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

SPONSOR SFC **ORIGINAL DATE** 02/08/14 **LAST UPDATED** **HB**

SHORT TITLE Public Peace, Health, Safety & Welfare Sole Community Provider Federal Compliance **SB** 368/SFCS

ANALYST van Moorsel/Geisler

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY14	FY15	FY16	FY17	FY18		
$0.0	$34,700.0	$36,400.0	$38,300.0	$39,900.0	Recurring	County Supported Medicaid Fund

Parenthesis ( ) indicate revenue decreases

Duplicates HB 350 – Sole Community Provider Federal Compliance; Relates to HB 349 – Hospital Governmental Gross Receipts. Relates to SB 314 and SB 268.

SOURCES OF INFORMATION

LFC Files

Responses Received From
Human Services Department (HSD)

SUMMARY

Synopsis of Bill

Senate Finance Committee Substitute for Senate Bill 368 amends the current statute to comply with changes approved by the Federal Government regarding the replacement of the Sole Community Provider Fund Program. The bill would enable a County Commission with the exception of a Class A County whose hospital is operated and maintained pursuant to a lease or operating agreement with a State Educational Institution (Bernalillo County and Sandoval County) to impose up to a one-eighth Gross Receipts Tax (GRT) increment, dedicated to the County Supported Medicaid Fund for additional Medicaid Hospital Payment Programs. The tax would be supplemental to the county health care GRT.

The bill also proposes that if a county does not enact an ordinance imposing the one-eighth gross receipts tax, then the county, by July 1, 2014, must dedicate to the County Supported Medicaid Fund an amount equal to a tax rates of two-sixteenths applied to the taxable gross receipts. The county may use funds from any authorized revenue source from the county. If a county does not enact the ordinance or make a timely transfer of funds to the County Supported Medicaid Fund,

the Taxation and Revenue Department shall adjust the distribution of the local option gross receipts tax revenues to such county in proportion to amounts due to the County Supported Medicaid Fund. The bill contains an emergency clause that would make it effective immediately if passed and signed.

This bill contains an emergency clause, and would become effective immediately upon signature by the governor.

FISCAL IMPLICATIONS

HSD reports it has worked closely with the Centers for Medicare and Medicaid Services (CMS) to replace the Sole Community Provider Fund with the Safety Net Care Pool. The one-eighth percent GRT increment (or equivalent revenue transfer) authorized for counties (excluding Bernalillo and Sandoval Counties) would generate approximately $35 million for additional Medicaid hospital payment programs – i.e. the safety net care pool payments and base rate increases for former sole community hospitals, now known as qualifying hospitals.

Of note HSD had originally projected a county contribution of approximately $36.4 million from the counties; by excluding Sandoval County, the program may be short $1 million to $2 million in matching funds.

Both the executive and LFC budget recommendations assumed that the counties would contribute approximately $36.4 million from a one-eighth increment; in return for this contribution level the state would contribute $9 million to $10 million in general fund to support the program. The University of New Mexico Health Sciences Center was assumed to make an intergovernmental transfer of $14 million, so in total there would be almost $60 million in state revenue to be matched by $132 million in federal revenue to provide almost $192 million in hospital payments.

In part due to county opposition to the one-eighth increment transfer proposed by the HSD, House Appropriations Committee action on the general appropriation act has increased the state contribution to $15 million, assuming SB 268 (or an equivalent bill) would be enacted to provide a one-sixteenth contribution, along with legislation passing to reduce hospital gross receipts tax expenditures (HB 349) and a shift in distribution of liquor excise taxes. If all contingencies related to SB 268 are met, it is possible that the full $192 million program would be sufficiently funded with only a one-sixteenth GRT (or equivalent) transfer.

In contrast, SB 368 proposes the counties provide the full 1/8th increment originally proposed by the HSD and would reduce the state general fund needed down from $15 million to $9 million. If enacted it would not be subject to any contingencies and would fully fund the $192 million program for the hospitals.

SIGNIFICANT ISSUES

HSD states the Safety Net Care Pool would fund a hospital base rate increase as well as an Uncompensated Care Pool for qualifying hospitals. A dedicated public funding source is needed to ensure compliance with federal rules and to ensure continued funding of qualifying hospitals.

The Sole Community Provider program had provided supplemental payments to support hospitals in New Mexico that are the principal or sole provider of hospital services in their service areas, as well as the primary point of access to health care for the poor and other uninsured. Most of these 29 hospitals are in rural areas of the state, and all except the University of New Mexico Hospital are outside of Bernalillo County.

Payments from the program grew annually, reaching a high of about $278 million in FY11. Counties have supplied the state matching funds for this program, generally from their County Indigent Fund. The state, historically, has not used general appropriation for these payments.

At the end of 2012 the program faced a 70 percent reduction in allowable funding, reducing available payments from $246 million to about $69 million in FY13. The state began working with the federal Centers for Medicare and Medicaid Services (CMS) to replace the program and maintain higher hospital payments, ultimately including a new payment structure in the Centennial Care waiver program.

This new program, the Safety Net Care Pool, includes a pool of funding ($69 million) for uncompensated care and a rate increase for this same group of hospitals (about $120-$130 million). The new program began January 1, 2014. This and other bills seek to provide the state matching funds to make payments at these proposed levels.

Preserving the ability of these hospitals to stay open and provide critical care and access is crucial to the success of the Medicaid program and county health care services. Given the significance of this issue, HSD has been working with counties and hospitals for more than a year to ensure adequate funding for this program and other county services.

Participation of Counties

The HSD proposal assumed transfers from all counties, even those not participating in the sole community provider program (like Sandoval) or without a hospital—the rationale being that all counties benefit from a robust state system of hospitals to serve all citizens in their time of need, regardless of their home county. In some cases counties without hospitals (Catron, DeBaca, Harding, Hidalgo, Torrance, and Valencia) have paid indigent claims for their citizens transported out for care utilizing gross receipts taxes enacted for indigent care.

Of note Bernalillo County is excluded from the bill because it heavily utilizes property tax levies to support the University of New Mexico Health Sciences Center (UNMH). UNMH is participating in the program-the $15 million transfer from UNMH is enabled by approximately $90 million from Bernalillo County property tax mill levies. Outside of Bernalillo County the only other county excluded in SB 368 is Sandoval County. Excluding Sandoval County from participation would likely lead to other smaller counties also requested to be exempted, which would reduce the revenue stream to support the hospital payments.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

PvM/ds