



Newsletter

Friday, February 18, 2011

The purpose of this report is intended to enlighten you on exemptions available that could reduce your property tax liability, as well as the local real estate market conditions and how they affect the assessed value of your property. Also, included are the current laws that govern the assessor in establishing assessed values, the effects of "Tax Lighting", and proposed legislation being introduced to fix the problem.

Your 2011 Notice of Value was mailed on February 17, 2011. By law, New Mexico Assessors are required to mail a Notice of Value to each property owner no later than April 1, of each taxable year.

You have until March 19, 2011 to file a protest for the following: assessed value, the classification of your property, or denial of any exemptions you have applied for.

You also have until March 19, 2011 to submit a new application for any exemption you may qualify for, or for any special method of valuation such as agricultural status.

This is also the time to report any improvements or changes to your property that may have caused an increase or decrease to the value of your property.

The following are descriptions of existing exemptions which will reduce your property tax liability. Detailed descriptions of qualifications for these exemptions are located on the back side of your Notice of Value.

Head-of-Family Exemption - reduces your net taxable value by \$2,000. Assuming a 1% effective tax rate, this would reduce your annual taxes by \$60.

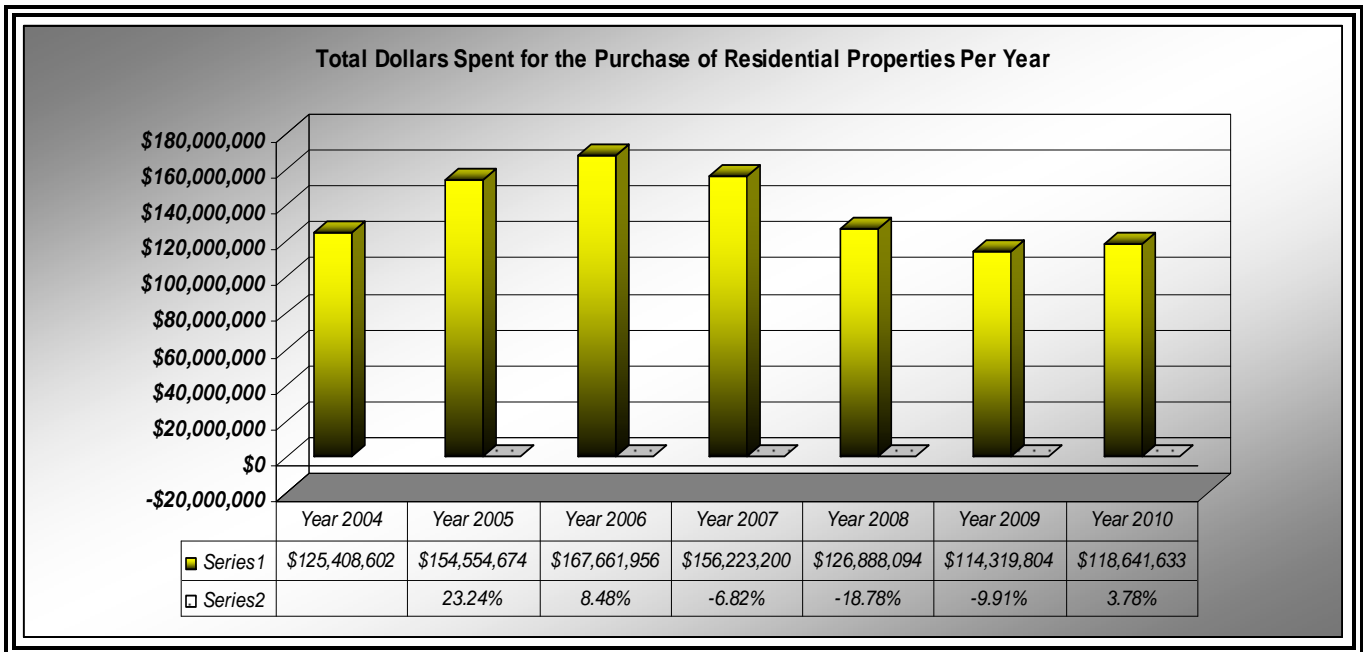
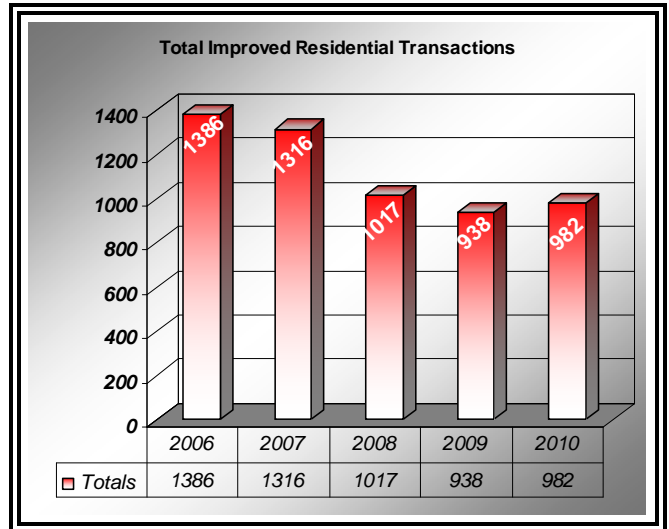
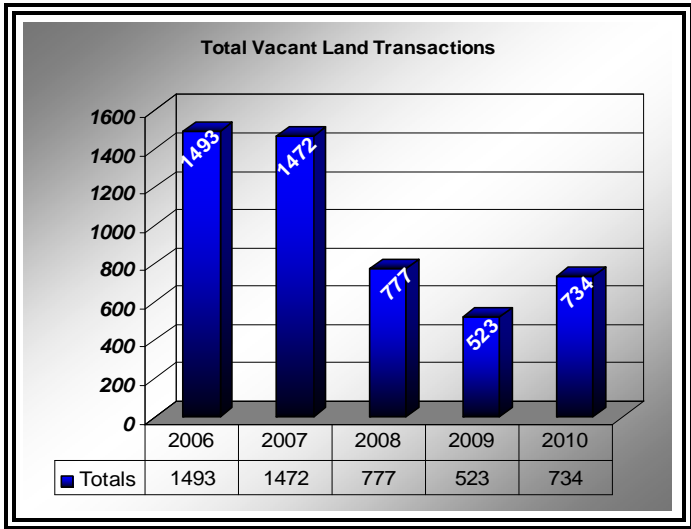
Veteran's Exemption - reduces you net taxable value by \$4,000. Assuming a 1% effective tax rate, this would reduce your annual taxes by \$120.

