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New Hampshire Fiscal Policy Institute Blog

Legislative Changes to MET Should Preserve Revenue

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Negotiators from the House of Representatives and the Senate met earlier today in a Committee of Conference to try to resolve their differences over New Hampshire's Medicaid Enhancement Tax (MET). At the outset of the meeting, Senator Bob Odell, the Committee's Chairman, offered four principles that Senate Republicans believe should guide the committee's deliberations regarding SB 369. While there may be some common ground between the two chambers on a pair of those principles, a third principle – the Senate's desire to reduce New Hampshire's reliance on the MET without designating an alternative source of revenue – should leave no room for compromise, as it would undermine the state's ability to meet pressing public priorities.

Senate Republicans indicated that, in their view, any MET legislation should:

1. Address constitutional concerns;
2. Reduce the tax rate;
3. Continue truth in budgeting principles by ensuring all dollars generated from MET are allocated to health care spending;
4. Ensure predictability for the state and hospitals.

The version of SB 369 approved by the House seems to meet – or at least attempts to meet – two of these principles. Indeed, the chief aim of the House's approach appears to be to respond to the constitutional issues raised by two recent Superior Court rulings. As Representative David Hess writes in the House Committee on Ways and Means' majority report on SB 369:

> While the committee fully believes that the current tax structure is constitutional and will be upheld by the Supreme Court, this bill, first, seeks to provide the Courts and the public with clarification of the legislative findings and intent that constitute the basis of the decision to tax the hospital inpatient and outpatient services, so as to provide for the consistent, equitable and rational taxation of revenue from these two separate and distinct classes of property as permitted under federal law.

Likewise, provisions included in the House's version of SB 369 appear designed to devote any future MET revenue to meeting the state's health care costs. As approved by the House, SB 369 would end the practice of using a portion of MET collections as unrestricted General Fund revenue and instead allocate any MET funds remaining (after provider, uncompensated care, and other payments have been made) to support public assistance programs, such as Medicaid, administered by the Department of Health and Human Services.

However, the House should not yield any ground on the Senate's third principle of reducing the MET rate and, with it, the state's reliance on the tax. Additional reforms to the MET that would broaden the base of the tax may ultimately prove desirable; if implemented, such reforms might allow for a reduction in the rate that does not result in a loss of revenue in the aggregate. That approach is not what the Senate envisions. Rather, legislation recently passed by the Senate (HB 1613) would not only narrow the base of the MET but reduce its rate from 5.5 percent to 4.5 percent over the next four years. Those rate reductions alone would cost \$27 million in the FY 2016-2017 biennium and close to \$67 million in FY 2018-2019.

Since the Senate has proposed no corresponding changes to mitigate the impact of those revenue losses, the conference committee should focus on reaching agreement on changes in law that will preserve the revenue that the MET now yields and set aside any decisions about FY 2016-2017 tax and spending levels until the next Legislature is in place.