

## **How Tax-Friendly is Your City?**

New Mexico's 10 Largest Cities Ranked by Tax Burden

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By Jason Foral with Luke Degruyter and Paul Gessing

### **Introduction**

Choosing where to live can be one of the most complicated decisions a person makes because so many factors need to be considered. Personal preferences such as lifestyle and geographical location may come to mind as being the most important factors. However, economic preferences should not be underestimated. And, while people often move for employment reasons, the policies and economic conditions that create jobs are quite frequently ignored.

A growing body of research suggests that tax policy is becoming increasingly important in a person's decision on where to live. Arthur Laffer and Stephen Moore of the American Legislative Exchange Council found that, "from 1998 to 2007, more than 1,100 people every day including Sundays and holidays moved from the nine highest income-tax states...and relocated mostly to the nine tax-haven states with no income tax."<sup>1</sup> And this makes sense—people already consider employment, wages, and the relative cost of living when they move. Tax policy, though more indirect, is just as important in terms of personal finance.

Why should states care about onerous tax policy? Those who support high tax policies often justify them by portraying the rich as undeserving of their wealth and the taxes as necessary to support the poor and disadvantaged. However, when people flee an area due to taxes, it's mostly the rich with the most entrepreneurial talent who flee first. These individuals have the capital and the drive to create economic growth in an area, and their absence is harmful to the state. Furthermore, when they leave, collected tax revenue falls, only further harming the poor and disadvantaged—the same people the policy was originally intended to help.

The same dynamic can also apply to cities.<sup>2</sup> The purpose of this study is to identify which cities in New Mexico have the lowest and highest tax burdens. Because state-collected taxes such as income and severance are not considered, this study will not account for the entire tax burden. Rather, it focuses on property tax and gross receipts tax, which make up the majority of tax burden that varies by municipality. Additionally, instead of accounting for all cities, this study focuses on the relative tax-friendliness of the 10 largest cities in New Mexico. Combined, the population of these ten cities—shown in

**Table 1**—accounts for almost half of New Mexico's population.

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<sup>1</sup> "Soak the Rich, Lose the Rich". Arthur Laffer and Stephen Moore.  
<http://online.wsj.com/article/SB124260067214828295.html>

<sup>2</sup> Total state-collected taxes (including income tax, for example) are greater than municipality-collected taxes. State policies, thus, can be considered more important by people.

**Table 1. 2008 Population of New Mexico's 10 Largest Cities**

City	Population
Alamogordo	35,757
Albuquerque	521,999
Carlsbad	25,629
Clovis	32,352
Farmington	42,637
Hobbs	30,476
Las Cruces	91,865
Rio Rancho	79,655
Roswell	46,198
Santa Fe	71,831

The Rio Grande Foundation published the original tax-friendliness study in 2007. In this 2009 study, the methodology has been improved to provide a more accurate measurement of tax burden.<sup>3</sup>

### **Property Tax**

The New Mexico Department of Taxation and Revenue separates property taxes into five main categories: state, county, municipal, school district, and other. Within these categories, rates are either operational or non-operational. Revenues from operational rates are used by each county, municipality, and school district for purposes such as equipment, salaries, and facilities. These rates are decided by county commissions, municipal councils, and school boards, but are subject to yield control.<sup>4</sup> Non-operational rates are mainly debt service for bonds, but also include services such as a local hospital or soil and water conservancy. All non-operational rates are determined by voters but are subject to limitations.<sup>5</sup>

New Mexico collects property tax at both the state and local level, although local governments collect a considerable amount more than the state. In 2006, local governments collected over fifteen times what the state government did in property tax.<sup>6</sup>

Property tax rates are often expressed as a millage rate. A rate of 37.000 mills, for example, means that for every \$1000 of net taxable value, \$37 in taxes is collected.

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<sup>3</sup> A baseline year (2008) was used for all calculations. Additionally, consumer expenditure data, adjusted for income level, was used.

<sup>4</sup>Yield control prevents operational tax revenue from growing more than 5% each fiscal year. See Section 7-37-7.1 NMSA 1978.

<sup>5</sup> Within each respective jurisdiction, state debt obligation may not exceed 1% of net taxable value, county and municipal debt obligation may not exceed 4% of net taxable value, and school district debt obligation may not exceed 6% of net taxable value.

<sup>6</sup> US Census Bureau, "State and Local Government Finances by Level of Government and by State: 2005-06," [http://www.census.gov/govs/estimate/0632nmsl\\_1.html](http://www.census.gov/govs/estimate/0632nmsl_1.html)

Table 2 shows how millage rates vary substantially from one city to another.

**Table 2. 2008 Residential Property Tax Rate by City**

City	Residential Property Tax Rate
Santa Fe	19.384
Farmington	22.882
Carlsbad	24.218
Clovis	24.447
Alamogordo	25.703
Hobbs	25.816
Las Cruces	28.046
Roswell	29.480
Rio Rancho	29.896
Albuquerque	39.960

Because home values are not uniform across cities, it is not possible to make any conclusions about average property tax burdens from the data in

Table 2. Median home values for each city, along with property tax rates, are needed to compare average property tax burdens between cities.

The methodology for calculating the property tax burden of a home is uniform across the state. A home's taxable value is equal to 1/3 of its appraised value. Net taxable value is determined by subtracting a head of household exemption of \$2,000— and, if applicable, a veteran's exemption of \$4,000—from the taxable value.<sup>7</sup> The net taxable value is then multiplied by the millage rate to get residential property tax burden. Table 3 shows a sample calculation for an Albuquerque home worth \$120,000 using the 2008 local millage rate.

**Table 3. Calculation of Residential Property Tax Burden**

Assessed Market Value	\$120,000.00
Taxable Value (1/3 of assessed value)	\$40,000.00
Less Exemptions:	
Head of Household	-\$2,000.00
Veteran (Normally \$4,000)	-\$0.00
Net Taxable Value	\$38,000.00
Multiply NTV by Millage Rate (39.960)	x 0.039960
<b>Average Property Tax Burden</b>	<b>\$1,518.48</b>

<sup>7</sup> Beginning in 2006, the Veteran exemption is \$4,000. See Article VII, Section 5 of the Constitution of New Mexico.

In 2000, legislature was passed by the state to protect homeowners from large spikes in home value. Beginning in tax year 2001—aside from a few special cases—a home’s assessed value can only rise by 3% each year, regardless of the home’s actual market value.<sup>8</sup> If the property changes ownership due to a sale, in the subsequent tax year, the assessed market value is set to the sale price. This situation is often referred to as “tax lightning”, and it can cause new homeowners to pay substantially higher property taxes than their neighbors do. While this study calculates property tax burden by assuming houses are assessed at market value, the assessed value may be lower because of the 3% cap. Thus, actual property tax liability for homeowners will tend to be less than the property tax liability calculated in this study.

