LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS
55th Legislature, 1st Session, 2021

Bill Number   SB175   **Sponsor**   Gallegos

Tracking Number   .218950.1   **Committee Referrals**   STBTC/SFC

Short Title   Rural Teachers Tax Credit

Analyst   Canada   **Original Date**   2/17/21
          Last Updated

BILL SUMMARY

Synopsis of Bill

Senate Bill 175 (SB175) would create a new section of the Income Tax Act, Section 7-2-1 NMSA 1978, to provide full-time teachers in rural school districts with a $1,500 tax credit.

FISCAL IMPACT

SB175 would reduce personal income tax (PIT) collections that flow into the general fund. To qualify for the tax credit offered by SB175, a taxpayer must be a licensed level 1, level 2, or level 3-A teacher with the primary responsibility of classroom instruction or supervision below the principal level. To qualify for the up to $1,500 tax credit, the teacher must also be a full-time employee in a rural school district, on at least a 9.5 month contract that ends in the taxable year. According to the Taxation and Revenue Department (TRD), teachers would reach the PIT liability maximum to qualify for the $1,500 credit amount.

Based on the criteria in SB175, TRD and Legislative Education Study Committee staff made estimates on the amount of teachers who may be eligible for the tax credit.

SB175 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 that 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.

Using enrollment and teacher salary data budgeted by school districts, it appears to LESC staff that at least 40 of the 89 school districts qualify as a rural school district based on the number of public schools using criteria (a). In addition, by using criteria (d), it appears 17 public schools in five school districts are located more than 35 road miles away from the school district's central administration building. These school districts and public schools have 1,277 teachers. TRD

analysis notes due to data availability, they were not able to provide estimates based on criteria (d).

In addition to those school districts which qualify because of the number or location of schools, 15 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 that they are losing teachers to another state. If all of these school districts qualified, as many as 5,255 additional teachers could qualify for the tax credit included in SB175. TRD did not provide an estimate based on criteria (b) stating it is indeterminable until PED defines in rule more details regarding determining this metric.

Based on initial analysis from LESC staff it does not appear that any school district would qualify as a rural school district solely under criteria (c). 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.

For the purposes of this analysis, locally-chartered charter schools are included within the school district that authorizes the charter school. PED considers locally-chartered charter schools to be a component of the school district. SB175 appears to exclude state-chartered charter schools. Almost all of these charter schools are located within school districts that would not qualify as a rural school.

Assuming at least 1,277 teachers qualify for the tax credit (using criteria (a) and (d) above) the total fiscal impact to the general fund would be $1.9 million. However it is likely that some unknown number of school districts will qualify under criteria (b). Should all school districts on the border with another state be considered rural school districts, the number of teachers qualifying for the tax credit could be as high as 5,255, with a fiscal impact of $7.8 million. Attachment: Qualification Criteria for the Rural Teachers Tax Credit reports the school districts that appear to qualify under SB175.

According to TRD staff, the department estimates 1,130 teachers qualify under criteria (a) and (c). Based on lack of data or clarification needed by PED, the department did not provide estimates under criteria (b) or (d). Based on the number of teachers identified by TRD at the maximum credit amount of $1,500, TRD estimates the credit would cost $1.7 million annually.

SB175's tax credit would not be refundable, but a taxpayer may carry forward the tax credit for three consecutive years.

TRD reports the TRD Information Technology Division will need to make information system changes, create new publications, forms, and regulations that will require $15,492 in workload costs.

In TRD's analysis, the department states the Revenue Processing Division (RPD) will also be impacted. Without an electronic data sharing requirement in SB175, figuring out when and how the certification data is received is imperative. To facilitate this process, a Memorandum of

Understanding (MOU) with PED must be established to facilitate exchange of certification data. The workload costs for RPD to facilitate MOU discussions is $67,000. Facilitating automation and real-time data certification through the MOU could mitigate potential impacts to current workload. TRD assumes that electronic transfer of credit information will not occur before the effective date of the bill and an additional FTE will be required. RPD will require a Tax Examiner-O because without automation systems in place, certifications will be entered manually.

