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

ORIGINAL DATE 2/13/15
SPONSOR Rehm **LAST UPDATED** 2/24/15 **HB** 323

SHORT TITLE County Hospital Funding Property Tax Levy **SB**

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurringor Nonrecurring	Fund Affected
FY15	FY16	FY17	FY18	FY19		
		**	**	**	Recurring	UNMH Funding
		**	**	**	Recurring	County-Supported Medicaid

(Parenthesis ( ) indicate revenue decreases

See detailed discussion below.

SOURCES OF INFORMATION
LFC Files
NM Center on Law and Poverty

SUMMARY

Synopsis of Bill

This bill amends Section 4-48B-12 NMSA 1978 to decrease the county hospital funding property tax mill levy for class A counties from a currently allowed rate of $6.50 per $1,000 of taxable value to $1.00 per $1,000 of taxable value. This is an 85 percent reduction. The bill also reduces the amount of the hospital funding devoted to the county-supported Medicaid (CSM) fund by 85 percent from $1.50 to $.23 per $1,000 of net taxable value. The $.23 per $1,000 of net taxable value for CSM is a part of the $6.50 of net taxable value for the allowed property tax levy and the limit applies if the class A county chooses to use a portion of the county hospital funding property tax mill levy to discharge the requirement to support the CSM fund. The provisions of this act apply to the 2016 and subsequent property tax years, with revenues to UNMH and the CSM fund affected beginning in the fall of Calendar 2017. Thus, the current $6.40 per $1,000 of taxable value mill levy in effect in Bernalillo County, which runs through 2016, would not be affected, although the rate will be reduced by FY 2016 to 6.27 per $1,000 because of the action of yield control. However, any attempt by the County to reimpose the mill levy would be restricted by the provisions of this bill.

FISCAL IMPLICATIONS:

In the analysis of previous year's bills similar to HB 323, the Bernalillo County Finance Department reported that voters authorized 6.4 mills on June 10, 2008 to fund the Bernalillo County Medical Center (BCMC). The rate was approved until 2016. Thus, the 2011 tax levy imposed and collected in Bernalillo County is 6.4 mills. Note: based on a presumed yield-controlled reduction to 6.342 mills effective for the 2014 tax year DFA/LGD has apparently determined that, despite the fact the mill levy was approved by the voters, it is not debt exempt from the provisions of the yield control statute. Analysis in previous years indicates that the State cannot cancel a property tax levy that was enacted by vote of the electorate. TY2014 values have been determined as of January 1, 2014. The earliest tax year this bill could affect would be TY2016. This is consistent with the applicability date of the bill. Therefore, the current 6.4 mill levy would be allowed to run undiminished per the action of this bill through FY 2015 property tax collections. A reimposition of a property tax levy for support of the University of New Mexico Health Center (UNMH)/BCMC would have to be approved by the voters and the maximum mill levy that could be enacted in that hypothetical 2015 election would be $1.00 per $1,000 of net taxable value. The 85 percent reduction would have the approximate effect as follows:

Approximate impact of DD

	TY 2015	TY 2016	FY 2017	TY 2018
Net Taxable value (millions)*	$14,700	$15,100	$15,600	$16,000
Rate (per $1,000 of taxable value)	$6.357	$6.314	$0.000	$0.000
	FY 2016	FY 2017	FY 2018	FY 2019
Approximate obligations ($1,000)	$95,500	$0	$0	$0
Provisions of the bill -- timely reimposition		$1.000	$0.993	$0.986
Approximate obligations ($1,000)		$15,100	$15,491	$15,776
Approximate reduction in obligations ($1,000)		-$82,500	-$87,109	-$89,224

This illustration assumes that Bernalillo County net taxable value increases by 3 percent per year, which is a judicious average between the 1.3 percent experience of annual growth in TY 2012, .59% in 2013 and 3.05% in 2014 and the 4.4 percent experience of average annual growth from 2004 to 2012. Assuming that the voters of Bernalillo County would approve the reimposition of this bill, the fiscal effect of the bill would be to decrease the revenues received by UNMH/BCMC and the CSM in total by about $82 to 90 million a year from FY2017 forward.

TY 2012 obligations totaled $90.6 million. TY 2013 obligations totaled $91.2 million. UNMH reports that the hospital received $73.2 million for FY 2013 and $73.5 million for FY 2014. Assuming that 98% of obligations were collected, the residual County-Supported Medicaid Fund received $9.5 million in FY 13 and $10.1 million in FY 14.