It is important to note that in August 2009, Second Judicial District Judge Theresa Baca ruled that the inequality caused by tax lightning violates New Mexico’s Constitution.<sup>9</sup> The ruling may be appealed, but even if not, it is unclear what its effects will be. The issue will be up for debate in the next legislative session, and one possible solution is to have the 3% cap apply regardless of if the property is sold or not. Another potential solution is to abolish the 3% cap, which would raise all property values previously protected by the cap. The situation is in flux.

Complete data for 2008 median home value for all of New Mexico’s ten largest cities was not available at the time of publishing. To estimate 2008 median home value, 2007 median values were adjusted according to the Federal Housing Finance Agency’s seasonally-adjusted House Price Index for New Mexico.<sup>10</sup>

Table 4 shows the results of using estimated 2008 median home sales price data to calculate the median residential property tax burden.

**Table 4. Estimated 2008 Tax Burden of Median Residential Property by City**

City	Median Home Value	Millage Rate	Median Property Tax Burden
Hobbs	\$76,980	25.816	\$611
Carlsbad	\$94,314	24.218	\$713
Clovis	\$98,754	24.447	\$756
Roswell	\$88,412	29.480	\$810
Alamogordo	\$107,804	25.703	\$872
Farmington	\$176,300	22.882	\$1,299
Las Cruces	\$147,831	28.046	\$1,326
Rio Rancho	\$180,418	29.896	\$1,738
Santa Fe	\$327,852	19.384	\$2,080
Albuquerque	\$183,498	39.960	\$2,364

<sup>8</sup> The 3% cap does not apply to new improvements made to the property.

<sup>9</sup> “Judge Zaps Tax Lightning”. Albuquerque Journal. August 14, 2009.

<sup>10</sup> 2007 median home value estimates were provided by Onboard Informatics. FHFA HPI data is available at <http://www.fhfa.gov/webfiles/1347/1q09hpistspo.xls>

## Gross Receipts Tax

New Mexico’s gross receipts tax is a tax on businesses for sales and the performance of services. For consumers, gross receipts tax functions much like a sales tax, as businesses can often pass the whole tax onto consumers.<sup>11</sup> This study assumes that businesses in New Mexico pass the whole gross receipts tax onto consumer expenditures.

Gross receipts tax is comprised of three rates—state, county, and municipal—and thus varies from city to city. The state charges a rate of 5%, and county and municipal rates are determined by county commissions and municipal councils, respectively.<sup>12</sup> While local governments collect less revenue from gross receipts tax than from property tax, they still rely on them to generate roughly one quarter of yearly taxation revenue.<sup>13</sup>

**Table 5. Calculation of Average GRT Burden, Albuquerque**

2007 Per Capita Personal Income	\$33,305
2007-2008 New Mexico PCPI Change	x 1.045
<hr/>	
2008 Estimated Per Capita Personal Income	\$34,804
Proportion of GRT Taxable Expenditures (\$30,000-\$39,999 income range)	x 0.6464
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Annual GRT Taxable Expenditures	\$22,496
Isolate GRT (6.750%)	$\begin{array}{r} \times \\ 0.06750 \\ \hline 1+0.06750 \end{array}$
<hr/>	
<b>2008 Estimated Average GRT Burden</b>	<b>\$1,422</b>

Table 5 illustrates the methodology used to calculate the average gross receipts tax burden of a consumer in each city. 2008 per capita personal income was estimated by adjusting the most recent 2007 data from the Bureau of Economic Analysis with 2008 state personal income reports.<sup>14</sup> Consumer expenditure data from the Bureau of Labor Statistics was used to determine the proportion of expenditures consumers spend on gross receipts taxable goods.<sup>15</sup> Food, shelter, and gasoline expenditures, which are non-taxable under New Mexico’s gross receipts tax system, were omitted in consumption calculations.

<sup>11</sup> Gross receipts tax does not function like a sales tax for all businesses. For discussion on this, see Rio Grande Foundation study “New Mexico’s Gross Receipts Tax: A Warning to Other States” by Paul Gessing and Harry Messenheimer, Ph.D. [http://www.riograndefoundation.org/papers/combined\\_grt.pdf](http://www.riograndefoundation.org/papers/combined_grt.pdf)

<sup>12</sup> County rates are capped at 4.3125%, and municipal rates are capped at 4.0625%.

<sup>13</sup> US Census Bureau, “State and Local Government Finances by Level of Government and by State: 2005-06,” [http://www.census.gov/govs/estimate/0632nmsl\\_1.html](http://www.census.gov/govs/estimate/0632nmsl_1.html)

<sup>14</sup> 2007 BEA per capita personal income data is taken from Table CA1-3 at <http://www.bea.gov>. 2008 state personal income data is available at <http://bea.gov/newsreleases/regional/spi/2009/pdf/spi0309.pdf>

<sup>15</sup> Consumption behavior, which changes with income level, was accounted for. See Table 2 of the BLS report “Consumer Expenditures in 2007.” <http://www.bls.gov/cex/cxann07.pdf>

The proportion found was used to prorate, based on local per capita personal income, the amount that an average person spends annually on gross receipts taxable goods. Because the BLS study's expenditure data includes sales and excise tax, the calculated expenditures include gross receipts tax payments, which are then isolated using the city's rate.

**Table 6. 2008 Average GRT Burden by City**

City	GRT Rate	Per Capita Personal Income	Average GRT Burden
Alamogordo	7.5000%	\$24,359	\$1,291
Las Cruces	7.1250%	\$26,236	\$1,325
Clovis	7.4375%	\$30,774	\$1,377
Hobbs	6.6875%	\$34,015	\$1,378
Albuquerque	6.7500%	\$34,804	\$1,422
Rio Rancho <sup>16</sup>	6.9375%	\$34,804	\$1,459
Roswell	7.0000%	\$29,525	\$1,467
Farmington	7.0000%	\$29,885	\$1,485
Carlsbad	6.8125%	\$36,077	\$1,487
Santa Fe	7.9375%	\$44,082	\$1,979

### Local Tax Burden Comparison

Combined, property and gross receipts tax burdens give the best estimate of the tax climate of New Mexico's cities. While there are many more taxes levied—income, cigarette, and fuel tax, for example—property and gross receipts tax make up a majority of the average citizen's location-dependant tax burden.

