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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/29/22

SPONSOR Tallman LAST UPDATED 2/9/22 HB \_\_\_\_\_

SHORT TITLE Expand Rural Health Care Tax Credit SB 115

ANALYST Chilton

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY22	FY23	FY24		
-	(\$2,170.0)-(\$3,252.0)	(\$2,170) - (\$3,252.0)	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
	\$64.9	\$61.9	\$126.8	all but \$3.0 Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Conflicts with HB 17 and HB 38.

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Office of the Superintendent of Insurance (OSI)

Regulation and Licensing Department (RLD)

Human Services Department (HSD)

Department of Health (DOH)

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

Senate Bill 115 amends the rural health care practitioner tax credit against income tax to add doctors of Oriental medicine, speech and language pathologists, and naturopathic doctors 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, doctors of Oriental medicine, speech and language pathologists, and naturopathic doctors would qualify for a \$5,000 annual credit.

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 Report<sup>1</sup> provides county-level estimates of many types of practitioners in medical and behavioral health fields – including speech and language pathologists, but does not give the numbers of naturopathic physicians or practitioners of Oriental medicine. These data indicate that in 2020, there were 1,301 speech-language pathologists practicing in New Mexico. In New Mexico, approximately 17 naturopaths are licensed through the New Mexico Medical Board; 850 practitioners of Oriental medicine and 1,301 speech and language pathologists through the Regulation and Licensing Department (RLD). Estimates of naturopaths and doctors of Oriental medicine come from MB and RLD respectively. Therefore, using the New Mexico Health Care Workforce estimate that 20 to 30 percent of practitioners in most specialties are in rural areas, LFC staff estimate that between 434 and 650 practitioners in rural areas would become eligible to receive the \$5,000 tax credit under this bill, resulting in an estimated tax revenue reduction cost of between \$2.17 million and \$3.25 million annually, if all those newly eligible were able to claim the full amount of the credit.

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

Tax & Rev assumes that electronic transfer of credit information will not occur before the effective date of the bill and thus one additional full-time employee (FTE) will be required to process additional credit claims. The recurring budget estimate for the Revenue Processing Division (RPD) is based on a Tax Examiner-A.

Tax & Rev 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 Tax & Rev and additional FTE or contract resources may be needed to complete the changes specified by the effective date(s) of each bill.

HSD notes that “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

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<sup>1</sup> 2021 New Mexico Health Care Workforce Committee Report , available at [https://digitalrepository.unm.edu/cgi/viewcontent.cgi?article=1007&context=nmhc\\_workforce](https://digitalrepository.unm.edu/cgi/viewcontent.cgi?article=1007&context=nmhc_workforce)

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 six 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; and
- 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 two. 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 HB17 and HB 8, which also amend the same section of statute, Section 7-7-18.22 NMSA 1978, but each 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, chiropractors and behavioral health practitioners also be included? HB17 and HB38 each address some of these types of practitioners; however none of the three bills address occupational therapists, for example.

LC/acv