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FISCAL IMPACT REPORT

ORIGINAL DATE 1/25/06

SPONSOR Campos LAST UPDATED _____ HB _____

SHORT TITLE Health Facility Construction Gross Receipts SB 200

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	(2,362.0)	(2,410.0)	Recurring	General Fund
	(1,575.0)	(1,606.0)	Recurring	Local Govern- ments

(Parenthesis () Indicate Expenditure Decreases)

Duplicates HB8.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 200 creates two new deductions from the gross receipts tax that apply to construction of a sole community provider hospital in a federally designated health professional shortage area. The first deduction is for receipts from engineering, architectural and construction services used to construct such a hospital. The second deduction is for receipts from the sale of construction equipment and materials used to construct such a hospital.

To qualify for these deductions, the services must be sold to a foundation or nonprofit organization that has signed a written agreement with a county to pay at least 95 percent of the hospital construction costs. This foundation or nonprofit organization will also have to give the seller of these services the appropriate nontaxable transaction certificate.

The effective date of these provisions is July 1, 2006.

FISCAL IMPLICATIONS

TRD notes that total construction spending on hospital remodeling in areas eligible for the proposed deductions exceeds \$50 million per year. TRD's fiscal impact estimate also assumes \$10 million per year of new hospital construction per year. Using these assumptions, TRD estimates that the new deductions will decrease general fund revenue by about \$2.4 million per year, and decrease local government revenue by about \$1.6 million per year.

SIGNIFICANT ISSUES

The U.S. Public Health Service Act defines a "health professional shortage area" as an area which the federal Health and Human Services Department determines to have a shortage of health professionals. Areas with less than one physician per 3,500 people can receive a health professional shortage designation. The restriction that a hospital eligible for these new deductions is built in a "federally designated health professional shortage area disqualifies only two counties in New Mexico.

The deductions could apply to new construction as well as renovation of a hospital.

ADMINISTRATIVE IMPLICATIONS

TRD reports the administrative impact will be minimal. The department will change forms, instructions, publications, and compliance procedures.

TECHNICAL ISSUES

The terms "health professional shortage area," "sole community provider hospital," "public health care facility," "foundation," and "nonprofit" are not defined. If these terms are federally defined, federal definitions should be cited. Otherwise, definitions should be added.

The bill requires that a nonprofit or foundation sign a written agreement with a county to pay at least 95 percent of construction costs. First, it is unclear if the bill should be amended so that the nonprofit or foundation agrees to pay at least 95 percent of engineering, architectural and construction costs. Second, the bill should explain what will happen if a nonprofit or foundation does not fulfill its written agreement to pay at least 95 percent of costs.

SS/nt