Table 7 shows the tax burden calculated by adding the two taxes.

**Table 7. 2008 Overall Property and Gross Receipts Tax Burden by City**

City	Median Property Tax Burden	+	Average GRT Burden	=	Total Tax Burden
Hobbs	\$611		\$1,378		\$1,989
Clovis	\$756		\$1,377		\$2,133
Alamogordo	\$872		\$1,291		\$2,163
Carlsbad	\$713		\$1,487		\$2,277
Roswell	\$810		\$1,467		\$2,302
Las Cruces	\$1,326		\$1,325		\$2,705
Farmington	\$1,299		\$1,485		\$2,784
Rio Rancho	\$1,738		\$1,459		\$3,222
Albuquerque	\$2,364		\$1,422		\$3,811
Santa Fe	\$2,080		\$1,979		\$4,087

<sup>16</sup> The BEA does not provide an estimate of per capita personal income for Rio Rancho, so Rio Rancho is assumed to have a similar PCPI as neighboring Albuquerque.

Though these calculations give a general idea of how much the average person pays in taxes, they need to be put in perspective. What ultimately impacts taxpayers is how much tax they pay in relation to their income. Tax burden as a percent of income, as shown in Table 8, is what determines tax-friendliness.

**Table 8. 2008 Tax-Friendliness by City**

City	Total Tax Burden	Per Capita Personal Income	Tax Burden as a Percent of Income
Hobbs	\$1,989	\$34,015	6.11%
Carlsbad	\$2,200	\$36,077	6.37%
Clovis	\$2,133	\$30,774	7.24%
Roswell	\$2,277	\$29,525	8.06%
Alamogordo	\$2,163	\$24,359	9.28%
Rio Rancho	\$3,198	\$34,804	9.60%
Santa Fe	\$4,059	\$44,082	9.62%
Farmington	\$2,784	\$29,885	9.73%
Las Cruces	\$2,651	\$26,236	10.56%
Albuquerque	\$3,787	\$34,804	11.37%

Hobbs performed very strongly in 2008, having both the lowest absolute tax burden and the lowest tax burden as a percent of income. Hobbs was the only city in 2007 and 2008 where neither property tax nor gross receipts tax increased. During this time period, the city property tax rates fell by 1.455 mills, and GRT remained the same.

Just as tax rates vary substantially in New Mexico, so does tax-friendliness. Albuquerque, while having roughly the same per capita personal income as Hobbs, taxes almost twice as much by percentage. Unfortunately, Albuquerque voters, faced with the opportunity to lower its taxes next year, voted to extend a quarter-cent transportation gross receipts tax during the most recent municipal election. While the tax was sold as being necessary to continue essential road projects, 41 percent of the tax revenues generated will be spent on transit and bike paths.

### **Conclusion**

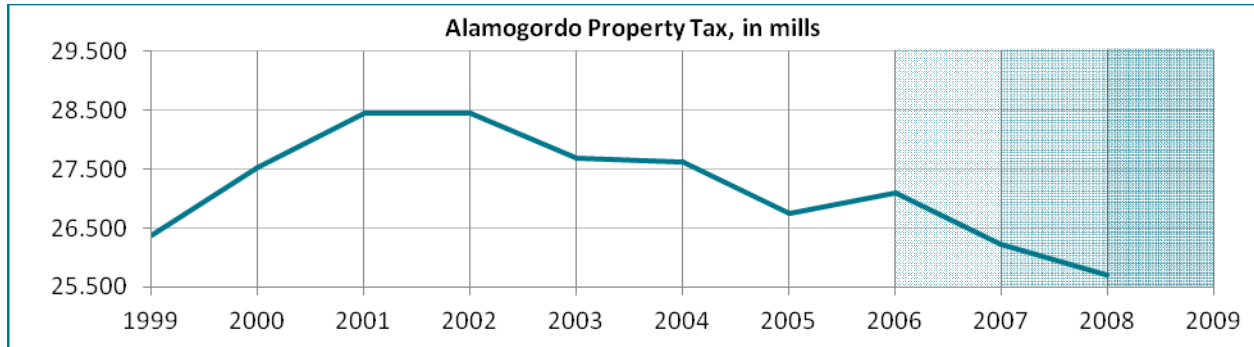
Ultimately, while dozens of factors ultimately determine where people choose to settle, more information allows better decisions to be made. New Mexico's cities are in constant competition both with each other and with cities in other states for employers, citizens, and economic growth. Lower taxes and less regulation are two factors that can make certain cities more attractive than others to both employers and citizens.

The Rio Grande Foundation hopes that the information presented in this study will encourage city leaders to evaluate their tax policies to remain competitive. But tax policy is not solely in the hands of city councils, county commissions, or state government—citizens have a say, with both their vote and their feet. The old saying that taxes redistribute people, not wealth has truth to it. In order to attract people and promote economic growth, New Mexico's cities should seek lower taxes.

**Appendix Note:** For the following charts, many of the small increases and decreases in mill levies for property taxes are due to the repayment schedules of general obligation bonds. The schedules occasionally vary in the amount of principle and interest payable for each fiscal year. Therefore, the property tax mill rates are adjusted to reflect the debt service obligations of the issuing entity. These increases and decreases are denoted as “no notable change” on the charts.

## Alamogordo, Otero County

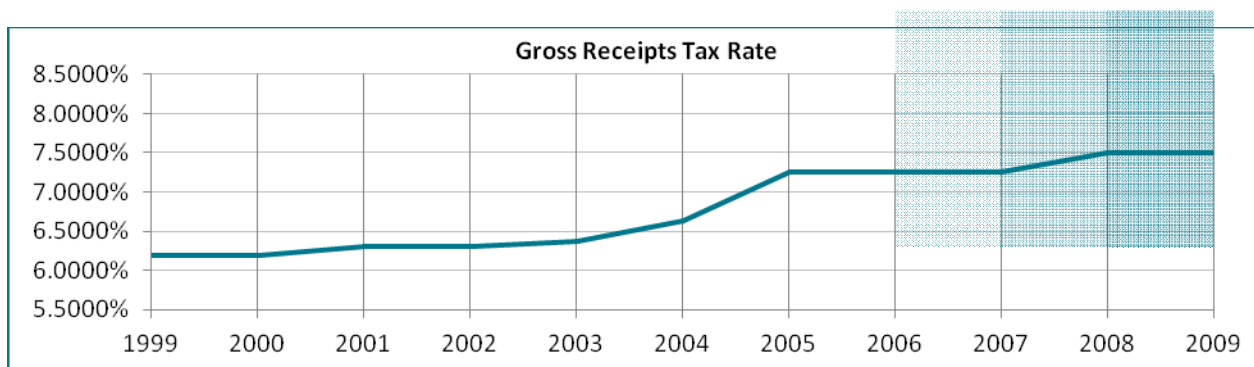
**Rank: 5 / 10**



**2007** NMSU-A was scheduled to finish paying off a general obligation bond in August 2008, and 2007 property tax rates fell by 0.46 mill to reflect this.

