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FISCAL IMPACT REPORT

ORIGINAL DATE 1/22/09

SPONSOR Rehm LAST UPDATED _____ HB 27

SHORT TITLE UNM Hospitals Health Care Surtax SB _____

ANALYST Gutierrez

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	\$15,618.0	\$32,289.0	Recurring	GRT - UNM Hospitals primary care fund
	\$158.0	\$326.0	Recurring	GRT - Bernalillo County
	(\$45,277.0)	(\$94,176.0)	Recurring	Property Tax – UNM hospitals
	(\$457.0)	(\$951.0)	Recurring	Property Tax – Bernalillo County
	See Narrative	See Narrative	Recurring	Federal Funds

(Parenthesis () Indicate Revenue Decreases)

Relates to HB48 and HB55.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non- Rec	Fund Affected
Total	\$500.0	\$100.0	\$200.0	\$800.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From
 Taxation and Revenue Department (TRD)
 Human Services Department (HSD)
 Department of Health (DOH)

SUMMARY

Synopsis of Bill

House Bill 27 creates a health care surtax equal to 1/16 of one percent of gross receipts. The bill also creates a new fund, the university of New Mexico hospitals primary care fund, which would receive 99 percent of the revenue generated by the 1/16 percent health care surtax on gross receipts proposed in the bill. The non-reverting fund would be invested by the state treasurer and would receive its own investment income. Subject to legislative appropriation, money in the fund would be used to support primary health care and medicaid programs at the university of New Mexico hospitals. The remaining 1 percent of revenues would be distributed to the Bernalillo county commission to oversee the expenditure of health surtax revenues distributed to the UNM board of regents from the university of New Mexico hospitals primary care fund and to identify persons eligible for available health insurance plans and enroll them in available insurance plans.

The bill would require HSD to take all steps necessary to obtain federal matching funds for money in the newly-created fund. In the event that no federal matching funds are received by New Mexico for any 18-month period, the unencumbered balance of the fund at the end of the fiscal year following the end of that 18-month period shall be paid to the UNM board of regents of the university of New Mexico for the provision of health care services at the university of New Mexico hospitals.

The bill also amends the hospital funding act so that any property tax mill levy imposed by Bernalillo County to pay for the cost of county hospitals prior to January 1, 2010 will cease to be effective after December 31, 2009, and so that Bernalillo County will not be authorized to impose a property tax mill levy to pay for the cost of county hospitals on or after January 1, 2010.

The provisions of the bill will go into effect on January 1, 2010.

FISCAL IMPLICATIONS

Taxable gross receipts in New Mexico are expected to be \$25.66 million in the last half of FY10, \$49.6 million in FY11, \$51.5 million in FY12, and \$53.6 million in FY13. An additional 1/16 percent health care surtax on these receipts will generate \$16 million in the last half of FY10, \$32.3 million in FY11, \$33.7 million in FY12, and \$35 million in FY13. Of these revenue collections, 99 percent will be distributed to the university of New Mexico hospitals primary care fund and 1 percent will be distributed to the Bernalillo County Commission.

According to UNM Health Sciences Center, revenue generated for UNM hospitals from the property tax levy that this bill will disallow totaled \$55.7 million in FY05, \$60.6 million in FY06, and \$80.5 million in FY07. That revenue source would be expected to grow by about 4 percent per year under current law.

Since counties receive 1 percent of all property tax collections to pay the cost of collection, the bill will also reduce Bernalillo County's revenue from collecting the property tax by an estimated \$457 thousand in FY10, \$951 thousand in FY11, \$989 thousand in FY12, and \$1,029 thousand in FY13.

The effects of the bill on gross receipts and property tax are summarized in the table on page one of this analysis. Because the proposed gross receipts funding stream is expected to be smaller than the current property tax funding stream, the bill will result in less revenue available for UNM's costs of hospital care. The net funding loss for the hospital is expected to be \$29.7 million in FY10, \$61.9 million in FY11, \$64.3 million in FY12, and \$66.8 million in FY13.

The bill directs HSD to take all steps necessary to obtain federal matching funds on the revenue generated by the proposed health care surtax distributed to the UNM hospitals primary care fund. However, LFC is not aware of any federal matching funds that will be available. Absent differing information from HSD, the bill is not expected to result in an increase in federal funds for the UNM hospital.

The Human Services Department (HSD) stated the dollars listed in the "Estimated Additional Operating Budget Impact" table shown on page one represent systems changes required of the fiscal agent taking place in FY09 and then an additional FTE in each successive year. This is the estimate necessary to perform the administrative and tracking functions that the bill would require of HSD.

This bill creates a new fund and provides for continuing appropriations. The LFC has concerns with including continuing appropriation language in the statutory provisions for newly created funds, as earmarking reduces the ability of the legislature to establish spending priorities.

