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

		ORIGINAL DATE	01/22/09		
SPONSOR	Miera	**LAST UPDATED**	02/03/09	**HB**	135/aHHGAC
SHORT TITLE	County Health Gross Receipts Increment			**SB**	
				ANALYST	Gutierrez

REVENUE (dollars in thousands)

Estimated Revenue			**Recurring or Non-Rec**	**Fund Affected**
FY09	**FY10**	**FY11**		
	*See Narrative		Recurring	Bernalillo County

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to HB27, HB48, HB55 and SB 89

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Department of Finance and Administration (DFA)
Dona Ana County Health and Human Services

SUMMARY

Synopsis of HHGAC Amendment

The House Health and Government Affairs Committee amendment to House Bill 135 adds language declaring an emergency.

Because this bill contains an emergency clause, its provisions will become effective upon signature by the governor.

This new effective date will give the members of the governing body more time to review the need for the additional increment and time to vote for the continuation of the increment prior to its current end date of June 30, 2009 (See Technical Issues).

Synopsis of Original Bill

House Bill 135 amends Section 7-20E-18 NMSA 1978 so that counties with populations above 500 thousand (Bernalillo) will retain the option of imposing a second 1/16 percent increment of the county health care gross receipts tax. Currently, that county may only impose the second 1/16 percent increment until June 30, 2009. This bill would continue an increment after June 30, 2009 or beyond any five-year period for which the increment has been imposed and any majority vote for continuation of the increment shall be imposed for an additional period of five years.

Because the bill has no effective date, it would become effective 90 days after the 2009 legislature adjourns on June 19, 2009.

FISCAL IMPLICATIONS

Bernalillo County is the only county in New Mexico authorized to impose a second 1/16 percent increment of the county health care gross receipts tax. Bernalillo county's taxable gross receipts base will be about $18.1 billion in FY10, the first year that the increment would sunset under current law. An additional 1/16 percent increment will increase Bernalillo county gross receipts tax collections by about $11,291.2 thousand in FY10 if the county decides to impose the increment. In FY2008, Bernalillo County received $10,449,383 in revenue from this local option gross receipts tax increment.

SIGNIFICANT ISSUES

The 2006 legislature amended the county health care gross receipts tax statute to allow counties with populations over 500 thousand to impose an additional 1/16 percent gross receipts tax increment. The Senate Finance Committee amendment to the 2006 bill (HB 274) inserted a sunset clause so that the additional 1/16 percent increment could only be imposed until June 30, 2009.

Revenues collected from the first 1/16 percent increment of the county health care gross receipts tax are restricted for deposit in the county-supported Medicaid fund, a non-reverting fund that is appropriated to the human services department to support the Medicaid program. If a county chooses not to impose a 1/16 percent county health care gross receipts tax, that county must dedicate an amount equal to 1/16 percent of gross receipts to the county-supported Medicaid fund.

Revenues collected due to Bernalillo County's second 1/16 percent increment of the county health care gross receipts tax must be used to support the health care costs of indigent patients. The second increment is intended to support the Bernalillo County hospital, which is located at UNM.

New Mexico's municipalities and counties are authorized to impose over 4 percent of local option gross receipts taxes (that figure excludes several additional local option taxes that have been authorized for selected local governments). Due to increasing imposition of local option taxes, the statewide gross receipts tax rate is increasing steadily. On average, a local option gross receipts tax of about 2.16 percent will be imposed by local governments statewide by FY10. Combined with the state gross receipts tax of 5 percent, the statewide tax rate is therefore 7.16 percent.

Taxation and Revenue Department stated:
Local option gross receipts tax rates have risen significantly in recent years. For example, between FY2004 and FY2008 the average local option rate within municipalities increased from

1.13% to 2.07%. The rate in several municipalities now exceeds 3%, and rates could rise to nearly 5% under current law. Combined with the State rate of 5%, total gross receipts tax rates imposed in municipalities now average over 7%, are over 8% in several municipalities, and could rise to nearly 10%. Before enacting additional gross receipts taxes, local governments should carefully weigh the costs and benefits. For example, there are inherent economic inefficiencies in the gross receipts tax, in particular the "pyramiding" of tax on sales between businesses. These losses in economic efficiency mean that the cost of the tax to the economy exceeds the amount of tax revenue collected, and the excess cost rises rapidly as tax rates are increased. Careful consideration should therefore be given to any proposed increases in authorized local option rates to ensure that the benefit to be derived from the tax outweighs the cost of its enactment.

ADMINISTRATIVE IMPLICATIONS

This bill would have minimal impacts on TRD.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill relates to:

- HB27, 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.
- 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 and SB89, 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.

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

TECHNICAL ISSUES

TRD notes that if the bill intends that the procedure in 7-20E-3B should be followed and assuming the Governor signed the bill before March 1, the County would still need to adopt an ordinance amending the existing ordinance that would have to be mailed or delivered to TRD three months before July 1 (i.e., by March 31) for the increment to be effective on July 1.

The bill allows a county to continue their increment by majority vote of their governing body. It does not state that this action must be by ordinance or by resolution. Section 7-20E-3B assumes that an ordinance will be enacted to impose, amend or repeal a tax or an increment of a tax. The earlier ordinance terminating the increment would have to be amended to continue the increment unless the bill intends that a resolution is all that is necessary to continue the increment. Then the bill needs to have a procedure similar to Section 7-20E-3B for the governing body to follow for a resolution rather than an ordinance and should include a time prior to the effective date of the increment that the action must be taken and sent to TRD, preferably the same 3 months required by Section 7-20E-3B.

BLG/mt:svb