

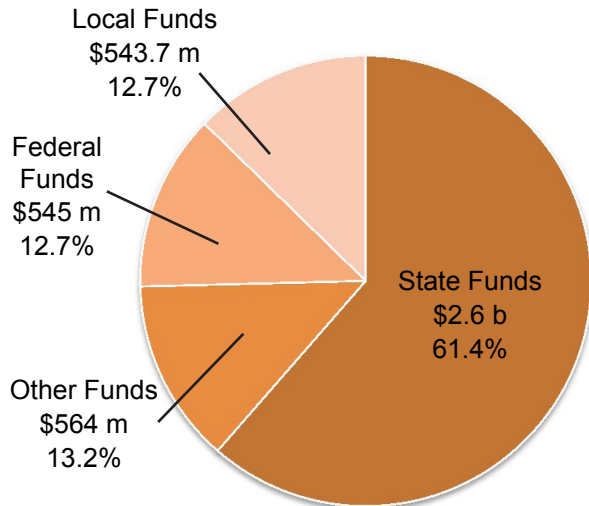
PROPERTY TAXES AND FUNDING PUBLIC SCHOOLS

November 2010

Most states rely heavily on local property taxes to fund public education, but in New Mexico K-12 education gets the bulk of its funding—more than 60 percent—from the state. As Chart I: Expenditures by Source (below) shows, less than 13 percent of K-12 funding in New Mexico comes from property taxes. Nationally, public schools get on average more than 42 percent of their funding from local taxes.

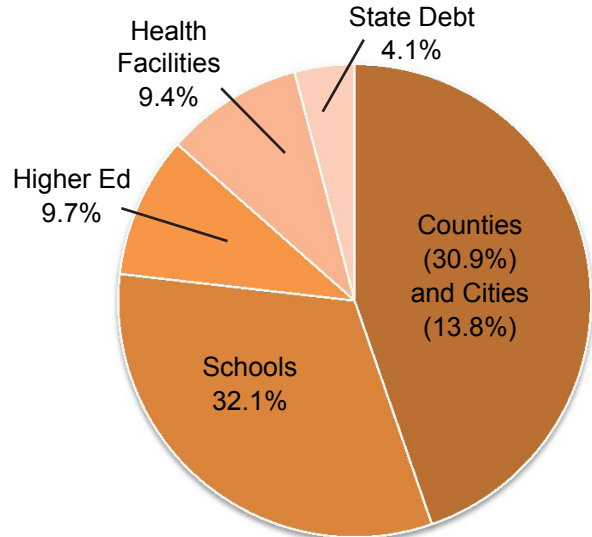
New Mexico’s property tax revenues go largely to fund local government. As Chart II: Where Our Property Taxes Go (at right) shows, county and city governments combined get almost half (nearly 45 percent) of all

**Chart I: Expenditures by Source (\$4.2 b)
(2008–09 school year)**



Source: New Mexico Public Education Department

**Chart II: Where Our Property Taxes Go
(2009)**



Source: 2009 Property Tax Facts, NM Taxation and Revenue Department

property taxes. The next largest share goes to school districts (32 percent), with the remainder going toward higher education, health facilities, and the state debt on borrowed money.

Property taxes are not as straightforward as sales or even income taxes and, therefore, are often misunderstood. One common misperception is that only home owners pay property taxes. Most renters also pay property taxes because most landlords add the cost of their property taxes into the rent. Also, like sales taxes, property taxes are regressive—meaning

they have a disproportionate negative impact on those in the lowest earning brackets. New Mexicans in the lowest income bracket pay almost twice as much as a percentage of their income in state and local taxes than do those in the highest bracket because so many of these taxes are regressive.

Despite public perception to the contrary, property taxes in New Mexico are relatively low, at almost half the national average—equaling just 1.76 percent of state personal income as opposed to 3.48 percent. In 2004, New Mexico ranked 47th out of the 50 states and the District of Columbia on property taxes as a percent of state gross domestic product. The state constitution and state statutes put several limits on property tax collection. These limits include how high the property tax rate can be, how much of a property's value can be taxed and how that value is determined, and the total amount that can be collected in property taxes.

PROPERTY TAX LIMITATIONS

The tax rate is counted in mills—or increments of one thousandths. So each mill levied against your property represents \$1 for each \$1,000 of your property's assessed value. The state constitution limits the tax on real property to 20 mills annually on each dollar of the property's assessed value or \$20 per \$1,000 of assessed value. The constitution does allow counties and cities to exceed that limit for specific purposes (such as public school funding), but only when the issue is approved by the voters. On a statewide basis, each mill is worth about \$46 million.

The amount you pay in property tax is based on the value of your property. However, taxes are only levied against one-third of your property's assessed value. In addition, by state statute, property assessments can only increase 3 percent over one year and 6.1 percent over two years. The assessed value is not the same as market value—or what your home would sell for

if you put it on the market. Market values for homes can increase far more rapidly than 3 percent a year, so your tax bill will not necessarily keep pace with the increase in your home's value over time.

There is one catch, however. This 3 percent cap does not apply to residential properties in the year immediately following a change in ownership. So when a home is sold it can be reassessed to more accurately reflect the home's market value. This causes the so-called 'tax lightning'—when tax on one property is significantly higher than taxes for similar properties. In other words, even if your home and your next-door neighbor's home have identical market values, your assessed values can be significantly different depending on how long each of you has owned it.

This is a fundamental problem with the New Mexico property tax and it violates the taxation norm of 'horizontal equity'—the requirement that similar properties be taxed at a similar rate. Large discrepancies also exist between urban and rural residential property taxes, with urban homeowners paying the higher amount.

Finally, New Mexico also calls for a limit on the total revenue—or yield—that can be collected from the property tax. This is determined via a growth control factor using a complex formula that takes into account the annual increase in the U.S. Bureau of Economic Analysis' 'implicit price deflator' plus the increase in assessed value.

ENDNOTES

- 1 New Mexico Constitution, Article VIII, Section 2, as amended November 3, 1914, September 19, 1933, and November 7, 1967
- 2 New Mexico Constitution, Article VIII, Section 1
- 3 Section 76-36-21.2 NMSA 1978
- 4 Section 76-36-21.2 (3) NMSA 1978
- 5 Section 7-37-7.1 NMSA 1978

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