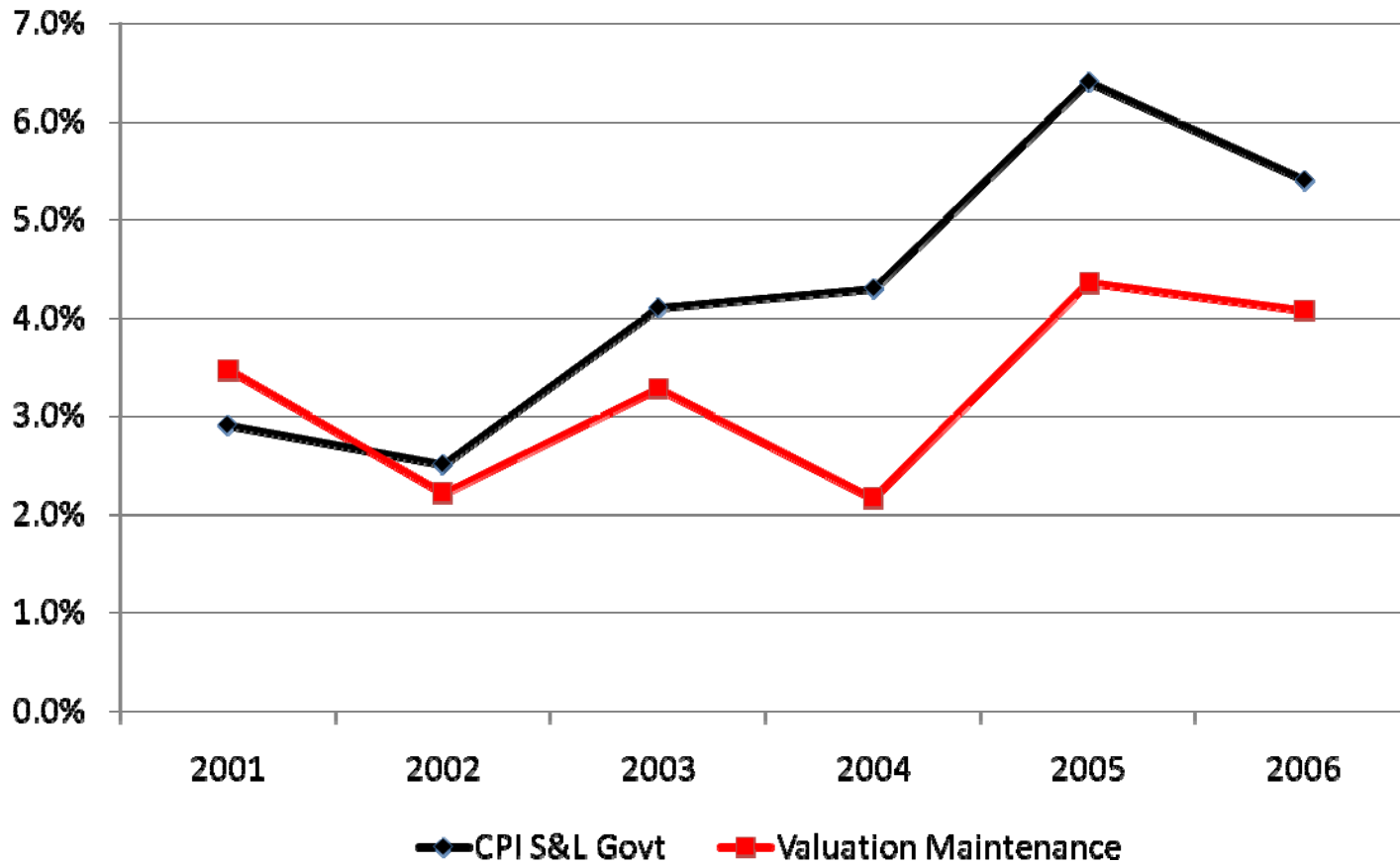
Yield Control Mechanism

Relation of Taxable Value Growth to Government Service Price Index:	Yield Control Adjustment to Operating Levies:
Value Growth Less Than Price Index	Increase Levies*
Value Growth Equal To Price Index	No Change
Value Growth Greater Than Price Index	Decrease Levies

