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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/30/08  
 SPONSOR Rehm LAST UPDATED 2/11/08 HB 409/aHHGAC  
 SHORT TITLE Health Care Surtax for UNM Hospital SB \_\_\_\_\_  
 ANALYST Schardin

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	FY09	FY10		
	15,663.7	32,395.2	Recurring	GRT- UNM Hospitals Indigent Care Fund
	158.2	327.2	Recurring	GRT- Bernalillo County
	(43,535.5)	(90,553.8)	Recurring	Property Tax- Bernalillo County
	(439.8)	(914.7)	Recurring	Property Tax- Bernalillo County
	See Narrative		Recurring	Federal Funds

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files  
 UNM Health Sciences Center

Responses Received From  
 Department of Health (DOH)  
 Higher Education Department (HED)  
 Health Policy Commission (HPC)

No Response Received From  
 Human Services Department (HSD)

### SUMMARY

#### Synopsis of HHGAC Amendment

The House Health and Government Affairs Committee amendment to House Bill 409 decreases the rate of the proposed health care surtax on gross receipts from 5/32 percent to 1/16 percent.

The amendment also creates a new fund, the university of New Mexico indigent care fund, which will 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 will be invested by the state treasurer and will receive its own investment income. Subject to legislative appropriation, money in the fund will be used to support indigent care at UNM hospitals and to institute or support primary health care services.

The amendment 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 will be paid to the UNM board of regents for provision of health care services at UNM hospitals.

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.

### Synopsis of Original Bill

House Bill 409 creates a health care surtax equal to  $\frac{5}{32}$  of one percent of gross receipts. Of revenue collections attributable to the health care surtax, 99 percent would be distributed to the University of New Mexico (UNM) board of regents for the provision of health care services at UNM hospitals. The remaining 1 percent of revenues would be distributed to the Bernalillo County Commission to oversee expenditure of health surtax revenues distributed to the UNM board of regents and to identify persons eligible for available health insurance plans and enroll them in available health insurance plans.

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, 2009 will cease to be effective on that date, 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, 2009.

The provisions of the bill will go into effect on January 1, 2009.

### **FISCAL IMPLICATIONS**

Taxable gross receipts in New Mexico are expected to be \$25.3 million in the last half of FY09, \$52.4 million in FY10, \$54.2 million in FY11, and \$56.2 million in FY12. An additional 1/16 percent health care surtax on these receipts will generate \$15.8 million in the last half of FY09, \$32.7 million in FY10, \$33.9 million in FY11, and \$35.1 million in FY12. Of these revenue collections, 99 percent will be distributed to the UNM board of regents 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 \$440 thousand in FY09, \$915 thousand in FY10, \$951 thousand in FY11, and \$989 thousand in FY12.

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 \$27.9 million in FY09, \$58.2 million in FY10, \$60.6 million in FY11 and \$63.2 million in FY12.

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 indigent 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.

### **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, 2009, the bill would take away Bernalillo County's authority to impose this property tax levy, but would replace that funding by imposing a 5/32 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. According to UNM Health Sciences Center, 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.

### **ADMINISTRATIVE IMPLICATIONS**

Administrative impacts on TRD will be minimal.

### **TECHNICAL ISSUES**

There are several technical issues related to Section 2, paragraph C of the House Health and Government Affairs Committee amendment. The paragraph states that in the event federal matching funds are not received by New Mexico for any 18-month period, the unencumbered balance remaining in the newly created fund at the end of the fiscal year following the 18 month period shall be paid to the UNM board of regents for the provision of health care services at UNM hospitals.

- The amendment should state a specific purpose for which federal matching funds must not be received, since the state receives several types of federal matching funds for a variety of purposes and programs;
- The amendment's reference to "unencumbered" fund balance should be changed to reflect the state's use of modified accrual accounting;

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- The amendment's second reference to "any eighteen-month period" should be amended to specifically refer to the same 18-month period in which federal matching funds are not received by New Mexico.

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