SIGNIFICANT ISSUES:

In previous sessions, variants of this bill were introduced. All of these bills, including this year's version seek to reduce or eliminate the amount of property tax levies used to support hospital operations in class A counties. Apparently, only UNMH/BCMC in Albuquerque has such a mill levy. From 2013's LFC analysis of HB 357, the mill levy represents approximately 12 percent of the total funding for UNMH/BCMC. The remaining sources of funding are Medicare, Medicaid and other third party payers. During FY 2012, the patient payer mix at UNMH (based on billed charges, not actual payments) was: 26 percent Medicaid, 28 percent Commercial (3rd party insurance), 19 percent Medicare, 21 percent uncompensated care, and 6 percent from other sources. The funding from the mill levy is, presumably, used to reimburse UNMH/BCMC for a portion the 21 percent uncompensated care. In 2013's review of HB 357, TRD indicated that the policy purpose of the bill is to conform the UNMH/BCMC funding to the provisions of the federal Affordable Care Act (ACA or "Obamacare").

Although the ACA mandates that by 2014 all residents of the State and nation, with some exceptions, must have health insurance there is substantial debate among analysts as to whether the ACA will obviate the need for indigent funds or the equivalent in the short- or long-term. For example, the current census shows that 20 percent of the uninsured are undocumented residents and therefore ineligible for Medicaid or Bernalillo County Indigent Funds. In case of emergencies, this class of residents of the state will still be treated at UNMH/BCMC and the treatment costs will be considered unreimbursed care. However, this uncompensated care for undocumented immigrants is not reimbursed by the mill levy. Most of these costs for emergency care and treatment of undocumented immigrants are covered by Emergency Medical Services for Aliens (EMSA) funds. UNMH also devotes other sources of funding to the care and treatment of persons who cannot be treated either by Medicaid or County Indigent Funds.

In addition to undocumented immigrants, there are a number of other carveouts to the ACA. For example, individuals who are experiencing financial hardships, individuals who did not make enough money to meet the income tax filing threshold, or individuals who will experience a coverage gap not exceeding three months are exempt from the mandate. Native Americans belonging to federally recognized tribes and members of certain religious sets are eligible for exemptions under the ACA. Many classes of immigrants are not required to have insurance under the ACA, including some lawfully residing temporary visa holders. There is an unknown, but perhaps significant portion of the population that will pay the penalty for not having coverage, but then need health care. In emergency situations, the UNMH/BCMH will have to provide sufficient care to stabilize all of these uninsured persons. In some cases of emergency and regular care of persons who qualify for ACA exemptions, the County indigent fund may pick up the costs – this program is known as "UNMCARE." The funding from the mill levy is largely used to pick up some of the 21% of current billings that are considered uncompensated care.

LFC staff are in receipt of the FY 2014 UNMH audit. This document contains a great deal of information on the transition to a more fully insured population. Two facts are of note: (1) the $72+ million derived from the property tax levy was the difference in FY 13 and 14 between an overall decline in financial position and a small increase in net position.

Condensed Summary of Revenues, Expenses, and Changes in Net Position

	2014	2013	2012
Total operating revenues	$702,853,479	638,053,576	633,205,357
Total operating expenses	-786,814,917	-726,361,454	-693,028,692
Operating loss	-83,961,438	-88,307,878	-59,823,335
Non-operating revenues, expense and other revenues	93,150,604	94,652,898	61,613,832
Total increase in net position	9,189,166	6,345,020	1,790,497
Net position, beginning of year	284,103,634	277,758,614	279,546,906
Net position, end of year	$293,292,800	284,103,634	281,337,403

The second fact of note is that management of the Hospital is well aware that the changing environment. A number of excerpts from the audit are appended at the end of this report.
Data obtained from the Department of Health indicates that 186,054 individuals have been

qualified for enrollment in Medicaid. Of these, 58,531 reside in Bernalillo County. In the newspaper recently, it was reported that over 50,000 individuals have signed up for insurance – in many cases subsidized insurance through the Health Exchange.

In favor of this limitation on mill levy is an issue of funding fairness. UNMH/BCMC draws patients from across the state. UNMH/BCMC has the only level 1 trauma center in the state and accident and trauma patients are transported from remote locations to Albuquerque – frequently by helicopter – for treatment. The hospital has at least two fully staffed cardiac catheterization labs and critical heart attack patients are frequently flown to Albuquerque from other locations within the state. An unknown portion of uncompensated care at UNMH/BCMC is delivered to residents of other Counties. Thus taxpayers in Bernalillo County are bearing a financial burden of providing health care services for the entire state.

PERFORMANCE IMPLICATIONS:

The LFC tax policy of accountability is not applicable to the provisions of this bill. The net effect of this bill will be a tax reduction whether voters approve the reimposition of the health care mill levy for Bernalillo County or not.

The effective date of the act is July 1, 2015. There is no sunset date.

ADMINISTRATIVE IMPLICATIONS

None on the state.

LG/je/bb

Excerpts from the UNMH FY 2014 and 2013 annual audit.