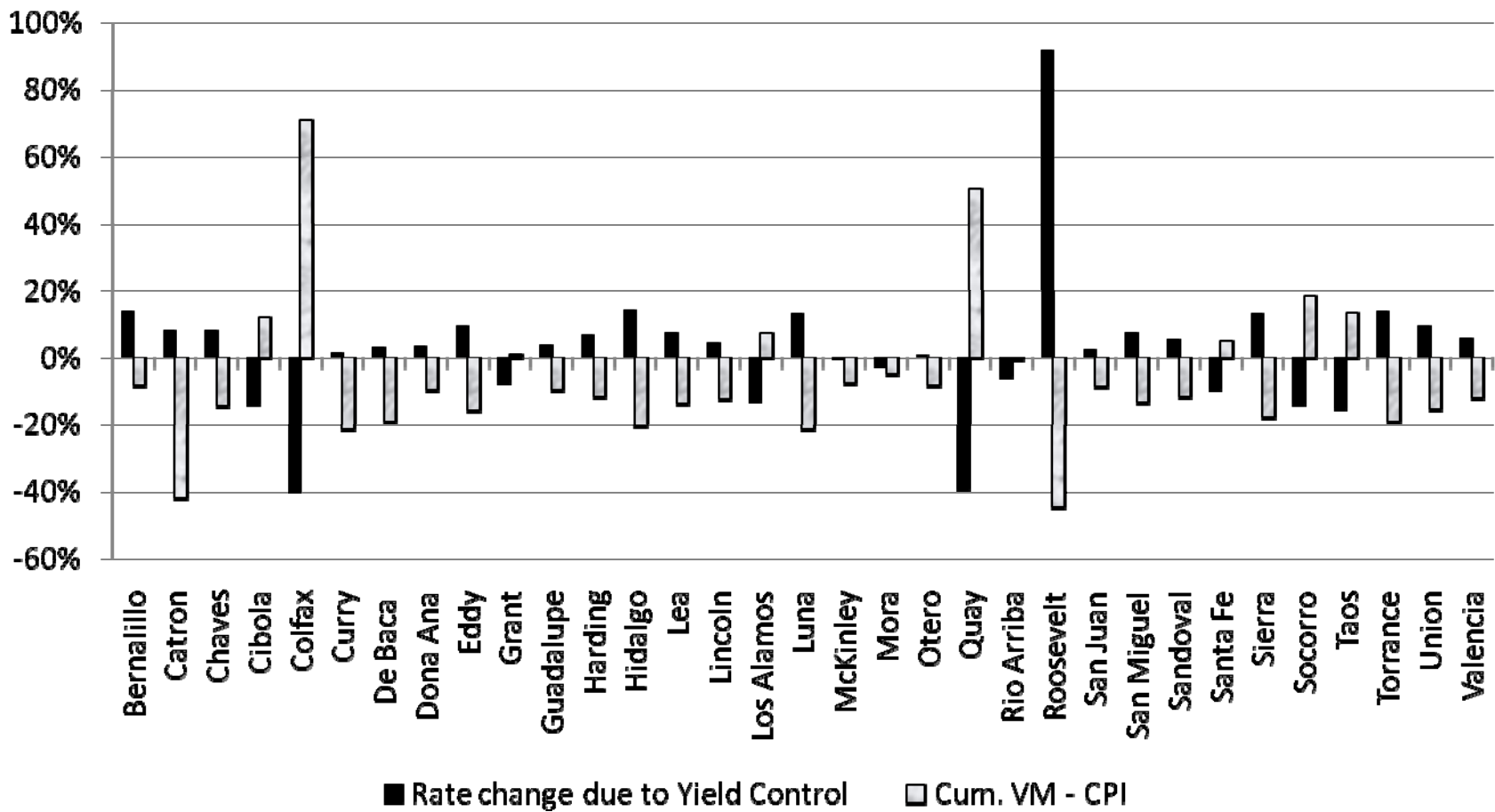
Yield control adjusts rates -- both upward and downward -- so that revenue increases by the Government services price index up to a maximum of 5%.

*If levy has been decreased by yield control in the past, which has happened in all but five counties.