**2008** After paying off the previous GO bond, NMSU-A sought to issue another one for \$5,000,000. This bond was approved by voters in April 2008, resulting in a 0.5 mill increase in rates. This increase was offset by decreases in county and municipal debt rates, resulting in a net decrease for 2008.

**Looking Ahead** In 2009, Alamogordo will finish paying off an existing property tax bond valued at around \$10 million. On March 10<sup>th</sup>, 2009, voters approved just over \$7.4 million in bonds. All else equal, property tax should decline slightly in 2009.



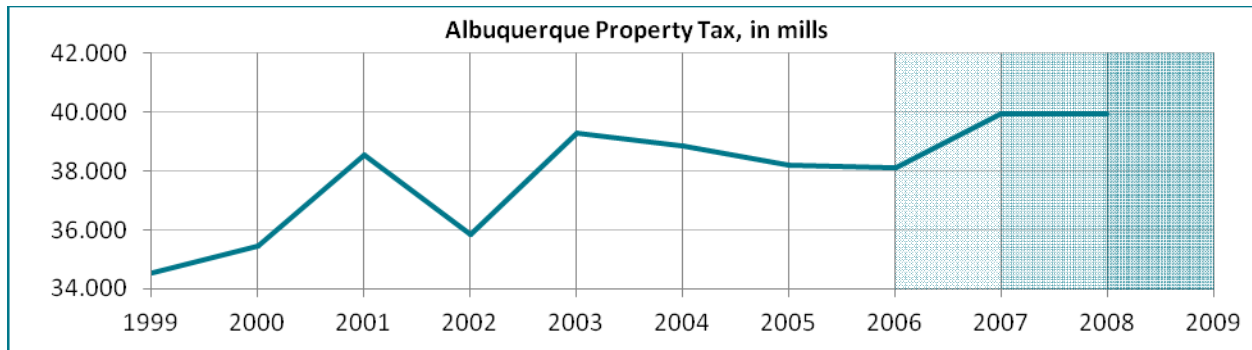
**2007** No change.

**2008** In March 2008, voters approved a quarter-cent increase in gross receipts tax to fund street improvement programs, with 923 votes in favor and 868 votes against.

**2009** No change. In November 2008, voters rejected a proposed eighth-cent GRT increase to fund the state’s commercial spaceport.

## Albuquerque, Bernalillo County

Rank: 10 / 10



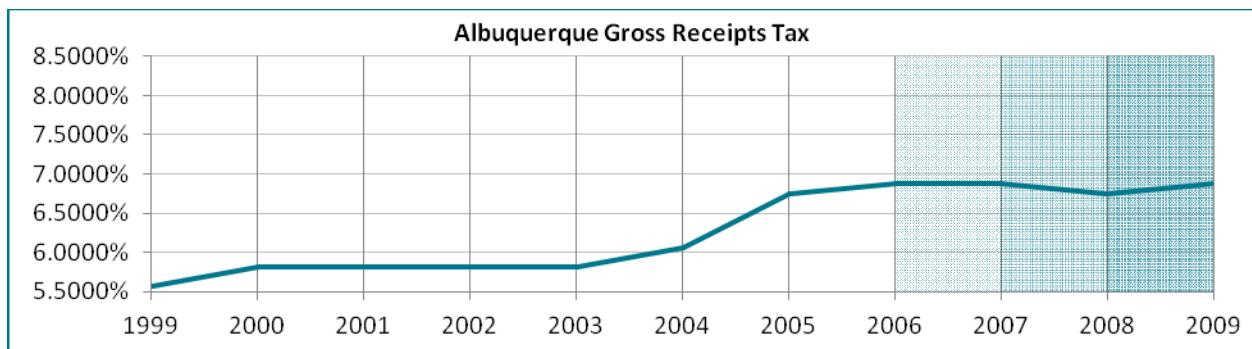
**2007**

In September 2006, voters approved a general obligation bond providing \$351 million to Albuquerque Public Schools, primarily to be used for school construction and renovation, resulting in a 2.141 mill increase in school district debt service.

**2008**

No notable change.

**Looking Ahead**



**2007**

There was no net change in 2007. However, on January 1, 2007, the municipal gross receipts tax fell by one eighth-cent. At the same time, the Bernalillo County rate increased by one eighth-cent to help pay for jail operation.<sup>17</sup>

**2008**

On July 1, 2008, municipal gross receipts tax fell by one eighth-cent.

**2009**

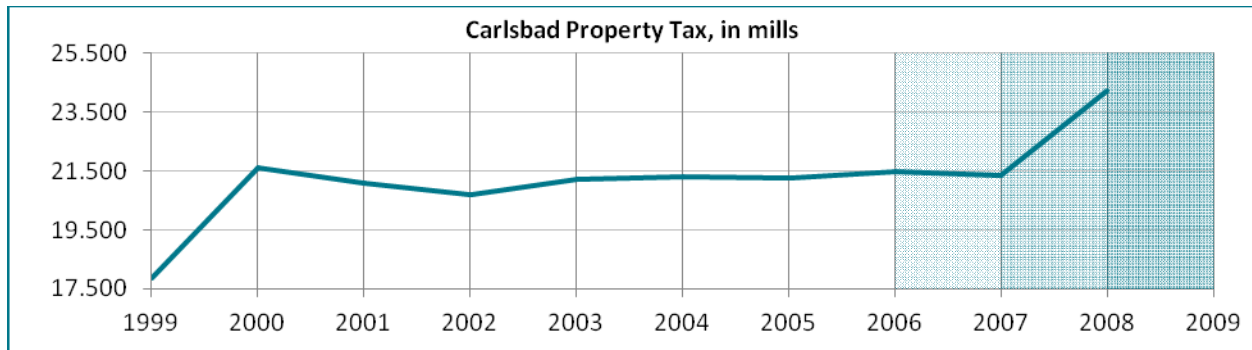
In November 2008, Bernalillo county voters approved an eighth-cent GRT increase to fund the operation and maintenance of the Rail Runner.<sup>18</sup>

<sup>17</sup> "Gross tax receipts going up in Bernalillo County". Albuquerque Journal. June 29, 2006.

