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FISCAL IMPACT REPORT

ORIGINAL DATE 1/17/2022

SPONSOR Garcia, M LAST UPDATED _____ HB 17

SHORT TITLE Expand Rural Health Practitioner Tax Credit SB _____

ANALYST Chilton

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY22	FY23	FY24		
-	(\$10,200.0) - (\$15,266.4)	(\$10,200.0) - (\$15,266.4)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY22	FY23	FY24	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
\$30.4	\$60.9	\$60.9	\$152.1	Recurring	General Fund – TRD Personnel
	\$5.2		\$5.2	Nonrecurring	General Fund – TRD IT
	Uncertain, but small	Uncertain, but small	Uncertain, but small	Recurring	General Fund - Medicaid
Approx. \$30.4	Approx. \$60.9	Approx. \$60.9	Approx. \$152.1	Majority Recurring	Total General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Office of the Superintendent of Insurance (OSI)
 Regulation and Licensing Department (RLD)
 Department of Health (DOH)
 Human Services Department (HSD)
 Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 17 amends the rural health care practitioner tax credit against income tax to add licensed pharmacists, and several categories of behavioral health workers to the list of approved practitioners eligible to receive the credit. As is currently specified in Section 7-7-18.22 NMSA 1978, physicians, osteopathic physicians, dentists, clinical psychologists, podiatrists, and optometrists would be eligible for a \$5,000 annual credit; now, in addition, physical therapists, registered nurses, clinical social workers, independent social workers, professional mental health counselors, professional clinical mental health counselors, marriage and family therapists, professional art therapists, alcohol and drug abuse counselors, and physical therapists would qualify for a \$3,000 annual credit.

As noted by OSI, “The bill adds a requirement for those practitioners who claim the Rural Health Care Practitioner tax credit to report the credit to the Department of Health, which is then required to report the information it collects to the Legislative Finance Committee and the Revenue Stabilization and Tax Policy Committee, including the number of taxpayers who were approved for the credit and the total value of the credits received.”

There is no effective date of this bill, but the provisions apply to taxable years beginning on or after January 1, 2022.

FISCAL IMPLICATIONS

The 2021 New Mexico Health Care Workforce Committee Report¹ provides county-level estimates of almost all types of practitioners in medical and behavioral health fields – including independently licensed psychologists, social workers, counselors, and marriage and family therapists – practicing in New Mexico. These data indicate in 2020, there were 15,539 registered nurses, 1,434 certified nurse practitioners (advanced practice nurses), 154 certified nurse midwives, and 1,740 practicing pharmacists. The report indicates 20 percent to 30 percent of these are practicing in rural areas. Data in the same report show there are 2,258 active licensed independent social workers and licensed counselors, of whom between 20 to 30 percent are practicing in non-metropolitan areas according to data from the healthcare workforce committee report on behavioral health providers. Therefore, LFC staff estimate between approximately 3,530 and 5,295 practitioners in rural areas would become eligible to receive the \$3,000 tax credit under this bill, resulting in an estimated tax revenue reduction cost of between \$10.6 million and \$15.5 million annually, if all those newly eligible were able to claim the full amount of the credit.

TRD has provided a careful analysis of the possible tax revenue loss adoption of HB17 would cause, resulting in a similar estimate of \$10.2 million. Its methodology is summarized as follows:

To compute the fiscal impact of the proposed amendments, TRD used the information

¹ 2021 New Mexico Health Care Workforce Committee Report , available at https://digitalrepository.unm.edu/cgi/viewcontent.cgi?article=1007&context=nmhc_workforce

provided in the New Mexico Health Care Workforce Committee (HCWC) annual reports for the years 2019² and 2021³. The largest component of the fiscal impact is from the inclusion of RNs among the health care professionals eligible for the credit. Per the 2021 HCWC report's Table 5.6, there were 15,588 practicing RNs and Certified Nurse Specialists (CNS) in New Mexico. CNSs are advanced practice RNs that are already eligible for the credit. The Department assumed that 90 percent of the 15,588 were RNs. Of these, 23 percent are practicing in non-metropolitan areas, given the report's geographic distribution, and are assumed eligible for this credit. Based on these calculations, approximately 3,239 RNs would be newly eligible for the credit.

The next largest component of the fiscal impact is from the inclusion of various types of behavioral healthcare providers to the list of eligible health care practitioners. According to the 2019 HCWC report, there were approximately 9,431 classified behavioral health care providers. Of these, based on Table D.1, which details the workforce by provider type in the 2019 HCWC report, 89 percent of providers are assumed to be classified as one of the newly added categories of eligible behavioral healthcare providers in this bill (clinical social workers, independent social workers, professional mental health counselors, professional clinical mental health counselors, marriage and family therapists, professional art therapists, alcohol and drug abuse counselors). TRD assumes approximately 20 percent of these providers are practicing in non-metropolitan areas. Based on these calculations, approximately 1,674 health care professionals would be newly eligible for the credit.

The remaining components of the fiscal impact come from the addition of pharmacists and PTs to the list of eligible health care practitioners. Based on the 2021 HCWC report, there were approximately 1,700 pharmacists and 1,547 PTs working in the state of New Mexico. Of these, 26 percent of pharmacists and 25 percent of PTs are practicing in non-metropolitan areas, given the report's geographic distribution, and are assumed eligible for this credit. Based on these calculations, approximately 440 pharmacists and 387 PTs would become eligible for the credit.