TRD expects to be able to absorb the impact from SB175 with one additional FTE at the cost of $55 thousand. However, if several bills with similar effective dates are enacted, greater impacts to TRD are expected which may require an additional FTE.

At time of publication, analysis from PED was not available for SB175.

SUBSTANTIVE ISSUES

Teacher Shortage Strategy. SB175 proposes a strategy to address a shortage of qualified teachers to serve in public schools in rural New Mexico. According to the 2020 Educator Vacancy Report from New Mexico State University's Southwest Outreach Academic Research Evaluation and Policy Center, 313 of the 571 teacher vacancies in the state are in regions where most school districts would be considered a rural school district under SB175. Although the central region, which mainly consists of non-rural school districts, 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.

Provisions of SB175 may help some school districts in the southeast region address reported issues with teacher recruitment. 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 SB175 could provide teachers in these school districts with an incentive to continue serving New Mexico students.

Personal Income Tax. TRD provided analysis regarding PIT policy and potential impacts the tax credit established in SB175 will have on state income taxes. PIT represents a consistent source of revenue for many states. While this revenue source is susceptible to economic downturns, it is also positively responsive to economic expansions. New Mexico is one of 42 states along with the District of Columbia that impose a broad-based PIT. The PIT is an important tax policy tool that has the potential to further both 1) horizontal equity by ensuring the same statutes apply to all taxpayers, and 2) vertical equity by ensuring the tax burden is based on taxpayer's ability to pay.

Additionally, TRD states a rural teacher's tax credit will erode horizontal equity in state income taxes. By basing the credit on profession and location of work, taxpayers in similar economic circumstances are no longer treated equally. Thus, two teachers who earn the same salary may have different tax liability given where they work. A tax-credit for rural teachers may be seen as a way to reduce teacher turnover and teacher quality gaps between urban and rural areas, and also to increase supply of teachers in the rural areas. However, providing a tax credit to attract teachers to move to rural schools may be only one requirement necessary to address the problem of attracting teachers to rural areas. Teacher quality and retention is a statewide concern that impacts all students. According to TRD, providing a tax incentive for only rural teachers may add stress

to the already strained statewide education system. In addition, tax expenditures narrow the tax base and may result in reductions of governmental services, an increase in taxes, or both.

This new proposed credit does not include a sunset date. TRD supports sunset dates so policymakers can review the impact of a credit before extending it if a sufficient timeframe is allotted for tax incentives to be measured. Given the cost to the state, a sunset date would force an examination of the benefit of this credit versus the cost.

ADMINISTRATIVE IMPLICATIONS

SB175 would require 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 from SB175 that 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 if PED will be able to handle the additional certification requirements within currently available resources.

SB175 requires TRD to report on the number of taxpayers approved to receive the credit and aggregate the amount of the credit to the Revenue Stabilization and Tax Policy Committee and the Legislative Finance Committee. SB175 indicates the report will be used to evaluate the credit. SB175 requires "other necessary information," 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 it might be useful if this reporting included the school districts in which these taxpayers are employed, it may not be possible for TRD to include this information to protect taxpayer privacy.

In TRD's analysis, the department recommends PED to publish a list of eligible schools each year so teachers who are applying for this credit can determine if they are eligible beforehand. For example, for the Rural Healthcare Practitioner credit, New Mexico Department of Health lets practitioners use a third-party service to determine if their practice sites meet the requirement of "rural", before applying.

TECHNICAL ISSUES

In TRD's analysis, the department notes there needs to be more details around the certification process required from PED. Specifically, the department notes a timeline and method for certification is not included. TRD also recommends adding a requirement for certification information to include the taxpayer name, taxpayer identification number, taxable year awarded, and amount awarded. It is recommended that this data sharing is facilitated electronically from PED to TRD to allow for real time data exchange and efficient tax returns and credit claim processing. It should be noted that without authority under Section 7-1-8.8 NMSA 1978, TRD will not be able to share specific taxpayer information with PED.

