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

SPONSOR Neville **ORIGINAL DATE** 1/25/09 **LAST UPDATED** **HB**

SHORT TITLE Local Hospital Gross Receipts Tax Changes **SB** 89

ANALYST Gutierrez

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	NFI – See Narrative		Recurring	San Juan County
	NFI – See Narrative		Recurring	Torrance County
	NFI – See Narrative		Recurring	Sierra County

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates HB55, Relates to HB27 and HB48

SOURCES OF INFORMATION
LFC Files

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

SUMMARY

Synopsis of Bill

Senate Bill 89 amends the local hospital gross receipts tax act, Section 7-20C-3 NMSA 1978, to permit certain counties to dedicate the tax as matching funds and to extend the period for which the tax is imposed.

This bill would affect two specific types of counties:

1) any class B county having a population of less than 25,000 according to the 1990 census and a net taxable value for rate-setting purposes for the 1993 property tax year between $91,000,000 and $125,000,000 (Torrance and Sierra Counties);

2) any class A county with a population less than 115,000 according to the 2000 or any subsequent census and a net taxable value for the 2001 or any subsequent property tax year of more than $3,000,000,000 (San Juan County).

The bill would allow both types of counties to impose the tax more than once. Under current law, counties can only impose the tax once for a period needed to repay bonds not to exceed 40 years. Counties meeting the second set of characteristics (San Juan County) would get an expanded range of uses for the revenue of this local option gross receipts tax.

The provisions of the bill will be effective on July 1, 2009.

FISCAL IMPLICATIONS

The impact of this bill depends on if and when certain counties choose to impose the local option tax. Although they are currently allowed to, none of the affected counties have imposed the tax. If San Juan County had a one-eighth percent increment of the tax imposed in FY 2008 it would have generated about $5.3 million in revenue for the County.

SIGNIFICANT ISSUES

Subsection E of this bill requires an election is held and a simple majority vote in favor of imposing the local hospital gross receipts tax. It also states that for the counties listed above, in addition to the local hospital gross receipts tax a vote in favor of a property tax at a rate of one dollar for each one thousand dollars of taxable value of property in the county would also have to pass.

Specific class A and B counties that have imposed the local hospital gross receipts tax after July 1, 1996, are currently restricted to imposing the tax only once for a period necessary for the payment of bonds issued to accomplish the purpose for which the local option tax revenue is dedicated as long as that period does not exceed 40 years. This bill would remove the one-time restriction for Torrance, Sierra, and San Juan Counties.

The specific type of class A counties, currently only San Juan County, that enact an ordinance imposing increments of the tax after January 1, 2009, will be required to dedicate the revenue for either or both of the following:

1) payment of principal and interest of revenue bonds, issued for acquisition of land or buildings for and the renovation, design, construction, equipping or furnishing of hospital facilities or health care clinic facilities to be operated by the county or operated and maintained by another party pursuant to a health care facilities contract, lease or management contract with the county and;
2) Use as matching funds for state or federal programs benefiting the facilities.

The bill would allow the specific type of class A counties [currently only San Juan County] that have imposed the local hospital gross receipts tax after July 1, 1995, but before January 1, 2009, to enact an ordinance to modify the period of the imposition and the dedication of revenue. The modified ordinance could dedicate revenue to one or both of the purposes listed above.

TRD notes that local option gross receipts tax rates have risen significantly in recent years. For example, between FY04 and FY08 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 will have minimal impact on the Taxation and Revenue Department.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill duplicates House Bill 55.

This bill relates to:

- HB27, which would impose a one-sixteenth of one percent increase to the gross receipts tax, to be referred to as the "health care surtax".

- 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.

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

OTHER SUBSTANTIVE ISSUES

TRD noted that this bill may be intended to provide an additional method for a county to raise gross receipts taxes to use as matching funds for Medicaid, much like the county health care gross receipts tax in Section 7-20E-18 that provides revenue for the county-supported Medicaid fund. If this is the intent, the language “benefiting the facilities” may not be broad enough to include funds for patient care; “facilities” could be interpreted to only mean the hospital building and related structures.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

DFA notes that not allowing the amendment limits the flexibility for hospitals and health clinics to quality for additional state or federal capital fund assistance if current revenue sources are not sufficient to meet matching requirements.

BLG/mt