<sup>18</sup> "Transit Tax passes in 7 NM Counties". Associated Press. November 5, 2008.

## Carlsbad, Eddy County

Rank: 2 / 10

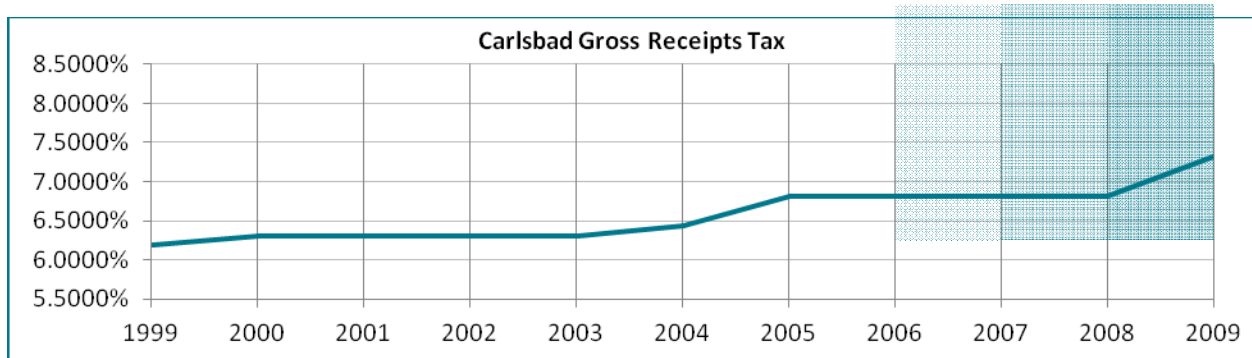


**2007** No notable change.

**2008** Every rate category increased, but most notable is a 2.000 mill increase approved by voters on February 5<sup>th</sup>, 2008 for the operating rate of New Mexico State University's Carlsbad Branch.

### Looking Ahead

City mayor Bob Forrest stated on August 11, 2009 that the city was willing to purchase and operate Sunset Gardens, a privately-owned cemetery that has since closed and is in need of renovation. The city of Carlsbad currently owns and operates one cemetery. Such an acquisition would raise property taxes, though the magnitude is unclear.<sup>19</sup>



**2007** No change

**2008** No change

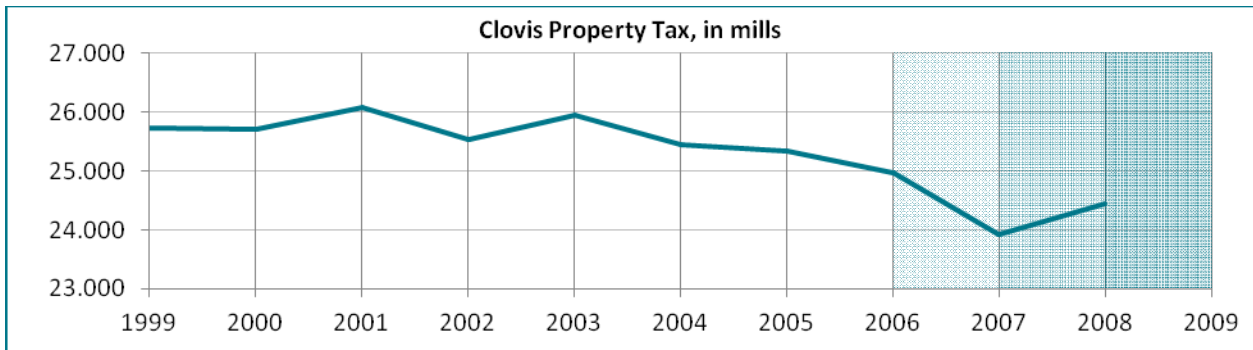
**2009** In September 2008, voters approved \$8.3 million in gross receipts tax revenue bonds to fund water and sewer infrastructure improvements.<sup>20</sup>

<sup>19</sup> "City council's Sunset Gardens decision raises some questions." Carlsbad Current-Argus. August 13, 2009.

<sup>20</sup> "Carlsbad to start spending bond revenue." Carlsbad Current-Argus. June 25, 2009.

## Clovis, Curry County

Rank: 3 / 10



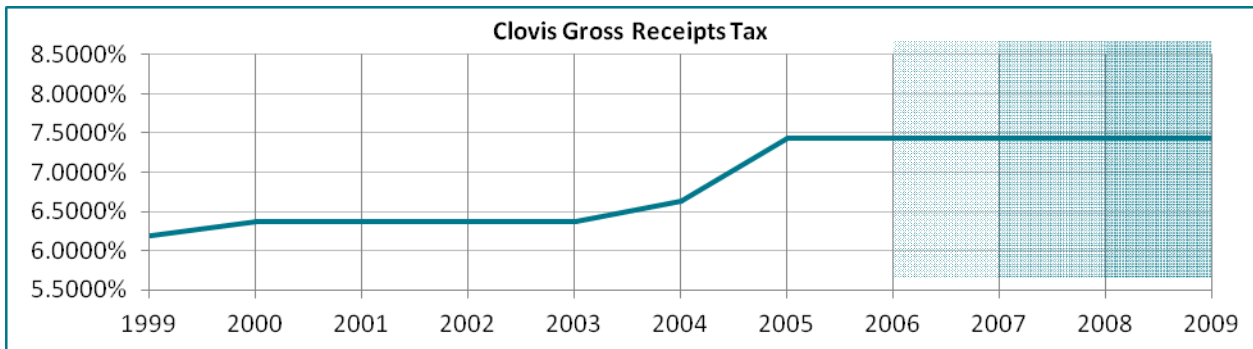
**2007**

Of New Mexico's ten largest cities, Clovis had the largest decrease in 2007 tax rates, both in absolute and percentage terms. All rate categories decreased by a minimum of 3 percent.

