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FISCAL IMPACT REPORT

ORIGINAL DATE 2/2/16

SPONSOR Rehm LAST UPDATED _____ HB 122

SHORT TITLE County Hospital Property Taxes & Transfers SB _____

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY16	FY17	FY18	FY19	FY20		
		(\$56,000.0)	(\$59,000.0)	(\$62,000.0)	Recurring	UNM Operation Fund
		(\$9,600.0)	(\$10,100.0)	(\$10,600.0)	Recurring	UNM Behavioral Health Fund

Parenthesis () indicate revenue decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

House Bill 122 would amend the Hospital Funding Act to reduce the hospital mill levy that may be imposed by a class A county from a maximum rate of 6.50 to 2.00 mills. The maximum portion of the imposed hospital mill levy that may be used for meeting county-supported Medicaid fund requirements pursuant to Section 27-10-4 NMSA 1978 is reduced from 1.50 to 0.46 mills. The bill would also reduce the amount produced by the mill levy that is provided to a state educational institution operating a hospital from 4.00 to 1.23 mills.

The provisions of this bill are effective on an imposed hospital mill levy for a class A county that is collected after January 1, 2017.

There is no effective date of this bill. It is assumed that the new effective date is 90 days after this session ends (May 18,2016). However, page 2, Line 5 uses January 1, 2017 as an applicability date. This latter date should be moved to September 1, 2017 to avoid conflict with the second half payment of 2016 property taxes done in April 2017.

FISCAL IMPLICATIONS

DFA has provided the following analysis:

“The existing hospital mill levy that will be most significantly impacted by the provisions of this bill is Bernalillo County’s mill levy, which provides funding to UNM Hospital. The existing mill levy of 6.40 was approved by voters at the November 2008 general election and is in effect for property tax years 2009 through 2016.”

“According to financial data provided by UNM Hospital, the mill levy has resulted in revenues averaging \$78 million in FY11 through FY15. The mill levy rate reduction proposed in this legislation would result in a loss of approximately \$55 million annually from Bernalillo County to UNM Hospital. UNM Behavioral Health Operations receives an additional \$14 million annually from the mill levy. The rate reduction would reduce this amount by an additional \$10 million annually. These calculations assume UNM Hospital and Behavioral Health combined receive the full 6.40 mills and Bernalillo County retains none of the revenue. The analysis also assumes the effective date of the legislation is changed to September 1, 2017 to address the concerns noted below in "Technical Issues." According to UNM Hospital, without this mill levy revenue, critical programs including trauma, stroke, community clinics, and cancer would face cuts.”

“At the current mill levy rate of 6.40, UNM Hospital had an average net position of \$9 million during FY11 through FY15. However, this net position reflected an annual average transfer of \$41 million from UNM Hospital balances to the UNM Hospital’s Capital Initiatives Fund. UNM Hospital describes this fund as “carryforward reserves to build new facilities for replacement and expansion.” This fund is in addition to a depreciation expense budget averaging \$33 million annually, which provides funding for renewal and replacement of equipment and facilities. It seems plausible that UNM Hospital could offset programmatic cuts resulting from this bill by setting aside less for depreciation and capital initiatives.”

“Bernalillo County states that it does not have any other revenue source that it could appropriate to fund the existing agreement it has with UNM Hospital, which provides for hospital operations in addition to essential mental health, behavioral health, substance abuse services, and community resources to improve access for indigent patients.”

This legislation would also affect Sandoval County, which currently has a 4.25 mill levy, which was approved by voters at the November 2008 general election and is effective from Tax Year 2009 to Tax Year 2016. Sandoval County’s hospital mill levy also funds UNM Hospital (probably the west-side facility). At the time of the election in 2008, Sandoval County was classified as a “B-Over” county; however, any new hospital mill levy imposed by Sandoval would be limited by the provisions of H 122 because Sandoval is now a Class A county. None of the other Class A counties have a hospital mill levy.

SIGNIFICANT ISSUES

DFA has provided the following analysis:

“Bernalillo County’s existing 6.40 hospital mill levy is effective through Tax Year 2016 as approved by voters. The property tax levy imposed on the September 1, 2016 Certificate of Tax Rates will be billed in October 2016 and collected from that point through August 31, 2017. The Tax Year 2017 mill levies become effective on September 1, 2017. The provisions of this bill appear to be in conflict with Tax Year 2016 collections, as the new \$2.00 maximum is effective after January 1, 2017; however, the mill levies imposed for Tax Year 2016 would still be in the process of being collected.”

“Because UNM Hospital is the largest public hospital in New Mexico and the only Level One trauma center in the State, UNM Hospital serves people throughout the state, not just Bernalillo County residents. UNM Hospital has 13 pediatric subspecialties and offers the highest level of intensive care for children and premature infants.”

“According to Bernalillo County, none of the existing 6.40 mill levy is currently used to meet the county’s requirement for the county-supported Medicaid fund. The county’s gross receipts tax increment dedicated for indigent care is being used for county-supported Medicaid.”

ADMINISTRATIVE IMPLICATIONS

If this bill is enacted, the DFA Local Government Division (LGD) will amend its property tax rate calculation procedures to ensure that no class A county hospital mill levy exceeds the \$2.00 maximum and that the provisions of the yield control formula, Section 7-37-7.1 NMSA 1978, are properly applied.

TECHNICAL ISSUES

The reference to “January 1, 2017” as an effective date could complicate the current property tax system which is based on the tax year (September 1st through August 31st). By making the effective date “September 1, 2017”, the provisions of the bill would be aligned with the property tax year.

ALTERNATIVES

Amend page 2, line 5 by removing “after January 1, 2017” and replacing with “as of September 1, 2017” in order to align the bill to the property tax year.

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