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

**SPONSOR** Campos **ORIGINAL DATE** 02/10/14 **LAST UPDATED** ______ **HB** ______

**SHORT TITLE** Cigarette Tax for Department of Health Facilities **SB** 275

**ANALYST** Kehoe,

## APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Nonrecurring | Fund Affected |
|---|---|---|---|
| FY14 | FY15 | | |
| N/A | N/A | N/A | See Fiscal Impact Narrative |

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to House Bill 55

**SOURCES OF INFORMATION**
LFC Files

Responses Received From
Department of Health (DOH)
New Mexico Finance Authority (NMFA)

**SUMMARY**

Synopsis of Bill

Senate Bill 275 authorizes the New Mexico Finance Authority to issue cigarette tax revenue bonds in an amount not to exceed $5 million plus cost of issuance for the purpose of funding land acquisition and for planning, designing, constructing, improving, and equipping Department of Health facilities.

**FISCAL IMPLICATIONS**

The authorization of cigarette tax revenue bonds in the amount not to exceed $5 million contained in this bill is an annual recurring cigarette tax distribution. Any unexpended or unencumbered balance remaining at the end of each fiscal year shall revert to the behavioral health capital fund.

The distribution pursuant to Section 7-1-6.1, Subsection F, NMSA 1978 in an amount equal to three and seventy-four hundredths percent (3.74 percent) of the net receipts, exclusive of penalties and interest, attributable to the cigarette tax shall be made to the New Mexico Finance Authority for the land acquisition and the planning, designing, constructing and equipping of Department of Health facilities or improvements to such facilities for those projects certified and prioritized by the Secretary of the Department of Health. The net proceeds from the sale of the bonds are appropriated to the Facilities Management Division of the General Services Department for projects prioritized and certified by the Secretary of the Department of Health.

There must be sufficient capacity within the 3.74 percent cigarette tax revenue distribution to support the additional debt service of the proposed new bonds issued by the Authority. According to the Authority's assumptions, cigarette tax revenue is a declining revenue stream and structures a three percent annual decline when projecting cigarette tax revenue available for debt service. In fiscal year 2013, the DOH distribution of cigarette tax revenue generated over $3.4 million.

According to the Authority, under current market conditions, in addition to factoring in the three outstanding DOB cigarette Tax revenue bonds (highlighted in the table below, capacity exists to issue subordinate DOH cigarette tax revenue bonds through the NMFA's PPRF program in the amount of $3 million while maintaining a 1.20x debt service coverage ratio. Subsection D of the bill provides the Authority may additionally secure the revenue bonds issued by a pledge of money in the public project revolving fund (PPRF) with a lien priority on the money in the PPRF as determined by the Authority. Cigarette tax revenue bonds issued to date by the Authority for DOH facilities are listed in the following table:

| Issue | Project | Par Amount | Closing Date | Maturity |
|---|---|---|---|---|
| Series 2006A | Sothern Rehab | $1,000,000 | 8/1/2006 | Paid Off |
| Series 2006B | Las Vegas Meadows | $1,000,000 | 8/1/2006 | Paid Off |
| Series 2008A | State Labs | $13,460,000 | 4/17/2008 | 6/1/2028 |
| Series 2008B | Alzheimer's/Veterans | $510,000 | 4/17/2008 | Paid Off |
| Series 2008C | Sequoyah Medical | $85,000 | 4/17/2008 | Paid Off |
| Series 2008D | Southern Rehab | $11,545,000 | 11/13/2008 | 6/1/2028 |
| Series 2008E | Las Vegas Meadows | $1,116,500 | 11/13/2008 | Paid Off |
| Series 2009A | Sequoyah Medical | $928,725 | 6/5/2009 | Paid Off |
| Series 2012A | Las Vegas Meadows | $8,975,000 | 3/9/2012 | 6/1/2037 |

The Authority indicates that despite current bonding capacity only supporting a $3 million bond issue, it is not uncommon to have a higher "not to exceed" authorization level such as the $5 million wherein the remaining $2 million of bonding capacity could be utilized at a later date as capacity increases through either the retirement of outstanding cigarette tax revenue bonds or if cigarette tax revenues perform better than the assumed 3 percent annual decline.

**SIGNIFICANT ISSUES**

According to the Department of Health, the primary intent of certifying the need for the authorized cigarette tax revenue bonds in this bill is to complete construction of the final phase of the Meadows long-term care nursing home in Las Vegas. As of December 2013, phase 1 of the facility is complete, and phase 2 is 78 percent complete with an occupancy date set for spring of 2014. Phase 2 increased patient capacities by 72 beds and will allow DOH to close and demolish the old facility built in 1948. The facility has 165 operation beds serving 193 individuals. The long-term care facility is dually certified through Medicare and Medicaid as a skilled nursing facility and provides 24-hour nursing care for the most difficult nursing home residents, including those who are behaviorally challenged and suffer from mental illnesses requiring specialized care.

In August 2013, the new phase I of the Meadows facility received a Leadership in Energy and Environmental Design Gold certificate for its design, energy efficient, and water conservation. While this year's proposed severance tax bond capital outlay bill proposes $20 million for completion of the Meadow's facility, it should be noted an additional $2.5 million will be needed in 2015 for furniture, fixtures, and equipment.

## RELATIONSHIP

House Bill 55, Section 8 authorizes $20 million to construction phase 3 of the new Meadows long-term care facility on the campus of the New Mexico Behavioral Health Institute located in Las Vegas in San Miguel County.

## OTHER SUBSTANTIVE ISSUES

DOH manages seven (7) safety net facilities: Turquoise Lodge Hospital, Behavioral Health Institute (BHI), New Mexico Rehabilitation Center, Sequoyah Adolescent Treatment Center, New Mexico State Veterans Home, Fort Bayard Medical Center, and the Los Lunas Community Program. This bill ensures that the Secretary of DOH has the necessary resources for capital improvements for facilities housing the sick and the frail citizens under the care of the department.

Laws 2005, Chapter 320, first authorized the use of bonds backed by cigarette tax proceeds for health facility related land acquisition facilities. The initial authorization of bond issuance totaled $39 million for health facilities consisting of the following:

- $10.3 million for improvements at the Southern New Mexico Rehabilitation Center
- $11 million dollars for improvements at the Las Vegas Medical Center
- $4 million for improvements at Fort Bayard Medical Center
- $13.7 million for use of the property control division for design, construction, and equipping of a state laboratory facility in Bernalillo County for use by the Department of Health.

## WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The additional revenues needed to complete the Meadows long-term care facility and for other improvements to DOH facilities would be delayed and could cause increased costs.

LMK/ds