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FISCAL IMPACT REPORT

SPONSOR Rehm **LAST UPDATED** _____
SHORT TITLE County Hospital Property Taxes **ORIGINAL DATE** 03/01/23
BILL
NUMBER House Bill 415
ANALYST Graeser

APPROPRIATION (dollars in thousands)

Estimated Expenditure					Recurring or Nonrecurring	Fund Affected
FY23	FY24	FY25	FY26	FY27		
			\$18,300.0	\$18,300.0		Bernalillo County 1/12% to Safety Net Care Pool

Parenthesis () indicate appropriation decreases.

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY23	FY24	FY25	FY26	FY27		
			(69,000.0)	(71,000.0)	Recurring	Bernalillo County property tax for transfer to UNMH

Parenthesis () indicate revenue decreases.

Sources of Information

LFC Files

Responses Received From

University of New Mexico (UNM)

Bernalillo County

No Response Received

Taxation and Revenue Department (TRD)

Department of Health (DOH)

Human Services Department (HSD)

New Mexico Counties

SUMMARY

Synopsis of House Bill 415

House Bill 415 would reduce the amount of the mill levy County Commissioners of a class A county may impose from 6.50 mills (\$6.50 per \$1,000 of net taxable value) to 3.0 mills (\$3.00 per \$1,000 of net taxable value). HB415 repeals Bernalillo County's exception from the Indigent Hospital and County Health Care Act and reduces the portion of the authorized mill levy amounts that may be used for supporting the Indigent Hospital and Healthcare Act requirements in Bernalillo County from 1.5 mills (\$1.50 per \$1,000 of net taxable value) to 0.7 mills (\$0.70 per \$1,000 of net taxable value).

The bill requires Bernalillo County to report annually to the Legislative Finance Committee on county funding provided to University of New Mexico Hospitals (UNMH). This report requires UNMH to provide information on a hospital-wide basis as well as by department, all expenditures and the actual settled cost of each expenditure of county funding that UNMH makes for maintenance, operation, and improvement of the hospital; for financial assistance; for its bad debt or uncollected receivables; and for any other purpose. Additional reporting criteria for financial assistance regarding assistance the hospital provides to a patient to cover the full or partial cost of items or services the patient receives from the hospital.

Finally, the bill, by repealing the exemption from the provisions of the Indigent Hospital and Healthcare Act that Bernalillo County currently receives, would either separately impose an additional property tax or decrease the amount transferred to UNMH from the decreased levy in Section 1 of the bill.

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 property tax limits proposed in this bill would be applicable to the 2025 property tax year with revenue reductions for UNMH beginning in the fall of 2025 affecting FY26.

FISCAL IMPLICATIONS

UNM describes the fiscal implications of the provisions of this bill. UNMH is the only hospital in the only county affected by the bill's provisions:

The fiscal impacts to UNMH under this bill would be potentially catastrophic. In FY22 UNMH received approximately \$115 million under the current mill levy rate. A reduction in the mill levy rate to \$ 3.00 per one thousand net taxable value would result in an annual reduction in funding to UNMH of approximately \$61 Million. This would have significant impacts to UNMH's ability to continue to provide Level One Trauma Care, and specialty and subspecialty care currently not available anywhere else in New Mexico. This change would also severely impact the availability of behavioral health services.

Property tax obligations for Tax Year 2022 totaled \$129 million with a total net taxable value for the county of \$19.2 billion. The residential rate has been yield-controlled (7-37-7.1 NMSA 1978) from an imposed 6.4 mills (\$6.40 per \$1,000 of net taxable value) to 6.279 mills (\$6.279 per \$1,000 of net taxable value). Nonresidential rates have not been adjusted from the imposed 6.4 mills. FY22 transfers to UNMH derived from tax year 2021 obligations. These totaled \$114 million with a total taxable value of \$18.1 billion and residential yield-controlled rate of 6.272 mills.