100% Disabled Veteran Exemption – completely exempts your primary residence from property taxes.

Valuation Freeze – applies to persons 65 years or older or permanently disabled at any age, with a modified gross income of \$32,000 or less. If qualified, this prevents your assessed value from increasing but does not prevent increases in taxes if the tax rate increases (ex. a new school bond is passed).

Real Estate Market Conditions in Otero County

Everyone is aware of the housing bubble burst affecting many parts of the United States from coast to coast. Economists are divided between those who believe we have hit the bottom of the market to those that believe the worst is yet to come. However, most experts are in agreement the housing market will remain depressed, with record high foreclosure levels, rising mortgage rates and a glut of distressed properties dampening the market for years to come. While we agree there has been a substantial decline in the real estate market in many parts of the nation, Otero County, New Mexico has managed to hold its value during this downturn. However, we have certainly suffered from a substantial decline in the number of transactions compared to previous years, which has had a direct impact on our general economy. Please refer to the following 3 charts depicting the reduction in the number of transactions and financial impact on our local economy.

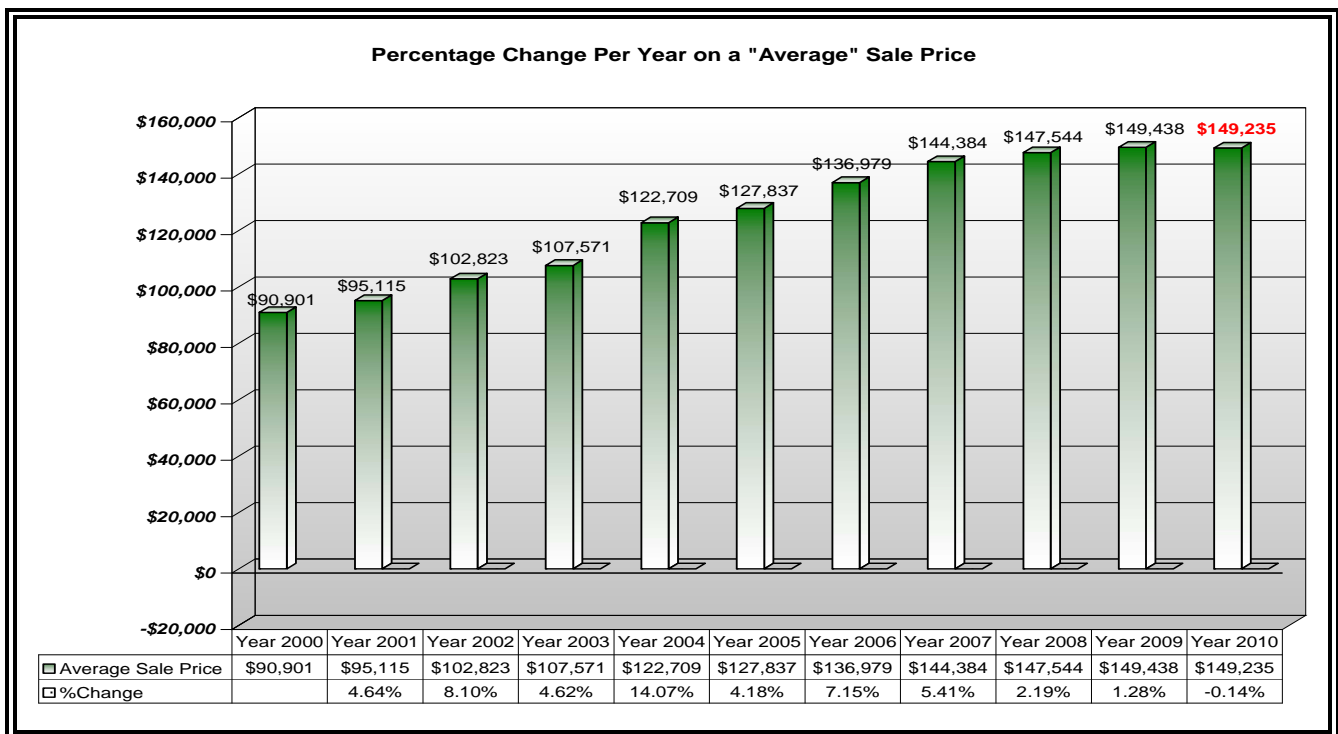


In 2006, Otero County was at the peak of the housing boom very similar to national real estate conditions. Beginning in 2007 through 2009, the number of transactions took a sharp drop, but then rebounded slightly in 2010. This decline coincides in time with the 2008 National Recession beginning in December of 2007 and ending in September of 2009. Simply put, from the peak year of 2006 to the final quarter of 2010, we have experienced a 51% decline in the number of vacant land transactions and a 29% decline in the number of residential transactions.

		Year		Percentage Change
		2006	2010	
Vacant Parcels	No. of Transactions	1,493	734	50.84%
Residential	No. of Transactions	1,386	982	29.15%
Residential	Dollars Spent	\$167,661,956	\$118,641,633	29.24%

By definition, a housing bubble is a run-up in housing prices fueled by demand, speculation and the belief that recent history is an infallible forecast of the future. Housing bubbles usually start with an increase in demand (a shift to the right in the demand curve), in the face of limited supply which takes a relatively long period of time to replenish and increase. Speculators enter the market, believing that profits can be made through short-term buying and selling. This further drives demand. At some point, demand decreases (a shift to the left in the demand curve), or stagnates at the same time supply increases, resulting in a sharp drop in prices - and the bubble bursts.

On the flip side, Otero County has not seen a burst of the housing bubble, (a sharp drop in prices) but it appears values have stabilized as evident by the following chart. Although the number of transactions reduced, values continued to increase until 2009, with a nominal change in 2010.

