FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Gallegos	**ORIGINAL DATE**	2/7/23
SHORT TITLE	Increase Adopted Special Needs Credit	**BILL NUMBER**	Senate Bill 277
		ANALYST	Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY23	**FY24**	**FY25**	**FY26**	**FY27**		
	($900.0)	($900.0)	($900.0)	($900.0)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
	$5.5		$5.5	Non-recurring	TRD-IT (General Fund)
	$0.3		$0.3	Non-recurring	TRD-ASD (General Fund)

Parenthesis ( ) indicate expenditure decreases.

Sources of Information
LFC Files

Responses Received From
Children, Youth and Families Department (CYFD)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Senate Bill

Senate Bill 277 increases the adopted special needs child credit of Section 7-2-18.16 NMSA 1978 from $1,000 per child to $1,500 per child. The former specification “husband and wife” has been changed to “married couples.” The bill also requires TRD to include utilization data in the annual Tax Expenditure Report.

This bill does not contain an effective date, and as a result, would go into effect June 16, 2023, (90 days after the Legislature adjourns) if signed. The provisions are applicable for tax years beginning on or after January 1, 2023.

FISCAL IMPLICATIONS

This credit was first passed in 2007 and the amount has not been adjusted since.

The data source for this estimate is the 2018, 2019-20, 2021, and 2022 editions of TRD's Tax Expenditure Report. The credit has been quite stable since 2017 and shows a slight decline in the number of claims. This, however, may be attributed to late filing:

Fiscal Year	2017	2018	2019	2020	2021	2022
# Claims	1,013	1,026	1,097	1,081	985	907
Credit ($1,000)	$1,826	$1,861	$2,022	$1,985	$1,767	$1,592
Avg Amount per claim	$1,803	$1,814	$1,843	$1,836	$1,794	$1,755

The credit amount is increased from $1,000 to $1,500 in this bill and is applicable for the 2023 tax year. Returns for the 2023 tax year are due in April 2024 and will affect FY24 revenues. The estimate in the Fiscal Impact Table is simply an average of historical amounts increased by 50 percent.

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

SIGNIFICANT ISSUES

CYFD notes the following:

> This amendment will benefit families adopting special needs children because it will further increase resources available to them for their commitment to providing permanency for children and youth. Also, by producing an annual report, tax and revenue would provide CYFD with a valuable resource for monitoring the successes of placing children for adoption with special needs, which would further validate the importance of having this resource available for adoptive parents and their families. This bill would also support the department's efforts to recruit, retain, and support resource parents because it would help adoptive parents with unexpected costs due to the child's needs.

Although quoting old data, the State Policy Advocacy and reform center (SPARC)[1] indicates that in 2012, 353 children were adopted from foster care in New Mexico. Another 838 children in New Mexico foster care were waiting to be adopted. Adoption provides children with a lifetime of emotional and legal connections to a family. For children waiting to be adopted in New Mexico in 2012, the average stay in care was 2.4 years (28.8 months). On average, children who were adopted in 2012 spent 2.8 years (33.8 months) in care before the adoption was finalized.

An unknown fraction of total adoptions in New Mexico are those of special needs kids. The TER data shown above indicates the continuing population claiming the tax credit represents fewer than 2,000 special needs kids have been permanently adopted.

[1] http://childwelfaresparc.org/wp-content/uploads/2015/02/New-Mexico-ADOPTION-FACTS.pdf

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.

CYFD has performance measurements concerning placement stability for children which may be positively affected by this bill.

ADMINISTRATIVE IMPLICATIONS

TRD notes a minimal administrative impact: "…updates to forms, instructions and publications will be incorporated into annual tax year implementation. These changes will cost $5,554 in workload costs for TRD's Information Technology Division (ITD). TRD's Administrative Services Division (ASD) will be required to test credit sourcing and perform other systems testing. It is anticipated this work will take approximately 4 hours for 1 Full-Time Equivalent (FTE) of a pay band 70."

POSSIBLE QUESTIONS

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, 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	✓	Increase an existing credit after 15 years.
Targeted		
Clearly stated purpose	✓	Not stated, but commonly understood as a tool to help place special needs kids with adoptive families.
Long-term goals	✓	Credit claims have been remarkably stable over the years.
Measurable targets	✗	
Transparent	✓	
Accountable		
Public analysis	✗	
Expiration date	✗	
Effective		
Fulfills stated purpose	✓	Possibly not, since there has been a small secular decline in claims.
Passes "but for" test	?	
Efficient	?	There are few tools to assist in placing special needs kids with adoptive families
Key: ✓ Met ✗ Not Met ? Unclear		

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