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

ORIGINAL DATE 3/7/15
SPONSOR Smith **LAST UPDATED** **HB**

SHORT TITLE Fund Safety Net Care Pool Fund **SB** 655

ANALYST van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	**FY16**	**FY17**	**FY18**	**FY19**		
$0.0	$28,700.0	$28,900.0	$29,000.0	$29,100.0	Recurring	General Fund
$0.0	($3,040.0)	($3,170.0)	($3,300.0)	($3,440.0)	Recurring	County Governments
$0.0	$10,000.0	$10,000.0	$10,000.0	$10,000.0	Recurring	Safety Net Care Pool Fund

Parenthesis ( ) indicate revenue decreases

Relates toSB117 – Sunset County Gross Receipts to Safety Pool

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Human Services Department (HSD)

SUMMARY

Synopsis of Bill

Senate Bill 655 amends the several chapters in statute summarized as:

Section 1 of the bill amends the Tax Administration Act (TAA) to reduce transfers to counties by 10 percent of 3/4ths of the net receipts of the first 1/8th county gross receipts tax (GRT) increment imposed in a county with a qualifying hospital within its boundaries, provided the county has not pledged any of the revenue from that increment to finance GRT revenue bonds.

"Qualified hospital" is defined as an acute care general hospital licensed by the Department of Health (DOH) that is qualified to receive payments from the Safety Net Care Pool (SNCP) pursuant to an agreement with the federal Centers for Medicare and Medicaid Services.

Section 2 creates a new section of the TAA to create a new monthly distribution to the SNCP fund of $833,333, for a total annual distribution of $10 million.

Section 3 amends the Gross Receipts and Compensating Tax Act to amend the credit for receipts of certain hospitals, limiting the credit for a qualifying hospital as defined above to two (rather than five) percent of the hospital's taxable gross receipts after all applicable deductions have been taken.

Section 4 repeals the 50 percent deduction of gross receipts of hospitals licensed by DOH.

The effective date of the provisions of the bill is July 1, 2015.

FISCAL IMPLICATIONS

Section 1. Ten percent of 3/4ths of the first 1/8th percent GRT imposition in all counties represents approximately $4.2 million. Excluding Bernalillo and other counties without a qualifying hospital, the revenue reduction to counties totals $3 million. This also represents general fund revenue increase in the same amount.

Section 2. The transfer to the Safety Net Care Pool fund totals $10 million per year, for a general fund reduction in the same amount. It appears the bill funds this transfer by reducing the transfers to Counties (Section 1), and reducing the hospital credit against GRT (Section 3).

Section 3. The repeal of the 50 percent deduction in section 4 would also increase the taxable gross receipts of these hospitals. Thus, the credit for hospitals amended in section 3 of the bill would be applied at a lower rate, but to a larger base. To estimate this portion of the bill LFC staff used data reported by the NM hospitals association. The net difference in general fund revenue from reducing the credit for qualifying hospitals from 3.775 percent or 5 percent to 2 percent of taxable gross receipts after all other deductions is an increase in general fund revenue of approximately $900 thousand. This is in addition to the general fund increase due to the increase in gross receipts tax revenue from the repeal in section 4 (see below).

Absent section 4, the reduction in the credit would result in general fund increase by an estimated $7.3 million.

Section 4. The 2014 Tax Expenditure Report notes the 50 percent hospital deduction results in revenue reductions of approximately $34.8 million per year. As such, repealing the deduction would increase general fund revenue in that amount.

SIGNIFICANT ISSUES

Current law requires all counties but Bernalillo and Sandoval to transfer an amount equal to 1/12th percent of taxable gross receipts to HSD for the SNCP. The amount generated by this transfer is roughly $25 million, leaving a shortfall of approximately $10 million to fully fund the SNCP and associated rate increases for qualified hospitals. This bill creates an additional transfer $10 million transfer to make up the shortfall, and appears to generate the funding by channeling a portion of the first 1/8th percent imposition by counties and by reducing the DOH-licensed hospitals credit against GRT and repealing the 50 percent deduction from GRT for DOH-licensed hospitals.

The 1/12th percent GRT increment was first required after 2014 legislation was enacted to create a revenue source to replace the Sole Community Provider Fund. That program was terminated and replaced by the Safety Net Care Pool as of December 31, 2013. At the time, HSD estimated approximately $60 million in state revenue would be needed to fully fund the match for the Safety Net Care Pool and enhanced Medicaid rates for qualifying hospitals (formerly known as Sole Community Provider Hospitals). To arrive at this amount, the plan assumed approximately $36.4 million would come from the counties through a transfer of a 1/8th equivalent and $14 million in transfers would come from the University of New Mexico Health Sciences Center to fund their portion of the program. For the first time, state general fund would be needed to support the program in amount of $9 million to $10 million. The $60 million would be matched with $132 million in federal Medicaid fund for a total program for hospital payments estimated at $192 million

HSD reports the Centers for Medicare and Medicaid Services (CMS) closely monitors states' use of provider taxes for purposes of funding the Medicaid program. The two general rules that states must follow are that the tax is broad-based and that providers are not held harmless. Broad-based refers to the need for the tax to be applied equally to an entire group of providers and not be specific to the provision of Medicaid services. The hold harmless rule prohibits providers getting paid back by Medicaid the amount of money that they paid in taxes. HSD is concerned that the reduction of the tax credit in SB 655 (essentially an increase in the provider tax) only for qualified hospitals may be seen as violating the broad-based rule. If so, this could lead to deferral of federal matching Medicaid dollars.

PERFORMANCE IMPLICATIONS

HSD reports fully funding the SNCP could lead to improved hospital performance and health outcomes.

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/aml