**2008**

No notable change

**Looking Ahead**



**2007**

No change

**2008**

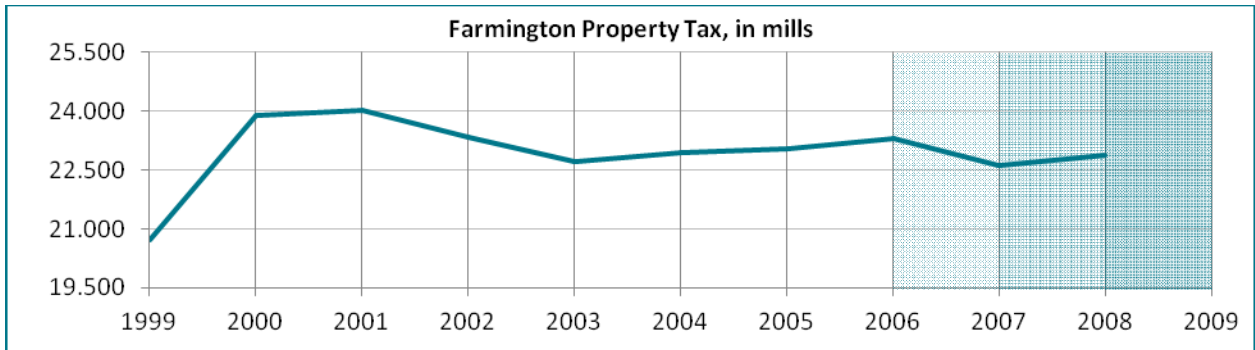
No change

**2009**

No change

# Farmington, San Juan County

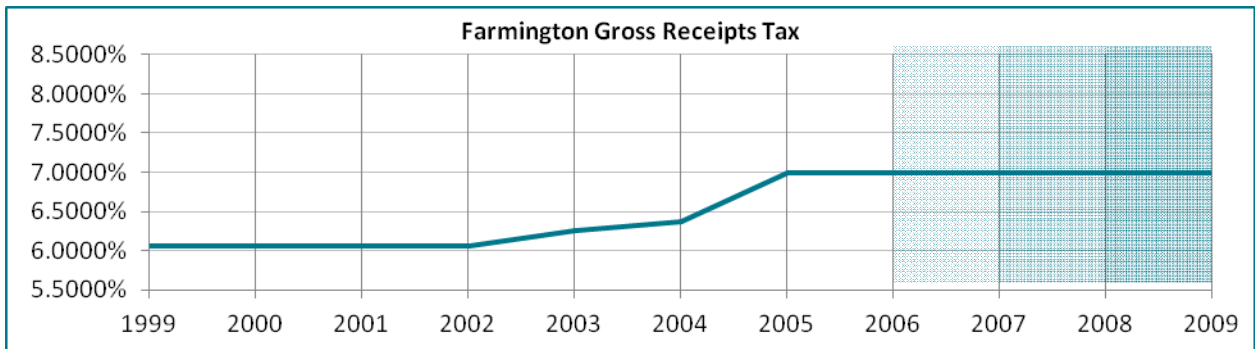
Rank: 8 / 10



**2007** No notable change

**2008** No notable change

**Looking Ahead**



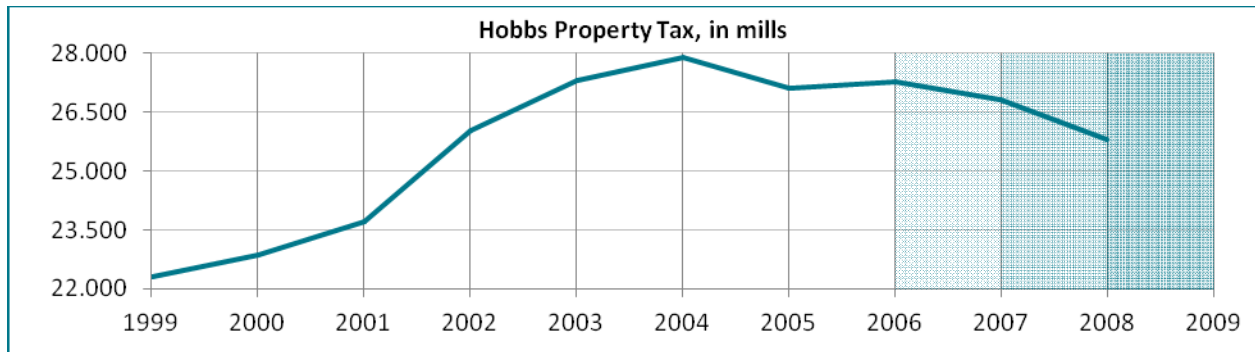
**2007** No change

**2008** No change

**2009** No change

# Hobbs, Lea County

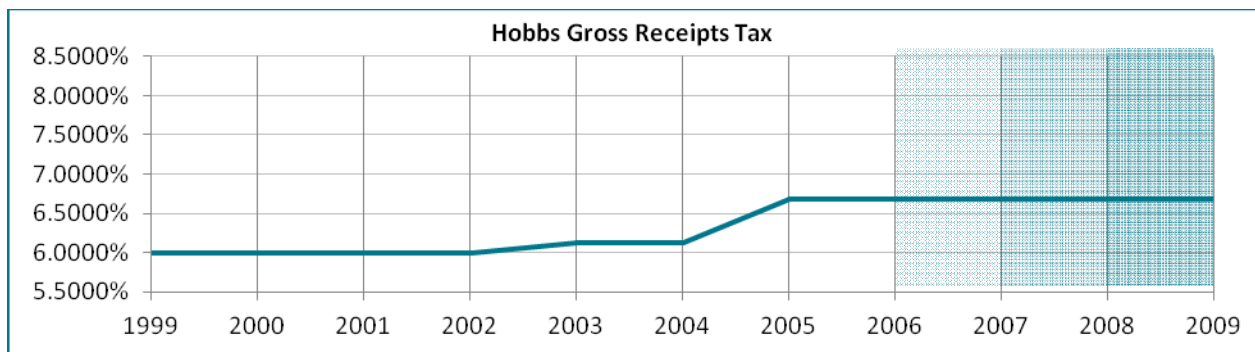
Rank: 1 / 10



**2007** No notable change

**2008** No notable change

**Looking Ahead**



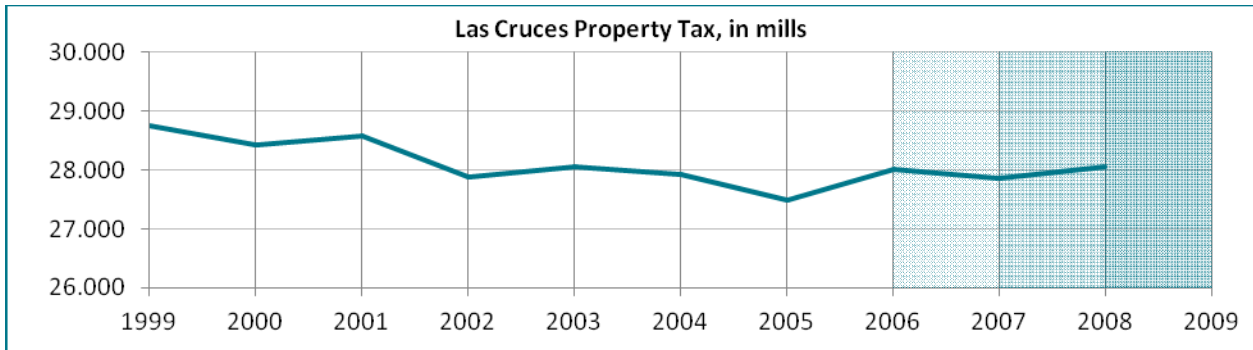
**2007** No change

**2008** No change

**2009** No change

## Las Cruces, Doña Ana County

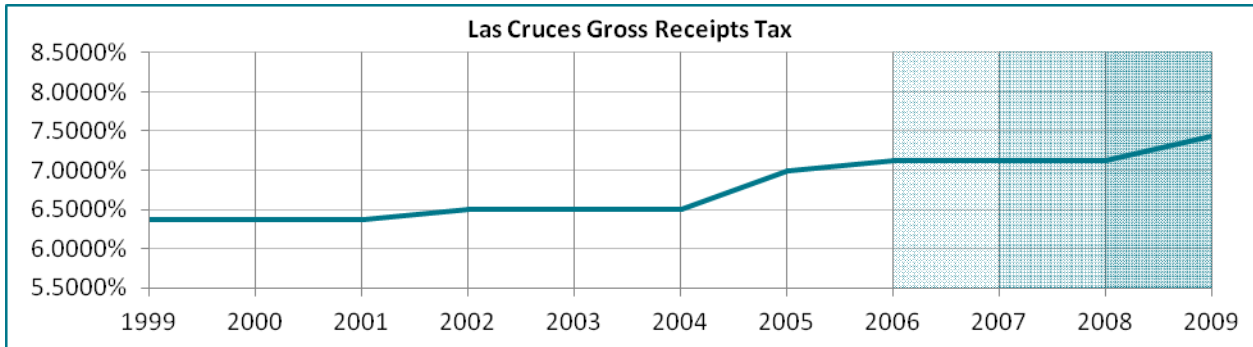
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**2007** No notable change.

