F I S C A L   I M P A C T   R E P O R T

SPONSOR	Gallegos, D/Chatfield Black/Strickler/ Sweetser	**ORIGINAL DATE** **LAST UPDATED**	2/11/2020	**HB**	359
SHORT TITLE	Rural Teacher Tax Credit			**SB**	
				ANALYST	Iglesias

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY20	**FY21**	**FY22**	**FY23**	**FY24**		
-	($2,700.0) or more	($2,700.0) or more	($2,700.0) or more	($2,700.0) or more	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Legislative Education Study Committee (LESC)

No Response Received
Taxation and Revenue Department (TRD)
Public Education Department (PED)

SUMMARY

Synopsis of Bill

House Bill 359 creates a new nonrefundable personal income tax credit of $1,500 against tax liability for full-time teachers in rural school districts.

There is no effective date of this bill. It is assumed the effective date is 90 days following adjournment of the Legislature.

FISCAL IMPLICATIONS

To qualify for the credit, the bill requires a taxpayer to be a licensed level 1, level 2, or level 3-A teachers with the primary responsibility of classroom instruction or supervision below the principal level and to be a full-time employee in a rural school district on at least a 9.5 month contract that ends in the taxable year.

The bill defines a "rural school district" as (a) a school district with no more than four public schools; (b) a school district located on the border than can demonstrate to the Public Education Department (PED) that it is losing teachers to school districts in a bordering state; (c) a school district located more than 35 road miles from an urban cluster or urbanized area, as defined by the U.S. Census Bureau; or (d) a public school that is more than 35 road miles away from the school district's central administrative building.

The fiscal impact table relies on figures provided by the Legislative Education Study Committee (LESC) based on enrollment and teacher salary data from the Public Education Department (PED). This data indicates that at least 50 of the 89 school districts qualify as rural school districts based on the number of public schools. In addition, 17 public schools in 5 school districts are located more than 35 road miles away from the school district's central administration building. These school district and public schools have 1,825 teachers. Assuming all eligible teachers claim the credit, the cost to the general fund is estimated to be at least $2.7 million annually.

However, in addition to those school districts that qualify because of the number or location of schools, 13 school districts may or may not qualify based on their location on the border with another state. It is unclear how many of these school districts will be able to demonstrate to PED they are losing teachers to another state. If all of these school districts qualified, as many as 5,245 additional teachers could qualify for this tax credit, which would make potential cost of the credit on the upper-end as high as $10.3 million.

LESC staff also provide the following discussion regarding eligibility determinations for this credit:

> Based on initial analysis it does not appear that any school district would qualify as a rural school district solely under criteria (c) [listed above]. Of those school districts with more than four schools, only four school districts do not contain an urban cluster or urbanized area, according to the U.S. Census Bureau. Those school districts are Cimarron Municipal Schools, Estancia Municipal School District, Hatch Valley Public Schools, and Jemez Mountain Public Schools. However, it does not appear that these school districts are located more than 35 road miles from the nearest urban cluster, measuring from the border of the urban cluster to the border of the school district. For example, the border of Jemez Mountain Public Schools appears to be less than 30 miles away from the northwestern most point of Espanola's urban cluster.

Although the tax credit is nonrefundable, a taxpayer may carry forward the tax credit for three consecutive years.

This bill creates a tax expenditure with a cost that is difficult to determine but likely significant. LFC has serious concerns about the significant 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 be held for future consideration.

This bill may be counter to the LFC tax policy principles of adequacy, efficiency, and equity. Due to the increasing cost of tax expenditures, revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

SIGNIFICANT ISSUES

LESC staff provide the following policy discussion:

> Many rural areas face a shortage of qualified teachers to serve in public schools. According to the 2019 Educator Vacancy Report from New Mexico State University's Southwest Outreach Academic Research Evaluation and Policy Center, most of the 335 of the teacher vacancies in the state are in regions where most school districts would be considered a rural school district under [this bill]. Although the central region, which is largely not considered a rural school district had the most vacancies of any region, this region includes school districts with a higher number of teachers. The report does not report a vacancy rate, and does not include school district-level data, making it difficult to determine if the teacher shortage is worse as a percentage of teacher positions in rural areas or urban areas.
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> Provisions of [this bill] may help some school districts in the southeast region address reported issues with teacher recruitment in Texas. School districts in this region report high levels of competition for new teachers with school districts in west Texas. Reportedly, some Texas school districts are using "signing bonuses" to recruit teachers to their school districts, and some offer significantly higher starting salaries than New Mexico school districts. The tax credit in [this bill] could provide teachers in these school districts with an incentive to continue serving New Mexico students.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the credit and other information to determine whether the credit is meeting its purpose.

This bill also requires TRD to include "other necessary information" to evaluate the credit, but does not specifically require TRD to report which school districts are participating, which could be useful in evaluating the impact of the program. While including aggregate information for the school districts in which this credit is claimed would be useful, it may or may not be possible for TRD to report.

ADMINISTRATIVE IMPLICATIONS

This bill requires a teacher wishing to claim the tax credit to submit an application to PED, including their employment contract and other information required by PED. If PED determines the teacher is eligible for the tax credit, the department will provide the taxpayer with a certificate and provide TRD with appropriate information. It appears PED would be required to certify each taxpayer in each year for which the taxpayer wishes to claim the credit. Analysis from PED is not yet available, and it is unclear in PED will be able to handle the additional certification requirements within currently available resources.

TRD will need to make information system changes and update forms and publications. Analysis from TRD is necessary to determine the agency's estimated operating budget impact to implement this new tax credit.

TECHNICAL ISSUES

This bill does not contain a delayed repeal date. LFC recommends adding a delayed repeal date.

Does the bill meet the Legislative Finance Committee tax policy principles?

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

Does the bill meet the Legislative Finance Committee tax expenditure policy principles?

1. **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 (RSTP), to review fiscal, legal, and general policy parameters.
2. **Targeted**: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.
3. **Transparent**: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.
4. **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.
5. **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.
6. **Efficient:** The tax expenditure is the most cost-effective way to achieve the desired results.

LFC Tax Expenditure Policy Principle	Met?	Comments
Vetted	✗	Proposal not vetted through LFC or RSTP in the interim.
Targeted		No stated purpose, but seems evident the purpose is to attract or retain teachers in rural areas.
Clearly stated purpose	✗	
Long-term goals	✗	
Measurable targets	✗	
Transparent	✓	Annual reporting by TRD required on the number of claimants and aggregate cost of the credit.
Accountable		
Public analysis	?	It is unclear whether reporting of the number of claimants and aggregate cost is sufficient to determine the effectiveness or efficiency of the credit.
Expiration date	✗	No expiration date.
Effective		It is unclear whether the tax credit would provide sufficient incentive to attract or retain teachers in rural areas, or to determine whether rural teachers would not have moved to or remained in rural areas "but for" the credit.
Fulfills stated purpose	?	
Passes "but for" test	?	
Efficient	?	
Key: ✓ Met ✗ Not Met ? Unclear		

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