Statewide valuation growth has lagged the CPI, putting upward pressure on yield controlled rates



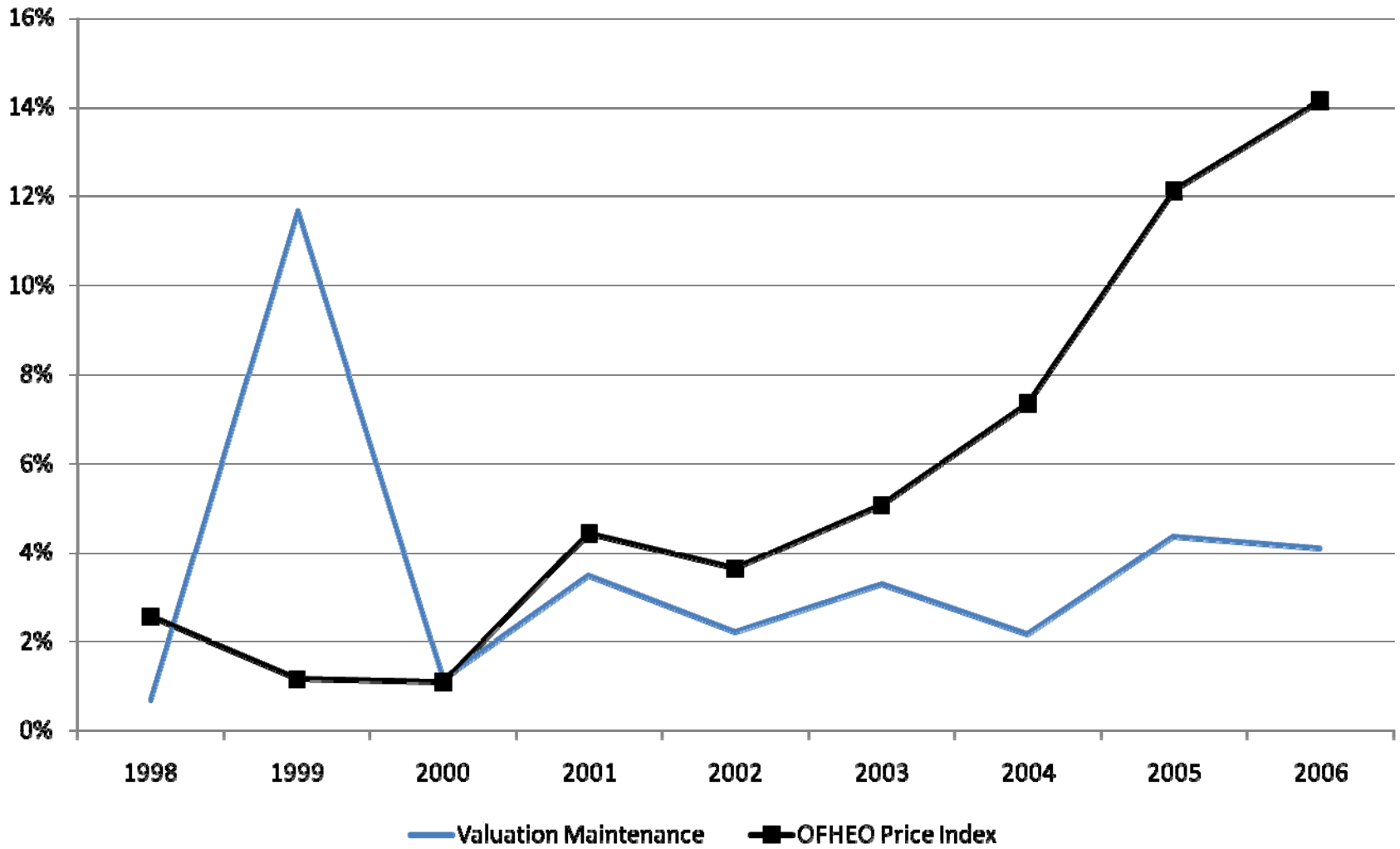
Lower valuation growth causes higher operating rates and vice versa Cumulative changes from 2000 to 2006