**2008** No notable change.

**Looking Ahead**



**2007** No change

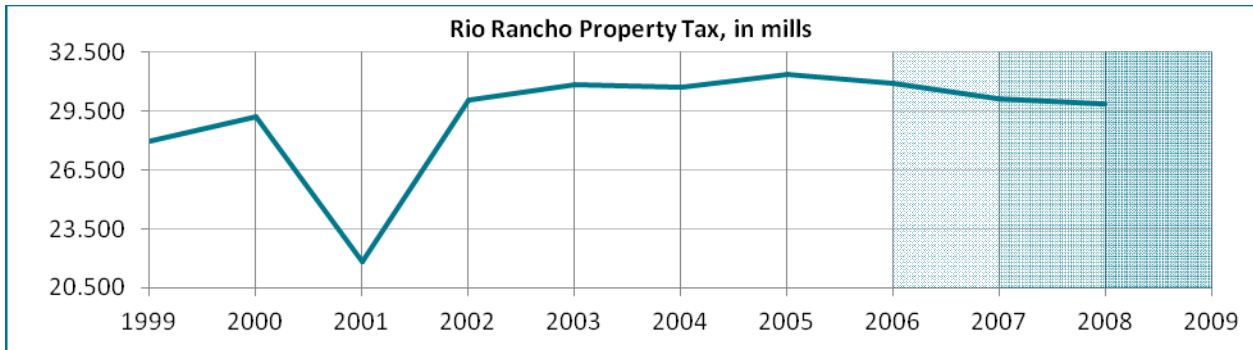
**2008** No change

**2009** In April 2007, Doña Ana County voters approved a quarter-cent GRT increase to fund the New Mexico spaceport. County commissioners voted in October 2007 to delay the collection until tax year 2009.<sup>21</sup>

<sup>21</sup> "Dona Ana County will delay collection of spaceport tax." Las Cruces Sun-News. October 11, 2007.

## Rio Rancho, Sandoval County

Rank: 6 / 10

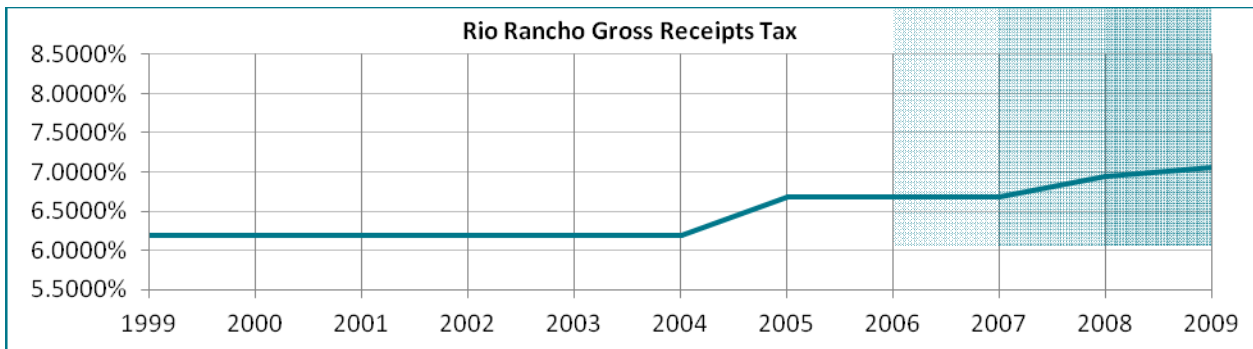


**2007** No notable change.

**2008** No notable change.

### Looking Ahead

In 2008, Voters in Sandoval County approved a 4.25 mill property tax increase to support an expansion of healthcare services provided by Presbyterian and the University of New Mexico. This will show up on 2009 property taxes.<sup>22</sup>