In total, 5,740 healthcare practitioners are estimated to become newly eligible for the credit under the provisions of this bill. Some of the providers in the newly eligible categories in metropolitan areas may qualify for part-time credits if they perform some of their practice in rural qualified areas; but such metropolitan providers are not assumed in this estimate.

Further, TRD estimates increased costs to the department as follows:

TRD expects to be able to absorb the impact of these changes, as outlined in this standalone bill, with one additional FTE. However, if several bills with similar effective dates become law there will be a greater impact to TRD and additional FTE or contract resources may be needed to complete the changes specified by the effective date(s) of each bill.

² New Mexico Health Care Workforce Committee. 2019 Annual Report. Albuquerque NM: University of New Mexico Health Sciences Center, 2019.

³ New Mexico Health Care Workforce Committee. 2021 Annual Report. Albuquerque NM: University of New Mexico Health Sciences Center, 2021.

To support and update an annual report per Section G of the bill will require the Information Technology Division (ITD) to expend approximately 100 hours of effort or approximately 1 month for an estimated staff workload cost of \$5,164.

HSD notes “Provider taxes are considered as part of the calculation when determining Medicaid reimbursement rates, so reducing or removing tax obligations may result in slightly lower Medicaid payments. However, lower payments could be offset by higher service utilization among Medicaid individuals as providers are recruited and retained in parts of the state with limited access, especially during the Covid-19 pandemic.” Therefore the net change in fiscal impact must be listed as “uncertain, but small”.

SIGNIFICANT ISSUES

The Office of Superintendent of Insurance (OSI) “notes that the federal government’s Health Resources and Services Administration (HRSA) designates 22 of New Mexico’s rural counties as Health Professional Shortage Areas (HPSAs) for mental health providers, 17 rural counties are HPSAs for primary care and 6 rural counties are dental health HPSAs. Tax incentives can be an effective tool to attract and retain needed providers in New Mexico’s rural areas.”

Other methods that have been used over recent time to attempt to attract and to retain health care practitioners to underserved portions of New Mexico have included

- Loan repayment (see Senate Bill 23 for this year’s version)
- Rural clinical rotations for medical and other health care students from the University of New Mexico, the Burrell School of Osteopathic Medicine, and other in-state and out-of-state institutions in rural and underserved areas
- Expansion of residency training programs in non-metropolitan portions of New Mexico
- Bachelor’s degree – Medical Degree (B.A.-M.D.) Program at the University of New Mexico
- Rural and Urban Underserved Program at University of New Mexico.

Success of these programs has often been difficult to determine. For example, the number of primary care physicians in New Mexico decreased by 376 from 2013 to 2019 according to the 2020 New Mexico Health Care Workforce Report, Similarly, the number of obstetrician-gynecologists decreased by 26, general surgeons decreased by 12, psychiatrists decreased by 25, nurses decreased by 174, certified nurse-midwives decreased by 2. We have been more successful in training, attracting and retaining so-called “mid-level practitioners”: physician assistants have increased by 157 and certified nurse practitioners by 453 over that same period.

HSD notes that “Improving access to health care especially in rural areas is a key priority for HSD. HB17 aligns with HSD’s efforts to support, increase, and expand the health care provider workforce in rural New Mexico.”

PERFORMANCE IMPLICATIONS

TRD notes that “The expansion of the rural health care practitioner tax credit will continue to erode horizontal equity in the state income taxes. By basing the credit on profession and location of work, taxpayers in similar economic circumstances are no longer treated equally. Thus, two social workers who earn the same salary may have different tax liability given where they work.

The other side of this credit is the broader public-good to subsidize medical professional employment in rural areas for the betterment of New Mexico residents' quality of life in those areas. There are health, social, and environmental benefits gained by serving residents in their home communities versus those residents incurring travel costs, time commitment, and other burdens to travel long distances, or not receive care at all.

“The current credit does not include a sunset date. TRD supports sunset dates for policymakers to review the impact of a credit before extending it, if a sufficient timeframe is allotted for tax incentives to be measured. Given the expansion of this credit and the additional cost to the state, a sunset date would force an examination of the benefit of this credit versus the cost.”

TRD also indicates that there may be procedural difficulties transferring data on those eligible for the tax credits between TRD and DOH.

CONFLICT

This bill conflicts with HB38, which also amends the same section of statute, Section 7-7-18.22 NMSA 1978, but with a different group of tax credit recipients to be added to the allopathic and osteopathic physicians, dentists, clinical psychologists, podiatrists, and optometrists currently eligible to receive a \$5,000 annual tax credit, and the dental hygienists, physician assistants, certified nurse anesthetists, certified nurse practitioners and nurse specialists currently eligible to receive a \$3,000 annual tax credit.

POSSIBLE QUESTIONS

1. Should the credit be applied to practitioners in both rural and *frontier* counties?
2. Should similar practitioners, such as occupational therapists, speech and language pathologists, chiropractors and naturopathic physicians be included?

LC/acv/al