FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Martinez, A/Dow	**ORIGINAL DATE**	02/09/25
SHORT TITLE	Foster Parent Tax Credit	**BILL NUMBER**	House Bill 225
		ANALYST	Graeser

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
PIT Credit	**$0**	**($11,400.0)**	**($11,400.0)**	**($11,400.0)**	**($11,400.0)**	Recurring	General Fund

Parentheses ( ) indicate revenue decreases.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
CYFD	**No fiscal impact**	**$940.0**	**No fiscal impact**	**$940.0**	Nonrecurring	**General Fund**
CYFD	**No fiscal impact**	**$750.0**	**$750.0**	**$1,500.0**	Recurring	**General Fund**
TRD	**No fiscal impact**	**$19.9**	**No fiscal impact**	**$19.9**	Nonrecurring	**General Fund**
TRD	**No fiscal impact**	**$85.0**	**$85.0**	**$170.0**	Recurring	**General Fund**
Total	**No fiscal impact**	**$1,794.9**	**$835.0**	**$2,629.9**		**General Fund**

Parentheses ( ) indicate expenditure decreases.

Relates to House Bills 207, 341 and 345 and Senate Bills 272, 284, 304, and 305

Sources of Information

LFC Files

<u>Agency Analysis Received From</u>
Children, Youth & Families (CYFD)

<u>Agency Analysis was Solicited but Not Received From</u>
Department of Finance and Administration (DFA)
Taxation & Revenue Department (TRD)

SUMMARY

Synopsis of House Bill 225

House Bill 225 (HB225) proposes giving a tax credit to foster parents licensed or certified by the Children, Youth and Families Department (CYFD) or a child placement agency in an amount equal to one hundred dollars for each week and for each child the taxpayer fosters in the taxable year in which the tax credit is claimed. This is a refundable credit.

CYFD will issue a dated certificate of eligibility to taxpayers that apply for this tax credit from CYFD if the department determines that the applicant meets the requirements detailed in this bill. The bill details that the credit shall be claimed within three taxable years of the end of the year in which CYFD certifies the credit.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or June 20, 2025, if enacted. The provisions of the act are applicable to taxable years beginning January 1, 2025. There is no sunset date for the tax credit.

FISCAL IMPLICATIONS

This bill creates a tax expenditure with a significant cost. LFC has serious concerns about the substantial risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or action be postponed until the implications can be more fully studied.

Recently, the number of children in foster care has been about 2,200. Using 2,200 children in foster care at $100 per week per child yields an annual general fund cost of $11.4 million.

CYFD expects significant costs to implement the certification. CYFD Information Technology Division would need five additional positions and funding estimated at $938.6 thousand to develop a template that is based upon federal Internal Revenue Service and Taxation and Revenue Department (TRD) requirements. LFC notes from the text of the estimate that these expenses would be non-recurring. Additional costs associated with the implementation and maintenance of software are $750.0 thousand per year.

In their response to a similar bill (House Bill 207), TRD estimates $19.9 thousand in nonrecurring implementation costs and $85 thousand in recurring implementation costs.

SIGNIFICANT ISSUES

Basic care is $20.91 per child per day, while extended care for teenagers can range to $29.08. This is equivalent to $146 to $203 per week. The proposed $100 per week would increase payment rates from 49 percent to 70 percent. It is unknown if this significant increase in payments to foster parents would result is a comparable increase in quality placement opportunities.

The LFC Program Evaluation Unit prepared a brief during the 2024/2025 interim to support Senate Memorial 5 (SM5) CYFD Restructuring Task Force.[1] The brief informs this tax credit proposal. Information extracted from the SM5 evaluation follows:

- The state averages 2,200 children per month in foster care, with an average of four different foster homes a year per child.
- Licensed foster parents (also known as resource homes) receive a non-taxable, monthly maintenance payment as reimbursement for providing for children in their care. These monthly maintenance payments are established by CYFD to cover typical, everyday expenses, such as food, transportation, personal care, clothing, etc. and vary depending on the child's age and level of care.
- In FY 24, New Mexico spent roughly $61 million for the care and support of foster children (foster care maintenance payments and adoption assistance) in CYFD care.
- New Mexico could choose to increase foster care maintenance rates but would likely need to have increased rates approved by the federal Administration for Children and Families in the state's federal Title IV-E plan.
- The LFC budget recommendation includes a $100 thousand non-recurring appropriation to study foster care maintenance payment rates, as recommended by the Senate Memorial 5 taskforce.

This proposal may not be the most efficient means of increasing payments to resource homes. From the SM5 brief:

> Federal Title IV-E is the primary funding source for foster care because the federal government allows states to claim reimbursement for a portion of expenditures for eligible children placed in foster care at the federal medical assistance percentage rate. This rate is roughly 75 percent in New Mexico, meaning the state should receive roughly $3 in federal revenue for every $1 in state revenue.

Because ¾ of the state's overall costs of foster care is met through the Federal Title IV-E program, the tax credit proposal must be characterized as inefficient. The increased reimbursement rates implicit in the proposal cost the general fund three times as much as an increased reimbursement rate.

LFC encourages proposers of tax expenditures to provide goals and benchmarks, as well as a sunset date where the effectiveness of the tax credit can be evaluated and kept, repealed or modified.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement for TRD to include in the annual tax expenditure report (Section 7-1-84 NMSA 1978) the data compiled from the reports from taxpayers taking the credit and other information to determine whether the credit is meeting its purpose.

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[1] https://www.nmlegis.gov/Entity/LFC/Documents/SM5%20Brief-Access%20to%20Community-Based%20Services.pdf

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Several bills have been introduced seeking to improve the services provided by CYFD in a similar manner to this bill:

- House Bill 207, which would expand the Special Needs Adopted Child Tax Credit to all adopted children;
- House Bill 341, which would require CYFD to issue identification cards to foster parents;
- House Bill 345, which would require CYFD to conduct a child an adolescent needs and strengths trauma assessment when placing a child into foster care;
- Senate Bill 272, which would exempt foster parents or grandparent guardians/adoptive parents from the personal income tax;
- Senate Bill 284, which would change Insurance Code to prevent the disqualification of foster children from coverage under homeowners insurance;
- Senate Bill 304, which would create the Qualifying Foster care Organization Income Tax Credit; and
- Senate Bill 305, which would establish the Quality Foster Parent Recruitment and Retention Task Force.

OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

- **Adequacy**: Revenue should be adequate to fund needed government services.
- **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
- **Equity**: Different taxpayers should be treated fairly.
- **Simplicity**: Collection should be simple and easily understood.
- **Accountability**: Preferences should be easy to monitor and evaluate

Tax Expenditure Policy Principle	Met?	Comments
Vetted: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.	X	
Targeted: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.		
Clearly stated purpose	X	
Long-term goals	X	
Measurable targets	X	
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	: ✓	
Accountable: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date.		
Public analysis	?	

Expiration date	X	
Effective: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions "but for" the existence of the tax expenditure. Fulfills stated purpose Passes "but for" test	 ? ?	No goals stated
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✓ Met ✗ Not Met ? Unclear		

LG/hj