Net patient service revenues for 2014 of $671 million increased $67 million from $604 million in 2013, which represents a 11% increase. This is primarily the result of the enactment of the Patient Protection and Affordable Care Act (PPACA) on January 1, 2014 which expanded Medicaid eligibility and created the New Mexico Health Insurance Exchange (NMHIX) among other reforms. As a part of the State's Medicaid Expansion Plan, enrollees were expected to enroll in Centennial Care or purchase insurance on the New Mexico Health Insurance Exchange. The New Mexico Health Insurance Exchange (NMHIX) is available to individuals/families with incomes above 138% FPL and provides subsidized health insurance up to 400% FPL. NMHIX estimates approximately 187,000 adults qualify for exchange coverage, with 58,000 of those residing in Bernalillo County. Exchange enrollment began in October 2013. Approximately 34,000 enrolled on the exchange. The Hospital is designated as a site for enrollment with a direct connection to NMHIX.

The Hospital offers a financial assistance program called UNM Care to which all eligible patients are encouraged to apply. This program assigns patients primary care providers and enables them to receive care throughout the Hospital and at all clinic locations. This program is available to Bernalillo County residents who also meet certain income and asset thresholds. Patients applying for coverage under UNM Care must apply for coverage under Medicaid or the Health Insurance Exchange (HIX), if eligible. Patients may continue to receive UNM Care until they receive Medicaid eligibility or notification of coverage under the Exchange. Patients certified under Medicaid or the Exchange may continue to qualify for UNM Care as a secondary coverage for copays and deductibles if they meet the income guidelines. If a patient has access to insurance coverage under the Exchange, or through other coverage options, such as an employer or spouse the patient would be expected to obtain coverage through that source prior to eligibility for UNM Care. The Hospital uses the same sliding income scale as the Affordable Care Act to determine if insurance coverage is considered affordable. If coverage is determined not affordable, patients may be granted a hardship waiver, and would not be required to pursue coverage under HIX. These patients would qualify for UNM Care.

Approximately 36% of the patients who previously qualified for UNM Care are now covered under full Medicaid, 7% are covered under Limited Medicaid coverage - Family Planning and approximately 1% are now covered under the HIX. The remainder, approximately 10,000 enrollees are still covered under UNM Care. The income threshold for UNM Care is 300% of the FPL, and patients may apply for this program at various locations throughout the Hospital and various community locations. As of June 30, 2014, 2013, and 2012, there were approximately 20,200, 26,500, and 32,500 active enrollees, respectively. The Hospital does not pursue collection of amounts determined to qualify as charity care, with the exception of copayments. The cost of charity care provided under this program for fiscal years ended June 30, 2014, 2013 and 2012 was $107.3 million, $130.8 million, and $129.5 million, respectively. The implementation of Centennial Care resulted in a decrease in the cost of charity care of $23.5 million in 2014 from 2013 and is the result of an increased number of Medicaid eligible patients. The Hospital provides care to patients who are either uninsured or under-insured and who do not meet the criteria for financial assistance. The Hospital encourages patients to meet with a financial counselor to develop payment arrangements. Although the Hospital pursues collection of these accounts usually through an extended payment plan or a discounted rate, interest is not charged on these accounts, liens are not placed on property or assets, and judgments are not filed against the patients. These accounts are fully reserved and recorded as provision for uncollectible accounts. Provision expense recorded for fiscal years 2014, 2013 and 2012 was $136 million, $102.2 million, and $98.1 million, respectively. The cost of care provided to patients who are either uninsured or under-insured and who do not meet the criteria for financial assistance for years ended June 30, 2014, 2013 and 2012 was $66.7 million, $49.5 million, and $48.3 million, respectively. The increase in the cost is associated with an increase in under-insured patients due to the implementation of PPACA.

At June 30, 2014 and 2013, the Bernalillo County Mill Levy tax subsidy was the most significant nonoperating revenue, totaling $78.2 million in 2014 and $78.5 million in 2013. This tax subsidy is provided for the general operations of the Hospital. The Hospital received this tax subsidy by voter endorsement for the services the Hospital provides. The voters approved the renewal of the mill levy in the November 2008 election. The mill levy is subject to approval by the Bernalillo County voters every eight years, and it will be up for renewal in the November 2016 election.

The Bernalillo County mill levy the Hospital receives is based on property values. It is possible that the amount of the mill levy may remain flat or potentially decrease as a result of reduced property values and slowdowns in the building construction industry. The Hospital's facilities are leased from Bernalillo County (the County) by UNM under the 1999 lease agreement, as described under Note 1 to the financial statements. Section IV. Term of this agreement provides for either party to the lease to reopen the terms and conditions by giving notices in the first three months of 2006, 2014, 2022, 2030 and 2038. On March 25, 2014, the County Commission approved Administrative Resolution AR 2014-21 to open negotiations with UNM on the lease agreement and to establish a taskforce to provide healthcare expertise to the County in support of the negotiations. The County is expected to receive recommendations from the taskforce in September 2014. It is likely the County will request the Hospital to expand or add services based on the priorities identified by the taskforce. Behavioral Health services expansion is expected to be a key part of this request, as this has been a topic of high concern in the local community. The Hospital may be expected to partner with Bernalillo County, the City of Albuquerque, State and other community providers to better address the needs of behavioral health patients.