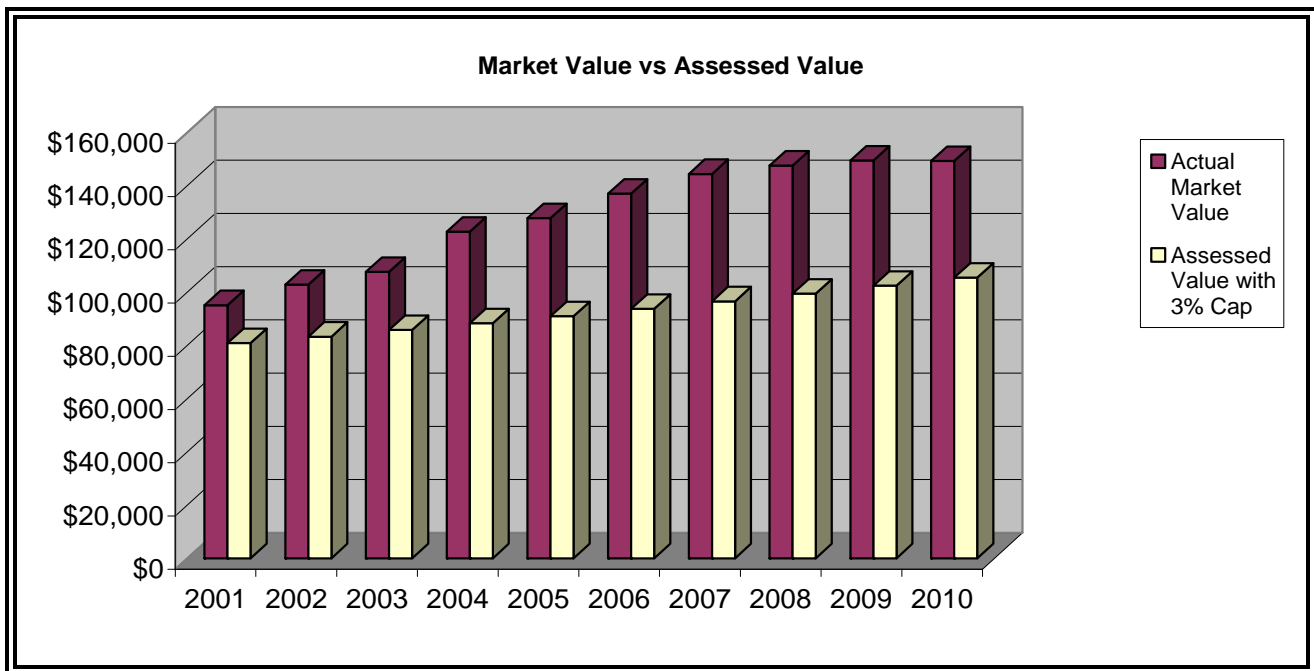


If the Real Estate Market has stabilized, why has the assessed value on my property increased?

In 2001, New Mexico legislators passed a ¹law that placed a 3% increase cap on the assessed values of residential properties. At that time, the average assessed value of a residential property was at 85% of actual market value. Therefore, in the year 2001, if you owned a home that had an actual market value of \$95,115 your assessed value would most likely been around \$80,848 (.85 x \$95,115 = AV). The above chart also indicates market value of a residential property has increased at an average rate of appreciation of 6.32% per year from 2001 to 2010.

Year	2001		2010		Difference	Total Percentage Change	Average Increase Per Year
Average Price of a Home	\$95,115	-	\$149,236	=	\$54,121	56.90%	6.32%
						(\$54,121 / \$95,115)	(56,90% / 9 yrs)

The following chart will display where your current assessed value would relate to actual market value when subject to the 3% limitation. As you can see, if you are subject to the 3% cap, your assessed value is most likely to be at approximately 70% of its actual market value. Therefore, under current law, you will continue to see a 3% increase per year until assessed values reach actual market value, or until new laws are implemented.



¹ 7-36-21.2. Limitation on increase in valuation of residential property.

So why did the assessed value of my property increase more than the 3% limitation?

The 2001 law also included a provision for an **exemption** of the 3% cap to **all residential properties that have changed ownership, properties that are placed on the tax rolls for the first time (ex. new home), any new improvements to a property, and properties that have changed use or zoning.** These properties are required to be reappraised at their current market level. This means that if you purchased a residential property in 2010, your 2011 assessed value may increase by 30% or more, depending on what the level the assessed value was in 2010 in comparison to actual market value in 2010.

This law has caused a substantial inequity in property tax liabilities for similar properties with the same market value. The following table illustrates where your tax liabilities could be depending on your circumstance.