SIGNIFICANT ISSUES

The bill proposes to swap funding mechanisms for UNM hospitals. Currently, Bernalillo County is authorized to impose a property tax levy to raise funding for county hospital costs. Starting January 1, 2010, the bill would take away Bernalillo County's authority to impose this property tax levy, but would replace that funding by imposing a 1/16 percent gross receipts health surtax on the entire state.

Proponents of this legislation feel that taxing statewide to fund UNM hospital costs is more equitable than taxing only Bernalillo County residents since a significant share of uncompensated care costs incurred at UNM hospital are attributable to New Mexicans who live outside Bernalillo County. An analysis of the same proposal provided by UNM Health Sciences Center in 2008 stated that 23 percent of uncompensated care costs were due to care for non-Bernalillo County residents in FY07. However, about 63 percent of the state gross receipts tax base is outside of Bernalillo County. Whereas current law disproportionately burdens Bernalillo County residents, the proposal would disproportionately burden the rest of the state for the costs of uncompensated care.

Human Services Department stated:

There is no guarantee that these additional dollars will directly lead to having more people insured. Additionally, it appears that HSD will receive the appropriation and have responsibility for ensuring the dollars are spent in accordance with the bill - the provision of health care services at the University of New Mexico Hospital; the identification of people eligible for available health insurance plans; and the enrollment of those people in available insurance plans. However, University of New Mexico Hospital and Bernalillo County are the entities responsible for implementing these activities. HSD has little authority to ensure that these other entities are carrying out their responsibilities.

ADMINISTRATIVE IMPLICATIONS

This bill will have a small impact on the Taxation and Revenue Department: CRS-1 Filer's Kit instruction change. Taxpayer education required. GenTax programming for rate changes and distribution of surtax to the new Fund and the Bernalillo County Commission.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill relates to:

- HB48, which would require each county to reimburse the University of New Mexico Hospitals (UNMH) for costs, not otherwise compensated, that are incurred by those hospitals for ambulance services, hospital care, and/or health care services provided by the hospitals to indigent patients domiciled in that respective county for at least three months.
- HB55, which would modify the statute authorizing imposition of a local hospital gross receipts tax to create more flexibility in the extension of hospital gross receipts taxes for new capital projects.

TECHNICAL ISSUES

HSD noted that usually, primary care activities are handled by physicians within the hospital that bill separately from the hospital.

BLG/svb

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

1. ***Adequacy:*** revenue should be adequate to fund government services.
2. ***Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
3. ***Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
4. ***Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
5. ***Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc

UNM HEALTH SCIENCES CENTER
Total Uncompensated Care Charges & Costs by County
Fiscal Year 2007-08 Actuals

County	Total Uncompensated Charges *	Total Uncompensated Costs	Total Uncompensated Percentage
Bernalillo	\$230,050,356	\$122,059,589	53.1%
Catron	219,255	122,835	56.0%
Chaves	1,482,247	795,327	53.7%
Cibola	3,198,883	1,691,654	52.9%
Colfax	499,411	256,368	51.3%
Curry	564,706	305,354	54.1%
De Baca	17,062	8,396	49.2%
Dona Ana	2,979,546	1,588,460	53.3%
Eddy	943,599	526,167	55.8%
Grant	617,682	317,323	51.4%
Guadalupe	727,272	375,709	51.7%
Harding	502	230	45.8%
Hidalgo	242,494	127,705	52.7%
Lea	508,550	273,068	53.7%
Lincoln	942,404	495,297	52.6%
Los Alamos	196,003	101,197	51.6%
Luna	1,766,505	931,983	52.8%
McKinley	4,058,086	2,149,670	53.0%
Mora	196,738	101,693	51.7%
Otero	895,277	473,174	52.9%
Quay	594,572	314,635	52.9%
Rio Arriba	1,934,149	1,014,107	52.4%
Roosevelt	99,290	49,334	49.7%
San Juan	3,432,166	1,809,853	52.7%
San Miguel	768,548	390,271	50.8%
Sandoval	11,408,863	6,031,752	52.9%
Santa Fe	5,595,422	2,943,091	52.6%
Sierra	710,849	378,858	53.3%
Socorro	2,163,859	1,139,434	52.7%
Taos	2,043,771	1,082,223	53.0%
Torrance	3,433,167	1,802,578	52.5%
Union	12,722	6,667	52.4%
Valencia	15,317,171	8,047,857	52.5%
Out of State	7,620,487	3,987,856	52.3%

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Total	<u>\$305,241,614</u>	<u>\$161,699,715</u>	<u>53.0%</u>
* Includes Charity Care and Bad Debt of Self Payers			