The impact of repealing Bernalillo County's exemption from the funding requirements of the Indigent Hospital and County Health Care Act is an additional burden. There are various requirements within this act that Bernalillo county will need to address if HB415 is enacted. These include that the county: (1) must pay 1/12 percent of taxable gross receipts to help fund the safety net care pool (27-5.6.1 NMSA 1978); (2) may impose a voter-approved property tax levy (27-5-9 NMSA 1978); and (3) use a portion of this levy to pay the 1/16 percent of taxable gross receipts obligation pursuant to the county-supported Medicaid fund (27-10-4 NMSA 1978). This last obligation does not change, only the funding source changes. Bernalillo County has imposed both the regular 1/16 percent GRT support for the county supported Medicaid fund (7-20E-18(A) NMSA 1978) and an additional 1/16 percent GRT for indigent support (7-20E-

18(B) NMSA 1978).

Bernalillo County points out the gap created by the provisions of this bill is in excess of \$80 million annually:

Bernalillo County is contractually obligated to support UNMH, a county hospital and trauma center providing healthcare services to residents of the state, including indigent care.

- HB415 decreases the mill rate supporting UNMH from \$6.40 to \$3.00 per thousand of valuation, creating a negative fiscal impact of approximately \$61 million to Bernalillo County.

- Bernalillo County does not have the financial resources available to fill the \$61 million gap and fund the Safety Net Care Pool.

- Bernalillo County has a total of 0.3125 percent of county wide gross receipts tax increment left to be imposed.

- The County Commission could take action to increase the gross receipts tax rate by a total of 0.0625 percent, producing approximately \$13.7 million. Any additional authorization would require voter approval prior to imposition. [LFC note: Bernalillo County has imposed .9375 percent local option, leaving .0625 percent available from the 1 percent limit (7-20E-9(C) NMSA 1978).

- The County Commission could present a ballot question to the voters requesting to increase the gross receipts tax rate for the remaining 0.2151 percent, producing approximately \$47.2 million.

- These actions would leave Bernalillo County only 0.0349 percent of available county wide gross receipts tax increment capacity, significantly reducing the County's flexibility to raise revenue and potentially impacting the County's long-standing AAA bond ratings.

- The amount that could be produced by including Bernalillo County in the Safety Net Care Pool, designed to support small, rural hospitals is unknown.

- The County would be required to make a 1/12 percent gross receipts tax increment contribution into the pool and apply to the Human Services Department for a distribution to support uncompensated care and quality of care improvements.

- A 1/12th percent gross receipts tax increment equals approximately \$18.3 million, or 0.0833 percent, of which the County does not have the legal GRT capacity to generate due to the funding the other \$61 million gap.

FY22 taxable gross receipts totaled \$23.5 billion, which would be the base for calculating the 1/12 percent contribution to the safety net care pool.

SIGNIFICANT ISSUES

UNM describes the significant issues of the provisions of this bill. UNMH is the only hospital in the only county affected by the provisions of this bill:

This bill would likely impact Bernalillo County's obligations under the 1952 Federal Contract and the requirements around providing care to Native Americans in perpetuity. This obligation was assumed by the Regents of the University of New Mexico under the 1978 Lease Agreement with Bernalillo County. Under this agreement the University assumed the obligations of the 1952 Contract to provide care to Native Americans however it also stipulates that Bernalillo County is required to provide funding through the Mill Levy to UNMH. The 1978 Lease also states that UNMH providing services to medically indigent patient in Bernalillo County is contingent on sufficient resources and funding. If this bill is enacted, it would likely severely impact UNMH's ability to carry out the obligations of the 1978 Lease Agreement and subsequent amendments as well as

the 1952 Federal Contract.

The potential reduction in revenues associated with HB415 would likely create significant reductions in the current UNMH clinical delivery system especially around subspecialty care, pediatric services, behavioral health services and access to Level One Trauma. New Mexicans would likely have to travel out of state for services currently only provided at UNMH.

This bill impacts not only on UNMH but the statewide healthcare network in New Mexico. Currently UNMH acts as a tertiary and quaternary care referral center for healthcare facilities across New Mexico. In addition to the direct impact to UNMH enacting this bill would have a profound impact on rural hospitals and providers to be able to meet the healthcare demands of their communities. This could create capacity impacts to smaller facilities and will result in more patients having to seek care out of state.

UNMH is currently largely providing the type of reporting outlined in the bill through the quarterly report to Bernalillo County which is a mutually agreed to framework of metrics covering several categories including; accountability and transparency, access to services, financial assistance, behavioral health and Native American services. This framework was also approved by the Albuquerque Area Indian Health Services. The current reporting is published quarterly as the Bernalillo County Report and is available to the public on the UNM Hospitals website.

