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FISCAL IMPACT REPORT

SPONSOR HFL ORIGINAL DATE 03/04/17 CS/CS/237/HTRCS/H
 LAST UPDATED 03/13/17 HB F15/aHF1#1

SHORT TITLE Liquor Tax to Lottery Scholarship Fund SB _____

ANALYST Clark

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY17	FY18	FY19	FY20	FY21		
	(\$16,400.0)	(\$16,100.0)	(\$12,500.0)	(\$2,100.0)	Recurring	General Fund
		\$2,250.0	\$2,100.0	\$2,100.0	Recurring	Local DWI Grant Fund
	\$16,400.0	\$13,850.0	\$10,400.0		Recurring	Lottery Scholarship Fund

Parenthesis () indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	Minimal			Minimal	Nonrecurring	Taxation and Revenue Department

Parenthesis () indicate expenditure decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From

Administrative Office of the Courts (AOC)
 Taxation and Revenue Department (TRD)
 Regulation and Licensing Department (RLD)

SUMMARY

Synopsis of House Floor Amendment #1

House Floor Amendment #1 strikes the words “drug courts” which is no longer applicable in the bill.

Synopsis of Original Bill

House Floor Substitute for Taxation and Revenue Committee Substitute for House Bill 237 changes the distributions of liquor excise tax revenues. It makes permanent a temporary increase in the distribution to the local DWI grant fund, keeping it at 46 percent instead of scaling back to 41.5 percent beginning in FY19. It also extends the distributions to the lottery scholarship fund from the end of FY17 to the end of FY20 but reduces the distribution rate from 39 percent in FY17 to 34 percent in FY18, 28 percent in FY19, and 22 percent in FY20.

The effective date of this bill is July 1, 2017.

FISCAL IMPLICATIONS

The distribution calculations were performed by LFC staff and based on the December consensus revenue estimates for liquor excise taxes. The charts below show the current and proposed revenues. Estimates from the Taxation and Revenue Department (TRD) are different but of very similar magnitudes.

	Current Revenues				
	FY17	FY18	FY19	FY20	FY21
General Fund	6.9	26.1	28.9	27.7	27.7
Local DWI	21.2	22.2	20.5	19.7	19.7
Lottery	17.9	0.0	0.0	0.0	0.0
Total	46.0	48.3	49.4	47.4	47.4

	Proposed Revenues				
	FY17	FY18	FY19	FY20	FY21
General Fund	6.9	9.7	12.8	15.2	25.6
Local DWI	21.2	22.2	22.7	21.8	21.8
Lottery	17.9	16.4	13.8	10.4	0.0
Total	46.0	48.3	49.4	47.4	47.4

	Difference				
	FY17	FY18	FY19	FY20	FY21
General Fund	0.0	-16.4	-16.1	-12.5	-2.1
Local DWI	0.0	0.0	2.2	2.1	2.1
Lottery	0.0	16.4	13.8	10.4	0.0
Total	0.0	0.0	0.0	0.0	0.0

SIGNIFICANT ISSUES

AOC provided the following analysis:

The Local Government Division of the Department of Finance and Administration (DFA) administers the local DWI (LDWI) grant fund. Per Section 11-6A-3.C NMSA 1978, \$5.6 million is carved out of the LDWI annually and used for the following purposes: funding of alcohol detoxification and treatment centers in six counties, \$300 thousand for the ignition interlock fund, no more than \$600 thousand for LDWI program administration at DFA, and the remainder available to county programs on a competitive grant basis. The Legislature also transferred funds from LDWI to AOC during some fiscal years to support the state’s drug court programs. These

LDWI-to-AOC transfers were especially important during the recent recession, as the state's drug court programs suffered a 31 percent funding cut from FY09 to FY12 and lost several programs during that time. Though the amounts of such fiscal-year transfers have varied, \$500 thousand was transferred to the AOC in FY15, \$1 million was transferred in FY16, and \$1.3 million was transferred in FY17 to support ongoing drug court operations.

After the \$5.6 million (and AOC, when applicable) carve-out, the money remaining in the LDWI fund is distributed to the counties each year through an algorithm based on gross receipts taxes and alcohol-related injury crashes. The funds are used primarily for county-run programs and services "to prevent or reduce the incidence of DWI, alcoholism, alcohol abuse, drug addiction, or drug abuse" (Section 11-6A-3.A.1 NMSA 1978).

AOC administers over 50 drug and mental health court programs statewide. Seven are DWI drug court programs operating at various magistrate courts around the state, two are operated by the Bernalillo County Metropolitan Court, and the remainder operate in the district courts. Drug courts provide a yearlong treatment program for non-violent offenders whose repeat criminal activity is driven by drug addiction and/or mental health issues. Current funding of approximately \$9.5 million (a combination of general fund in the courts' and AOC's budgets, as well as the LDWI transfer) allows the programs to work with 950 participants on any given day, which is down from the \$11 million in statewide drug court funding prior to the recession and the 1,200 participants treatment level at that time.

National studies calculate that approximately 50 percent of all jail and prison inmates are clinically addicted. As there are over 13 thousand inmates in New Mexico jails and prisons annually, the national figure would indicate that over 6,000 of them are clinically addicted.

ADMINISTRATIVE IMPLICATIONS

There would be a minimal administrative impact to TRD. The Financial Distributions Bureau (FDB) will modify SHARE distribution accounts as needed, but this work can be done by current FDB staff.

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