		Purchase Price in 2010	2010 Assessed Value	2010 Taxes		2011 Assessed Value	2011 Taxes Due	2011 Percentage Increase in Taxes	2011 Dollar Increase in Taxes
Property #1	202 Nowhere Road	\$149,235	\$104,456	\$1,045	Changed Ownership in 2010 - Reappraised at current market value	\$149,235	\$1,492	43%	\$448
Property #2	204 Nowhere Road	No Change	\$104,465	\$1,045	Subject to 3% limitation	\$107,599	\$1,076	3%	\$31

Property #1 is an example of a home that was purchase for \$149,235 in 2010, with an assessed value of \$104,456 for the 2010 tax year. Because it changed ownership in 2010, it was required to be reappraised for the 2011 tax year at its current market value, with a theoretical increase of 43% in property taxes.

Property #2, similar in market value as Property #1, did not change ownership in 2010 and therefore benefits from 3% limitation increase in assessed value, thus a maximum of a 3% increase in property taxes (assuming no new bonds).

If you were the owner of Property #1, you would be a victim of “Tax Lightning”.

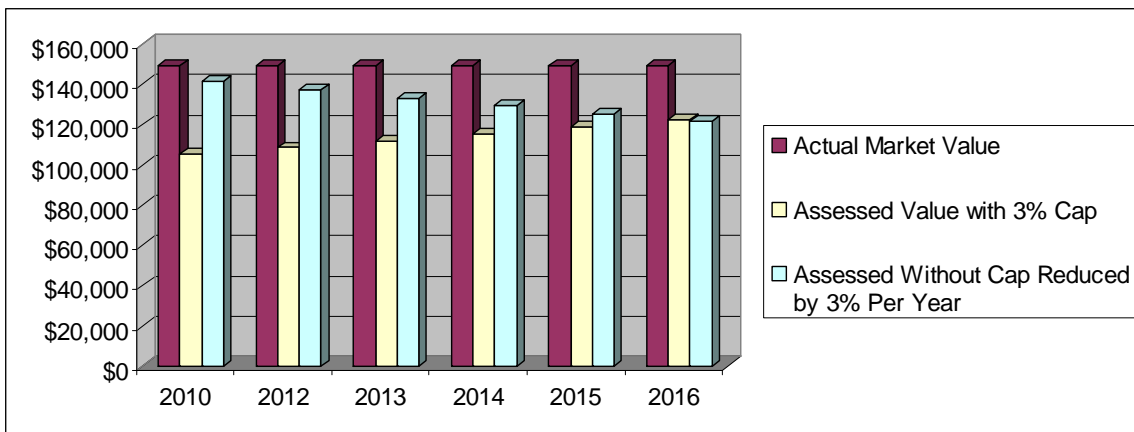
Opposition to Tax Lighting Brewing

Three District Court Judges have found the current law to be unconstitutional. The 2011 Legislative Session is under way and several bills have been introduced in attempts to fix the law that has caused such an outcry by our taxpayers. The New Mexico Property Tax Division is advising assessors to continue the Tax Lighting valuation process until new laws are implemented. The outcome we are hoping for is simple.

We are hoping new legislation would begin to resolve the inequities and minimize the hardships to entities that rely on property tax revenues. It is our opinion, legislation should address the following;

- 1) Keep the 3% limitation in place, inclusive of properties that change that change ownership.
- 2) Over time, reduce the valuation of those properties that were hit with Tax Lighting, bringing them in line with properties that enjoyed the 3% cap.
- 3) When properties reach equilibrium, freeze the increase in property taxes, and require all properties to be reappraised at current market value.
- 4) Limit all future increase in valuation to the actual rate of appreciation within each jurisdiction based on paired sales analysis.

The following chart displays the concept.



The remaining portion of this report is a summary of legislation currently being introduced. SB108 appears to have the most momentum, which would require assessor's to roll back properties affected by Tax Lighting to market levels in 2004 for the 2011 taxable year. It would also limit all residential properties to a 3% limitation in future years. This bill would bring all values to a level playing field, and is the right thing to do. However, consequences of the lowering of the tax base (which we have estimated by 12%) will result in either an increase in the tax rate, which will increase taxes on all other property owners, or reduce tax revenues to all.

The complete bills can be reviewed on the following website.

<http://www.nmlegis.gov/lcs/BillFinder.aspx>

Bill: SB108
Sponsors: Eichenberg (D15)
Title: RESIDENTIAL VALUATION LIMIT
Summary: Makes two changes, effective for tax year 2011, to the three percent limitation on increases in valuation of residential property for property taxation purposes. First, the limit will apply only to residential property which the owner occupies as the owner's permanent primary residence, instead of to all residential property. Second, the limit continues to apply even when the property changes hands (if the new owner occupies the property).