Bernalillo County Manager's Office notes two further issues:

The bill would affect Bernalillo County's debt structure and would damage our stellar AAA bond and credit rating from all three rating agencies that we have worked hard to achieve and sustain after the last economic recession. GRT revenues tend to see much more fluctuation and volatility than property tax revenues, which means that if the County saw declines in GRT sales activity, it may require the County to increase gross receipts taxes additional times within a limited available capacity.

... the legislation puts Bernalillo County in the horrible position of potentially violating our federal contract with our Native American partners if we were unable to meet the deficit caused by a mill levy reduction. Our Native American neighbors in Bernalillo County and across the State of New Mexico also rely on the mill levy funding to help UNM Hospital provide the needed services they depend on. The county's Memorandum of Understanding with UNM Hospital incorporates our Native American partners' needs in the quality of care expected to be delivered. This partnership with Native Americans in our state dates to 1952 and should not be threatened today.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement that UNMH report annually to an interim legislative committee regarding the list of data elements.

ADMINISTRATIVE IMPLICATIONS

UNM notes: "The bill could have significant reporting implications for UNMH and Bernalillo

County and would significantly impact many contractual and Joint Powers Agreement relationships that currently exist.”

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Over the years, several bills have been introduced addressing the three proposals contained in the provisions of this bill:

- (1) Reducing the maximum mill levy applicable in Bernalillo County used to support UNMH;
- (2) Requiring an annual report to the Legislative Finance Committee on the uses by UNMH of mill levy funding in Bernalillo County; and
- (3) Repealing the exemption for Bernalillo County of providing required funding for indigent care.

See table below for the introduced bills:

Year	2011	2011	2012	2012	2013	2013	2014	2014	2015	2016	2017	2018	2019	2021
Bill Number	HB25	HB335	HB26	HB29	HB356	HB357	HB188	HB189	HB323	HB122	HB103	HB26	HB168	HB186

TECHNICAL ISSUES

UNM notes: “ [the provision of this bill] could be perceived to interfere with the 1978 Lease Agreement executed between the County, the University and the Indian Health Service.”

OTHER SUBSTANTIVE ISSUES

UNM notes it provides annual reports. The following references provide access to these reports:

UNM Health Bernalillo County Report: <https://unmhealth.org/about/financial-reports/bernalillo-county-financial-reports.html>

UNM Hospitals Financial Reports: <https://unmhealth.org/about/financial-reports/>

Bernalillo County Manager’s Office notes other activities and programs supporting health care initiatives that would be disrupted by the provisions of this bill:

The county initiated several projects in an effort to address the behavioral health and substance use disorders that plague our community in an effort to stop the revolving door of criminal justice interactions that have negatively impacted the work of our detention officers at the Metropolitan Detention Center, as well as staff at the UNM Hospital Emergency Room.

A few of the initiatives that UNM Hospital helped the county spearhead include:

1. Crisis Triage Center. Bernalillo County contributed \$20 million of Behavioral Health Initiative taxes to the construction of this much-needed facility, which is scheduled to open in early 2024. The CTC will bridge an existing gap in the levels of care for behavioral health patients.
2. Transition Planners. This team of professionals assists incarcerated individuals at MDC by connecting them to various behavioral and mental health services upon their reentry into the community.

3. Medical Observation Treatment Unit. UNM Hospital also provides contractual services for the Bernalillo County Behavioral Health Services Department's MOTU, which is the department's CARF-accredited and voluntary detox program for non-incarcerated individuals who are withdrawing from alcohol and/or other drugs. This program is located at the CARES campus on Zuni SE.

As the state's only Level 1 Trauma medical center that serves residents statewide, any interruption of funding from Bernalillo County would have a negative impact on these initiatives and the UNM Hospital serving residents and other medical providers statewide.

Recently, our shared goals for a continuum of care that would reduce recidivism rates and address the behavioral health crisis in Bernalillo County has resulted in an agreement that UNM Hospital will partner with the county to provide medical, dental, and behavioral health services to incarcerated individuals at MDC. This is an alliance that makes the most sense, given UNMH's Level 1 Trauma expertise and its partnerships with the county in the behavioral health arena. The entrance of UNM Hospital into MDC is an alliance that has been praised by county commissioners, community advocates, and defense attorneys in the ongoing McClendon lawsuit that seeks to improve conditions at MDC.

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