FISCAL IMPACT REPORT

ORIGINAL DATE 01/23/12
SPONSOR Rehm **LAST UPDATED** **HB** 29

SHORT TITLE Reduce Property Tax Levy for County Hospitals **SB**

ANALYST Walker-Moran/Hoffman

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY12	**FY13**		
NFI	See narrative for impact	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue					R or NR**	Fund(s) Affected
FY2012	**FY2013**	**FY2014**	**FY2015**	**FY2016**		
	0	(14,200)	(34,200)	(60,400)	R	Bernalillo County& UNM Hospital operating

* In thousands of dollars. Parentheses ( ) indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Conflicts with House Bill 26 which would cancel, reauthorize and reduce (with voter approval) the same mill levy affected by this bill.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Human Services Department (HSD)

SUMMARY

Synopsis of Bill

House Bill 29 (HB29) would reduce mill levies for county hospital funding imposed in Bernalillo County. The levy authorized in calendar year 2012 would be reduced to 85% of that amount in 2013, 65% in 2014, 40% in 2015, and 10% in 2016 and thereafter. Under current law the affected levies can be imposed -- subject to approval by voters -- up to a maximum of 6.5

mills in a class A county and 4.25 mills elsewhere. Revenues from the levies are authorized for costs of operating and maintain county hospitals, for paying contract hospitals and, in class A counties, for the county-supported Medicaid program. The 2012 levy for Bernalillo County is 6.4 mills and was approved by the voters in 2008. The voter approval extends through the 2016 property tax year.

The purpose of this bill is to adapt UNMH funding to the provisions of the (federal) Affordable Care Act, which mandates by 2014 all persons must have health insurance.

FISCAL IMPLICATIONS

The TRD provided the following information on the impact of this bill.

> The 6.5 mill levy generated $46,532,547 in obligations for the 2002 property tax year. The current 6.4 mill levy generated $89,498,534 in obligations for the 2011 property tax year. On average, this is a 7.5% annual growth in obligations over the period. The 2011 obligations were 1.2% below TY 2010 levels.
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> The mill levy represents approximately 13% of the total funding for UNMH for fiscal year 2010. The remaining sources of funding are Medicare, Medicaid and other third party payers. The patient payer mix at UNMH is 29% Medicaid, 28% Commercial /HMO, 18% Medicare, and 25% uncompensated care or other funding sources.
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> This bill would not affect the $9.9 million transferred to UNMH from the County Health Care Gross Receipts Tax (.0625% rate, county-wide). This bill would also not affect a similar $9.9 million transferred to the County-Supported Medicaid Fund from County Health Care Gross Receipts Tax.
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> UNMH treats nearly 76,000 patients with $147 million of associated uncompensated care costs each year. Uncompensated care is the combination of charity (indigent) patient care and uninsured patient care. Uncompensated care can be stated as billed charges or cost.
>
> UNMH states uncompensated care ***at cost***, not billed charges.
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> In 1952, Bernalillo County made a commitment to the federal government to construct a hospital (now known as UNMH) and to collect annually taxes sufficient to support the operation of the hospital. In 2008, Bernalillo County followed statutory process and put to the voters the question of authorizing the UNMH mill levy. The voters of Bernalillo County approved the UNMH mill levy question. If HB 335 (this year's HB 26) were passed and sign into law, Bernalillo County and the State of New Mexico would be in breach of the 1952 federal contract. In addition, Bernalillo County would be in breach of the 1999 lease.

The Human Services Department's Medical Assistance Division, which administers the state's Medicaid program, explains additional fiscal impacts to the Medicaid program and UNMH.

> This bill impacts the County Supported Medicaid Fund (CSMF) and the University of New Mexico Hospital (UNMH). The current statute allows for a transfer of mill levy funds from Class A counties to the County Supported Medicaid fund. The current statute

also allows for a Class A County to enter into a mutual agreement with a state education institution that operates a hospital. UNMH currently receives the mill levy funding from Bernalillo County. The funds are for the general operation of the facility and aren't specific to any particular patient population. Information obtained by the Department shows that for the fiscal year ending 6/30/10, approximately $90.6 million was received from the mill levy by UNMH. This bill will significantly reduce the amount of funding that is received by the hospital. UNMH is a "safety net" hospital and provides services to many persons who are unable to pay for their health care needs. Reduction of funding from Bernalillo County would severely impact the financial ability of the hospital to care for these people. It could also result in cost-shifting that is, increasing the hospital's charges billed to commercial insurance carriers, Medicare, and Medicaid

The proposed amendments in this bill will severely strain the safety net system that UNMH supplies, as well as reduce Bernalillo County's contributions to CSMF. In FY11, Bernalillo County contributed approximately $10.2 million to the CSMF. These funds are appropriated by the Legislature to support New Mexico's Medicaid Program and to support primary care services in the state. In FY12, using those dollars, Medicaid will match its expenditures of state funds with the federal funds at a rate of 2 to 1. For every $1 in state funds that the Medicaid program spends, it will receive $2 in federal funds. Any loss to CSMF would require state general fund to replace.

SIGNIFICANT ISSUES

The TRD advises there is a substantial policy issue whether the legislature can override a validly imposed mill levy approved by the voters.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 26 proposes an immediate cancellation of the 6.4 mill property tax levy and a companion authorization of a .65 mill levy with required voter approval.

TECHNICAL ISSUES

TRD comments there is continuing debate concerning voter-approved mill levies. In the text of section 1 of the bill (Section 4-48B-12 NMSA), subsection A (1) anticipates that the maximum 6.5 mill voter-approved levy would be subject to yield control (Section 7-37-7.1 NMSA 1978). However, DFA/LGD does not reduce the authorized 6.4 mill levy to conform to yield control. It is equally unclear whether the proportional levy proposed by this bill would or would not be subjected to the yield control calculation because of DFA/LGD's interpretation of statute. Testimony should be solicited from DFA/LGD on this point.

It is unclear when the 2012 mill levy would be authorized by Bernalillo County. Thus, if Bernalillo County authorizes a mill levy prior to July 1, 2012, it might be preferable to include, in addition to an effective date, an applicability provision, which makes the legislation applicable to mill levies imposed on or after January 1, 2012. Such a provision would clarify that the legislation is intended to impose limitations with regard to any mill levy authorized in 2012, even if the mill levy is authorized prior to the effective date of the legislation. This would place Bernalillo County on notice that any bond question or county ordinance imposing a mill levy in

2012 and providing for mill levies in subsequent years would be required to reflect the mill levy decrease required by this bill.

OTHER SUBSTANTIVE ISSUES

TRD notes an additional policy issue of long-standing. Because UNMH provides, arguably, the best medical care in the state, Bernalillo County taxpayers may be funding indigent care for the entire state, not just for medically indigent residents of Bernalillo County.

POSSIBLE QUESTIONS
Does the bill meet the LFC tax policy principles?
Adequacy: Revenue should be adequate to fund needed government services.
Efficiency: Tax base should be as broad as possible and avoid excess reliance on one tax.
Equity: Different taxpayers should be treated fairly.
Simplicity: Collection should be simple and easily understood.
Accountability: Preferences should be easy to monitor and evaluate

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