Bill: SB189
Sponsors: Neville (R2); Boitano (R18)
Title: PHASING OUT THE LIMIT ON ANNUAL INCREASES IN VALUE
Summary: (Revised 1/24/11) Requires county assessors to revalue all residential properties annually, starting with 2012. Changes and temporarily phases down the three percent limit on annual valuation increases. By 2016, the property's value should be its current and correct value except that the 3% limit is revived for owner-occupied residences (only). The three percent limit will continue to apply when an owner-occupied residence changes hands. Directs the Property Tax Division of the Taxation and Revenue Department to certify that all residential values in a county are current and correct before the county assessor may mail notices of value.

Bill: SB310
Sponsors: Boitano (R18)
Title: VALUING RESIDENTIAL PROPERTY ON SQUARE FOOTAGE FORMULA
Summary: The value of each residential property for the current year is found by multiplying the area of the residence in square feet by a factor expressing the value in dollars per square foot of residential property in the county or portion of the county. The factor is derived by the prior year's assessed value of all residential property (including multifamily properties) in the county or portion of the county by the total square feet in the county. To take effect for 2011 through an emergency clause.

Bill: SB316
Sponsors: Boitano (R18)
Title: SPECIAL METHOD OF VALUATION FOR RESIDENTIAL PROPERTY
Summary: Effective for the 2012 and subsequent property tax years, retains the existing three percent cap on annual increases in the valuation of residential property but requires that new construction be valued by multiplying the sales price of the property times the prior values median ratio in the county for the tax year. Also mandates a revaluation of all residential properties first valued for property tax purposes between tax years 2002 and 2011 by adjusting the current valuation to be consistent with the county's prior values median ratio.
Subjects: County Affairs; Municipalities/City

Bill: SB322
Sponsors: Boitano (R18)
Title: RESIDENTIAL PROPERTY VALUATION
Summary: Changes the cap on increases in the valuation of residential property in several ways. The cap will continue even when the property changes hands. For the 2012 tax year, all residential property will be reassessed at current and correct (that is, market) value. If the valuation of a residence in 2012 is over 103 percent of its value in 2011, the taxpayer may elect to have the excess phased in over three years. The county assessor must notify the property owner of this option.

Bill: SJR9
Sponsors: Payne (R20)
Title: CA: TAX LIMITS ON RESIDENTIAL AND COMMERCIAL REAL PROPERTY
Summary: Proposes to amend Art. 8, Sec. 2 of the Constitution to limit taxes on real property to 1

percent of the current and correct value of residential property and 1.5 percent of the current and correct value of commercial property. The amendment shall be applicable to taxable years beginning no later than January 1, 2015.

Bill: **SJR13**
Sponsors: Sanchez, B. (D26); Lopez (D11)
Title: CA: REDUCTION IN RESIDENTIAL PROPERTY TAXES
Summary: (Identical to 2010 Senate Joint Resolution 17) Proposes an amendment to Article 8, Section 1 of the N.M. Constitution that would reduce state and local residential property taxes by five percent when the property has been owner-occupied continuously for at least 15 years by the same individual as the principal residence. For each additional year of continuous occupancy, the amount of the reduction is increased by an additional five percent, up to a maximum reduction of 25 percent.

Bill: **HB451**
Sponsors: McMillan (R37)
Title: LOWERING RESIDENTIAL PROPERTY TAXES
Summary: Extends the three percent limit on annual valuation increases of residential property for the 2011 tax year and beyond and abolishes the current provision that properties may be revalued upon change of ownership, providing instead that the valuation of all properties that have experienced a change of ownership since 2003 shall be retroactively revalued according to a new formula.

Bill: **HB511**
Sponsors: Sandoval (D17)
Title: RESTRUCTURES TAXATION OF RESIDENTIAL PROPERTY
Summary: A 30-page bill replaces, starting with tax year 2012, the existing caps on the annual increase in the valuation of residential property with a new system featuring a "valuation adjustment" which performs essentially the same function as the caps.
Subjects: County Affairs; Municipalities/City Government; Business, Manufacturing and Economic Development; State Affairs and State Agencies; Land, Housing and Real Estate; Family and Juveniles; Taxation and Fees
