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## FISCAL IMPACT REPORT

ORIGINAL DATE 02/17/16

SPONSOR Smith LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Liquor Tax Distribution to Lottery SB 230

ANALYST Alejandro

### REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY16	FY17	FY18	FY19	FY20		
\$0	\$0	\$15,500.0	\$10,500.0	\$5,300.0	Nonrecurring	Lottery Tuition Fund
\$0	\$0	(\$15,500.0)	(\$10,500.0)	(\$5,300.0)	Nonrecurring	General Fund

Parenthesis ( ) indicate revenue decreases

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY16	FY17	FY18	3-Year Total	Recurring or Nonrecurring	Fund Affected
\$0	\$14.0	\$0	\$14.0	Nonrecurring	TRD Budget

Parenthesis ( ) indicate expenditure decreases

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

New Mexico Higher Education Department (NMHED)

Taxation and Revenue Department (TRD)

### SUMMARY

Senate Bill 230 temporarily extends the distribution of a portion of the net receipts from the liquor excise tax to the lottery tuition fund as follows:

- 33 percent in FY18,
- 22 percent in FY 19, and
- 11 percent in FY20.

The effective date of this bill is July 1, 2016.

**FISCAL IMPLICATIONS**

The Taxation and Revenue Department (TRD) used the January 2016 consensus revenue estimate to determine the impact to the General Fund and the Lottery Tuition Fund.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the increasing cost of tax expenditures revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure’s fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

**POLICY IMPLICATIONS**

Under current law, 39 percent of net receipts of the liquor excise tax are distributed to the lottery tuition fund. This distribution is set to expire on June 30, 2017. Senate Bill 230 would extend distributions through FY20 as indicated above.

According to NMHED, since 2009 the cost of tuition scholarships has outpaced revenues from lottery ticket sales. Consequently, the year-end balance of the Lottery Tuition Fund has decreased significantly in recent years. NMHED estimates that the Lottery Tuition Fund can support approximately 88-90 percent of sector average tuition in FY 17, and about 60 percent in FY 18 when existing distributions would cease. The percentage of tuition support will also be affected by lottery ticket proceeds, enrollment changes, and tuition increases. The following table summarizes estimated revenue and sector average tuition support assuming flat enrollment and an annual average 2.5 percent increase in tuition from FY16 levels if the distributions proposed in this bill were put into effect. The bill's four year reduction in liquor excise tax revenue suggests a soft landing for tuition support.

	<b>Estimated Lottery Tuition Fund Coverage (in \$ thousands)</b>				
	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>
<b>Estimated Tuition Costs</b>	\$66,625	\$68,291	\$69,998	\$71,748	\$73,542
<b>Total Fund Revenue</b>	\$59,000	\$56,231	\$51,154	\$46,077	\$41,000
<b>Percentage Tuition Support</b>	89	82	73	64	56

**PERFORMANCE IMPLICATIONS**

None identified.

**TECHNICAL ISSUES**

None identified.

**ADMINISTRATIVE ISSUES**

TRD indicates that this bill would have moderate impact on its financial distribution business processes (40 hours or less). Programming changes would be required to the GenTax system to modify the extended distribution date and the percentage changes over a three year period. Staff would need to verify GenTax system changes by performing selected tests of data, functionality and reporting, prior to authorizing GenTax to move changes into production. Programming and testing would need to be completed no later than June 11, 2016.

**DUPLICATION, CONFLICT, COMPANIONSHIP OR RELATIONSHIP**

This bill conflicts with SB 194, SB 212 and HB 273, all of which seek to amend distribution of the liquor excise tax in different ways.

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