SOURCES OF INFORMATION
- LESC Files
- Taxation and Revenue Department

CEC/kh

Qualification Criteria for the Rural Teachers Tax Credit

School District	A) Number of Schools	Teachers in School Districts with 4 or Fewer Schools	B) School District Located on Border	Number of Teachers in School Districts on Border	C) School District that is more than 35 road miles from an urban cluster or urbanized area	Teachers in School District more than 35 miles from "urban center"	D) Schools 35 Miles or More From Central Administration	Teachers in Schools 35 Miles or More from Central Administration	
1 Alamogordo	17		X	331					1
2 Albuquerque	179								2
3 Animas	3	12	X	12	X				3
4 Artesia	11						1	2	4
5 Aztec	9		X	167					5
6 Belen	11								6
7 Bernalillo	12								7
8 Bloomfiled	7								8
9 Capitan	5								9
10 Carlsbad	17		X	380					10
11 Carrizozo	4	16			X				11
12 Central	18		X	376			4	59	12
13 Chama	4	34	X		X				13
14 Cimarron	6		X	35	X				14
15 Clayton	4	37	X						15
16 Cloudcroft	5								16
17 Clovis	19								17
18 Cobre	6								18
19 Corona	2	13			X				19
20 Cuba	4	46			X				20
21 Deming	14		X	317					21
22 Des Moines	3	13	X	13	X				22
23 Dexter	3	50							23
24 Dora	2	19	X		X				24
25 Dulce	5		X		X				25
26 Elida	2	18			X				26
27 Espanola	24								27
28 Estancia	6								28
29 Eunice	3	48	X						29
30 Farmington	25		X	661					30
31 Floyd	3	18							31
32 Ft. Sumner	3	29			X				32
33 Gadsen	29		X	841					33
34 Gallup	39		X	644			9	131	34
35 Grady	3	17	X		X				35
36 Grants	15		X	215					36
37 Hagerman	3	29							37
38 Hatch	6					71			38
39 Hobbs	21		X	517					39

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40	Hondo	3	15							40
41	House	3	14			X				41
42	Jal	3	32	X						42
43	Jemez Mountain	5					15	1	5	43
44	Jemez Valley	5					22			44
45	Lake Arthur	3	8							45
46	Las Cruces	46								46
47	Las Vegas	7								47
48	Logan	4	25	X						48
49	Lordsburg	5		X	33	X				49
50	Los Alamos	10								50
51	Los Lunas	18								51
52	Loving	3	42							52
53	Lovington	12		X	193					53
54	Magdalena	3	27			X				54
55	Maxwell	3	14							55
56	Melrose	3	23							56
57	Mesa Vista	5		X	14					57
58	Mora	6								58
59	Moriarty-Edgewood	8								59
60	Mosquero	2	11							60
61	Mountainair	4	21			X				61
62	Pecos	3	25							62
63	Penasco	4	23							63
64	Pojoaque	7								64
65	Portales	6		X	169					65
66	Quemado	3	24	X		X				66
67	Questa	6		X	24					67
68	Raton	4	55	X						68
69	Reserve	2	14	X						69
70	Rio Rancho	21								70
71	Roswell	25								71
72	Roy	3	12			X				72
73	Ruidoso	4	119							73
74	San Jon	3	13	X						74
75	Santa Fe	37								75
76	Santa Rosa	6						2	10	76
77	Silver City	11		X	169					77
78	Socorro	8								78

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79	Springer	4	14			X				79
80	Taos	12								80
81	Tatum	3	20	X		X				81
82	Texico	3	36	X						82
83	Truth or Cons.	8								83
84	Tucumcari	4	59							84
85	Tularosa	5								85
86	Vaughn	3	9			X				86
97	Wagon Mound	2	16			X				97
88	West Las Vegas	12								88
89	Zuni	7		X	85					89
90	Statewide total:		1070	34	5255	26		17	207	90

Note: Shaded school districts appear to qualify as rural school districts. This analysis assumes all school districts located on the border qualify, though they need to demonstrate to PED that the school district is