**2007** No change

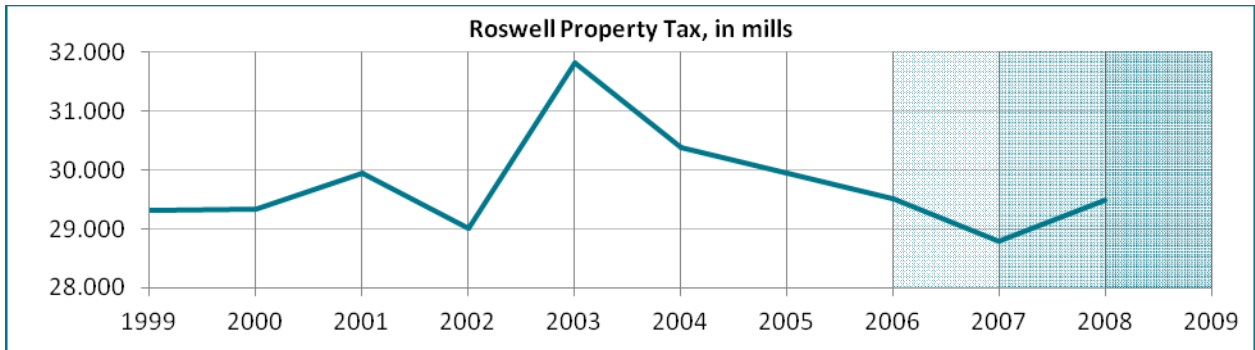
**2008**

**2009** Voters in Sandoval County approved a one-eighth cent gross receipts tax increase to provide funding for the Rail Runner Express and bus services in the county.<sup>22</sup>

<sup>22</sup> "Voters say yes to SSCAFCA bond and tax increases." Rio Rancho Observer. November 9, 2008.

# Roswell, Chaves County

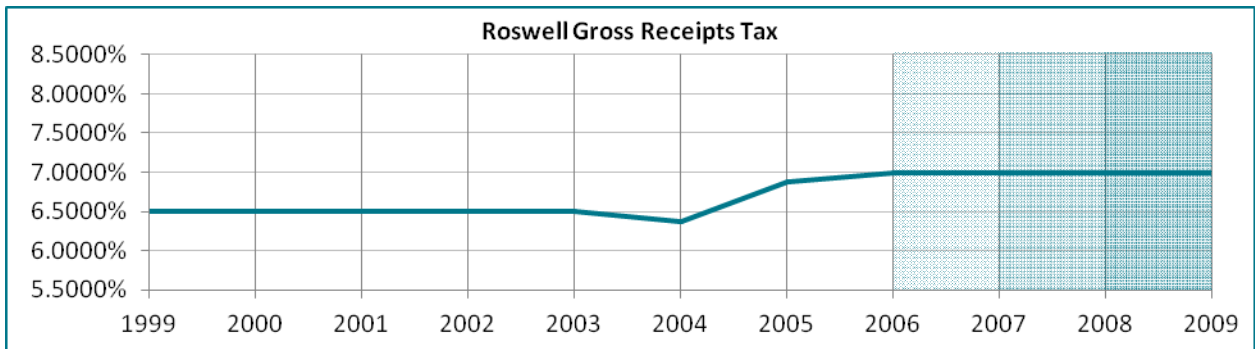
Rank: 4 / 10



**2007** No notable change

**2008** No notable change

**Looking Ahead**



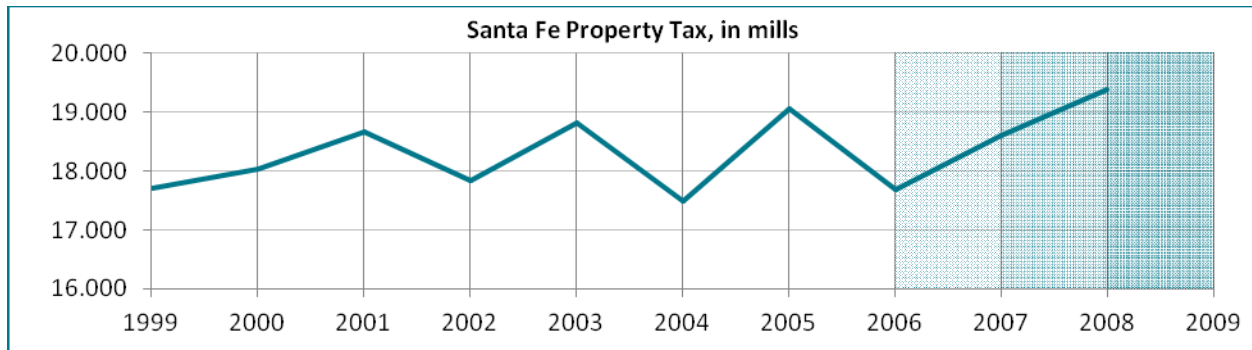
**2007** No change

**2008** No change

**2009** No change

## Santa Fe, Santa Fe County

Rank: 7 / 10



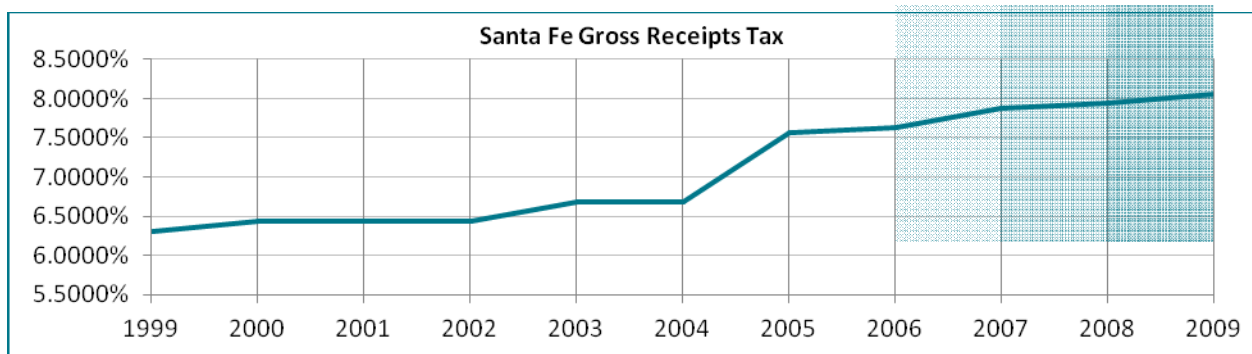
**2007**

Property tax rates increased from 17.690 mills in 2006 to 18.608 mills in 2007. Operating rates for Santa Fe Community College increased by over 75%, adding 0.899 mills to property tax rates.

**2008**

On April 30, 2008, voters approved a \$20,000,000 general obligation bond to improve public parks, trails, and open space, which added 0.461 mills to the municipal debt service rate.

**Looking Ahead**



**2007**

As of September, 2007, Santa Fe County rates increased by one quarter-cent to fund the Regional Emergency Communication Center, which provides emergency medical services and fire protection for the county.

**2008**

As of January 1, 2008, Santa Fe County rates increased by one sixteenth-cent to fund the State's County-supported Medicaid Fund. This is effectively a state tax, as all the revenue collected by the county goes to the New Mexico State Health Department.

**2009**