Residential Value Limitations

- 1998 CA 1 allowed exception from equal and uniform valuation
- Section 7-36-21.2 limits annual increase to 3% as long as the property is not sold, improved or re-zoned
- Section 7-36-21.3 freezes value for homeowners 65 years and older or disabled and with no more than \$32,000 of modified gross income; indexed for inflation

Valuation Maintenance vs. House Inflation



***Illustration:
Interaction of Taxable Value and Yield Control***

	Year 1	Year 2 With Value Limits	Year 2 With No Value Limits
Operating tax revenue	\$100 million	\$105 million	\$105 million
Net Taxable Value	\$10,000 million	\$10,400 million	\$11,000 million
Operating levy	10 mills	10.1 mills	9.55 mills

Higher taxable values cause lower mill levies under yield control, and vice versa.

Yield Control and PSCO Levies

- SB-9 levy is subject to yield control, but, because the levy can be renewed after 6 years, yield controlled rates are not significantly lower than the rates originally imposed.
- After yield control, average SB-9 levy = 1.9 mills, vs. 2.0 mills originally imposed.
- HB-33 levy is subject to yield control, but limited time of imposition also limits the impacts of yield control. Potential revenue if yield control were not applied in tax year 2007 is shown in the following table.

HB 33 Revenue Impacts of Yield Control

District	Residential				Non-residential			
	Imposed (mills)	Actual (mills)	Difference (mills)	2007 Revenue Potential	Imposed (mills)	Actual (mills)	Difference (mills)	2007 Revenue Potential
Albuquerque	3.874	3.813	0.061	\$582,115	4.344	4.344	-	-
Artesia	5.000	4.302	0.698	\$79,913	5.000	4.302	0.698	\$191,990
Carlsbad	2.000	1.997	0.003	\$726	2.000	2.000	-	-
Cimarron	3.000	3.000	-	-	3.000	1.991	1.009	\$155,044
Clayton	3.000	3.000	-	-	3.000	3.000	-	-
Eunice	2.000	2.000	-	-	2.000	2.000	-	-
Hobbs	4.000	3.949	0.051	\$10,457	4.000	3.945	0.055	\$12,842
Los Alamos	3.246	3.246	-	-	3.246	3.246	-	-
Los Lunas	3.000	3.000	-	-	3.000	3.000	-	-
Lovington	2.000	1.979	0.021	\$1,168	2.000	2.000	-	-
Santa Fe	1.500	1.426	0.074	\$307,267	1.500	1.492	0.008	\$11,634
Total				\$981,646				\$371,510

Value Limits and G.O. Bond Capacity

- The value limit for residential property has the effect of limiting the growth of total net taxable value, and therefore reduces G.O. Bond capacity.
- Detailed data from each of the county assessors is required to calculate the difference in the tax base attributable to the limitation.
- Using the house inflation price index from the federal Office of Housing Enterprise Oversight, market values of residential properties appear to have grown about 20% more than assessed values. Applied to 2000 residential net taxable value, this implies about \$3 billion of additional NTV.
- Depending on voter behavior, additional NTV could turn into additional G.O. Bonds, or into lower tax levies to support the same amount of bonds.

Residential Property Tax As Percent of Personal Income

State	2000	2006
Oklahoma	1.9%	2.2%
Wyoming	2.3%	2.0%
New Mexico	2.3%	2.6%
Utah	2.4%	2.8%
Colorado	2.9%	3.1%
Arizona	2.6%	3.2%
Nevada	3.2%	3.8%
Idaho	3.4%	3.8%
Montana	3.9%	4.3%
California	3.9%	5.4%
Texas	3.9%	5.5%

Source: Mikesell and Mullins, *State Tax Notes*, 2008

Summary: Recent Trends in New Mexico Property Tax

- Residential taxable values have not kept pace with house price inflation, at least in part due to the 3% limit on annual value growth for properties not sold or improved
- Yield control means that lower taxable value translates into higher tax rates
- Impacts of the value limit on debt service levies may also be significant; they are hard to predict because they depend on voter behavior
- The value limit on residential property has driven a wedge between properties that are newly purchased vs those held for long periods
 - Newly purchased homes are valued much higher than others, so they pay more in both debt service and operating tax levies; and
 - Yield controlled levies are higher for all taxpayers. This effect is offset by lower values for homes not recently sold, but there is no offset for those recently sold.