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

SPONSOR: Altamirano DATE TYPED: 02/26/03 HB

SHORT TITLE: Amend Hospital Funding Act SB 656

ANALYST: Neel/Williams

REVENUE

Estimated Revenue		Subsequent Years Impact (FY07)	Recurring or Non-Rec	Fund Affected
FY03	**FY04**			
		$5,000.0	Recurring	UNM/HSC

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates HB 558
Relates to SB 292 NMFA Loans for Public Projects (UNM Hospital building project)
SB 528: Increase Cigarette Tax
SB 804: Increase Cigarette Tax

SOURCES OF INFORMATION

LFC files

Responses Received From:
Commission on Higher Education (CHE)
Health Policy Commission (HPC)
University of New Mexico Health Science Center (UNM/HSC)

SUMMARY

Synopsis of Bill

Senate Bill 656 amends statute to allow any State educational institution operating a county hospital to execute a financing instrument dealing with the educational institution's ownership or lease interest in the hospital and other related health care facilities. Sb656 would limit the right of the holders of the debt to seek a judgment against the educational institution.

In other words, this new language means that a debtor (the state educational institution operating a county hospital) could use state property as collateral for a loan (a mortgage, deed of trust or other security interest) for purchase, expansion, improvement, furnishing and equipping qualifying facilities.

Senate Bill 656 gives the option to a State educational institution to **retain** or terminate the lease between a County and a State educational institution in the event of failure of a mill levy election for a county hospital or untimely remittance of mill levy funds from a county to the State educational institution. Existing language required the termination with specific exceptions.

This bill contains an emergency clause.

Significant Issues

According to a representative from the University of New Mexico Health Science Center (UNM HSC), Senate Bill 656 would allow a state educational institution operating a county hospital to mortgage a property to secure a bond guarantee through the Federal Housing Authority (FHA).

The UNM HSC is the only state educational institution operating a county hospital. The UNM HSC is proposing a 400,000 square foot expansion, the Children's Hospital and Critical Care Pavilion, to emphasize pediatrics, maternity and adult critical care. The expansion will also include an emergency center, private patient rooms, enhanced security and a new entrance. The expansion is to replace outdated facilities and to stay competitive in today's market.

According to materials provided by UNM HSC, construction costs are projected at approximately $173 million, with total project bond issuance of $213 million. Based on this estimate, debt service costs would range between $13.0 million to $15.0 million annually. UNM/HSC estimates the additional cost of using the alternative financing mechanism to be 250 basis points (i.e. difference between 5 percent and 7.5 percent) or approximately $5 million annually. Pledged revenues to repay bond holders would include patient revenues from an additional seventy beds as well as an existing 6.5 mill levy authorized by voters in November 2000, which generates approximately $60.0 million (100 percent collection rate).

UNM HSC presented to the CHE Facilities Committee a preliminary proposal of the expansion. As the project progresses, the UNM HSC will report to the NMCHE Facilities Committee, and then to the full Commission. All capital projects and revenue bonds must be approved by the NM CHE; other approvals required include the State Board of Finance, UNM Regents and the Bernalillo County Commission.

FISCAL IMPLICATIONS

Senate Bill 656 does not contain an appropriation; however passage of the bill would allow UNM HSC to gain preferable interest rates through federal bond guarantees. According to UNM HSC, this financing mechanism would save approximately $5.0 million in interest expenses versus conventional bonding beginning in FY07.

According to UNM/HSC, UNM Main has approximately $200 million in outstanding bonded debt. If UNM Main issued bonds for the proposed expansion at the UNM/HSC, the significant increase in outstanding debt could potentially impact the bond rating of UNM main.

TECHNICAL ISSUES

Page 3, line 20: references the Public Health Division of the Department of Health. The division which promulgates regulations for licensure is the Division of Health Improvement of the Department of Health.

OTHER SUBSTANTIVE ISSUES

In its analysis for House Bill 558, a duplicate bill to Senate Bill 656, the Office of the Attorney General expressed concerns the legislation raises the constitutional issue of whether or not a state institution can use state property as collateral for a loan (a mortgage, deed of trust or other security interest). The HPC notes the legal configuration for the UNM Hospital is complex with the University of New Mexico Health Sciences Center operating the hospital. Both Bernalillo County and the University of New Mexico own title to the land and improvements, through property tax records reflect Bernalillo County as owner.

POSSIBLE QUESTIONS

1. What revenues would be pledged to the project ? How strong is the financial position of UNM HSC given warnings of financial crisis facing the nation's teaching hospitals ?
2. Will operational revenues for UNM HSC be constrained in future years if voters in Bernalillo county do not reauthorize the 6.5 mill levy, which is authorized for a maximum of 8 years?
3. What assumptions are used for incremental revenues from an increase in patients receiving care ? How is the cost of indigent care considered in the analysis ?
4. What are the costs/benefits of seeking a guarantee through the Federal Housing Administration? Why is this financing mechanism needed ?
5. Are there more cost effective financing approaches which might be utilized ?
6. Who would the bond holders seek judgment against in the event of a default ?
7. Would there be any impact on Carrie Tingley hospital ?
8. What impact would this expansion have on recurring operating and maintenance costs ? How would these costs be addressed ?

SN, AW/njw:yr