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FISCAL IMPACT REPORT

SPONSOR Smith **ORIGINAL DATE** 2/6/16
LAST UPDATED 2/12/16 **HB** _____

SHORT TITLE Lottery Authority Procurement & Revenue **SB** 180/aSFL#1

ANALYST Dulany/McIntyre

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY16	FY17	FY18		
See "Fiscal Implications"				

(Parenthesis () Indicate Revenue Decreases)

Relates to Senate Bill 79

SOURCES OF INFORMATION

LFC Files

North American Association of State and Provincial Lotteries

Responses Received From

Higher Education Department (HED)

New Mexico Lottery Authority (NMLA)

SUMMARY

Synopsis of Senate Floor Amendment

The Senate Floor Amendment adds a requirement that NMLA guarantee new revenue transmittals of no less than \$41 million in each fiscal year.

Synopsis of Original Bill

Senate Bill 180 amends the New Mexico Lottery Act to:

- allow NMLA to contract for a period of up to 10 years for lottery instant ticket printing and lottery gaming systems for maximum pricing efficiencies;
- remove the requirement for NMLA to transmit at least 30 percent of gross revenue of the previous month to the State Treasurer for deposit in the lottery tuition fund, instead requiring NMLA to transmit all net revenues to the State Treasurer monthly for deposit in

- the lottery tuition fund; and
- require the final adjustment for net revenue transmittals due for the prior fiscal year to be made and transmitted no later than August 1.

FISCAL IMPLICATIONS

NMLA reports the lottery authority “is supportive of the [senate floor] amendment and estimates that it will be able to return at least [\$41 million] to the legislative lottery scholarship each fiscal year.”

Currently, the New Mexico Lottery Act requires NMLA to transmit monthly at least 30 percent of the gross revenue of the previous month to the State Treasury to be deposited in the lottery tuition fund. A 2007 amendment to the act increased this share from 27 percent starting January 1, 2009. NMLA has reported this increased transfer requirement strained its ability to operate effectively and meet its statutory requirements. The authority asserts New Mexico is one of few states specifying a mandatory transfer of revenue and ranks 38th out of 42 states allowing the sale of instant prize tickets, such as scratchers, while states without a required transfer rank higher in per capita sales.

NMLA associates declines in scratcher sales with the requirement to increase payouts to the lottery tuition fund beginning in FY09. The lottery authority states, in the last eight years, an average of 60 percent of lottery scratcher sales have been paid out to players as prizes, which NMLA reports to be one of the lowest prize payout rates in the nation. According to NMLA, in FY07, scratcher sales hit a peak of \$91.4 million. Between FY07 and FY14, according to the authority, scratcher annual sales decreased approximately 24 percent:

- \$86.6 million in FY08
- \$80.6 million in FY09
- \$78.4 million in FY10
- \$75.8 million in FY11
- \$68.7 million in FY12
- \$69.9 million in FY13
- \$69.8 million in FY14

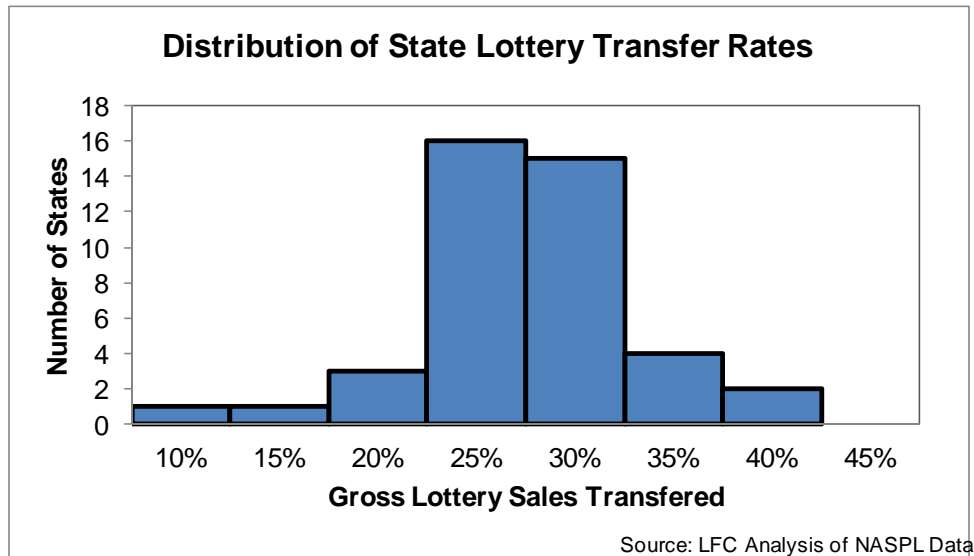
LFC staff cannot verify with certainty that the required increase in distributions to the lottery tuition fund was the cause of the decline in scratcher sales.

The authority reports gross revenue has declined from \$148.8 million in FY07 to \$137.1 million in FY15. NMLA has offset reductions in revenue through cost saving measures such as a reduction from 68 FTE in FY07 to 53.75 FTE in FY15, conversion to a vendor system that is anticipated to save \$4.0 million over the life of the eight-year contract, and rent savings of \$243 thousand per year.

NMLA suggests that in FY15 scratcher sales grew to \$80 million by raising the prize payout. The authority has bolstered prize payouts through use of the unclaimed prize pool in recent years. NMLA argues this increase in prize payout cannot be sustained with a mandated percentage return and therefore scratcher sales will once again decrease causing the net revenue return to the Legislative Lottery Scholarship to also decrease.

Lottery transfers to the lottery tuition fund since FY12 have averaged \$41.7 million, with a peak of \$43.7 million in FY13 thanks to a large run-up of the Powerball Jackpot. FY15 revenue transfers were \$41.1 million.

The graph below illustrates the distribution of transfer rates of lottery revenues among other states, based on data from the North American Association of State and Provincial Lotteries.



SIGNIFICANT ISSUES

Although the measures in this bill could provide NMLA with more flexibility and opportunities to reduce operating costs, as well as potentially increase revenue for the Legislative Lottery Tuition Scholarship program, if transmittals of net revenue fall below desired levels the Legislature would have little recourse to require the authority to increase transfers for scholarship funding outside of amendments to the New Mexico Lottery Act. The New Mexico Lottery Act provides for LFC oversight of NMLA’s operations and periodic review and evaluation of success; however, NMLA’s annual budgets are subject to approval of the NMLA Board of Directors.

With regard to the provision in SB 180/a allowing NMLA to contract for up to 10 years for lottery instant ticket printing and gaming systems, NMLA notes “a 10-year contract helps vendors recoup their equipment/installation and infrastructure investments over a longer contract cycle and reduces the Lottery’s vendor cost.” The procurement code specifies that a multi-term contract, defined as a contract having a term longer than one year, of \$25 thousand or more shall not exceed a term of eight years, including all extensions and renewals. SB 180 exempts NMLA from this provision of the procurement code for lottery instant ticket printing and lottery gaming systems.

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