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## FISCAL IMPACT REPORT



SPONSOR: McSorley DATE TYPED: 2/1/02 HB \_\_\_\_\_

SHORT TITLE: Substance Abuse Treatment Act SB 293

ANALYST: Dunbar

### APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY02	FY03	FY02	FY03		
	\$20,000.0			Recurring	Newly Created Substance Abuse Treatment Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB 178, HJM 2, SB 148, HB 294, SB 297, HB 174, SB 160

### REVENUE

Estimated Revenue		Full Year	Recurring or Non-Rec	Fund Affected
FY02	FY03			
	\$3,900.0	\$7,500.0	Recurring	General Fund
	(\$100.0)	(\$110.0)	Recurring	County & Municipal Recreation Fund
	(\$200.0)	(\$220.0)	Recurring	County & Municipal Cigarette Fund
	(\$100.0)	(\$110.0)	Recurring	UNM Cancer Center
	(\$150.0)	(\$160.0)	Recurring	NMFA
	\$20,000.0	\$20,000.0	Recurring	Substance Abuse Treatment Fund New Fund

(Parenthesis ( ) Indicate Revenue Decreases)

## SOURCES OF INFORMATION

### Responses Received From

Taxation and Revenue Department (TRD)  
Department of Health (DOH)  
Attorney General (AG)  
Administrative Office of the Courts (AOC)  
Public Defender Office (PDO)  
Health Policy Commission (HPC)

## SUMMARY

### Synopsis of Bill

Senate Bill 293 would enact the Substance Abuse Treatment Act, which would establish the substance abuse treatment fund, set guidelines for administration of the fund, and set criteria for applicants to the fund. The Department of Health (DOH) would administer the fund. SB 293 would require an annual report to the Governor and the Legislature each year.

The Substance Abuse Treatment Fund will receive net receipts from a new Substance Abuse Treatment Surtax. The surtax is \$0.0175 per cigarette sold, given or consumed in the state, after allowing for the exemptions currently applicable under the cigarette tax. Balances in the fund are appropriated to the NM Department of Health for the purpose of providing programs and services for the treatment of substance abusers. The Department of Health shall make grants to counties, municipalities or private organizations, or it may contract directly for programs. Administrative costs are limited to 10% of annual expenditures.

### Significant Issues

According to DOH, the impact of the funding proposed in SB 293 in the more rural parts of New Mexico is significant. Treatment facilities are not widely available outside the Rio Grande corridor and additional funds could improve access to substance abuse treatment statewide.

There is evidence that New Mexico residents support increasing the price of cigarettes. A poll commissioned by the American Cancer Society in 1998 found that 61% of New Mexico registered voters supported a 40-cent increase in the state cigarette excise tax.

## FISCAL IMPLICATIONS

SB 293 would provide an annual distribution of \$20 million, to be administrated by the Department of Health, provided the annual sales of cigarettes exceed fourteen million packs per year.

Data sources as provided by the TRD: Monthly reports of taxable stamp sales by the Taxation and Revenue Department; monthly reports by cigarette distributors of sales to Indian entities; economic research reports on the elasticity of demand for cigarettes. Estimating method: (1) Proposed tax increases were converted to the equivalent percentage increase in price assuming the average price of a pack of cigarettes in New Mexico is \$2.75 in FY 2003. (2) The elasticity of demand for cigarettes in New Mexico is assumed to be  $-0.7$ . This number equals the ratio of the percentage change in

sales to the percentage change in price. In a survey of national studies, the U.S. Congressional Research Service found a range of estimates for this elasticity of  $-0.3$  to  $-0.5$ . A higher value is used in this estimate to reflect the ready access of many smokers to state tax-exempt sales from tribal vendors. (3) Given the above assumptions, the proposed tax increases would lead to a 17% increase in the average price of taxable cigarettes, resulting in a 12% decline in taxable sales of cigarettes in the state. The decline in consumption causes the decrease in revenue to the other beneficiaries of the current cigarette excise tax. General Fund revenue increases because it receives the excess of the new surtax over \$20 million per year.

The long run estimate hinges on assumptions about cigarette consumers' sensitivity to price. TRD assumes that the elasticity of demand is  $-0.7$  and then calculates that the last third of the credit will not be imposed. However, elasticity's have historically been calculated over relatively small changes and where consumers' other alternative was to reduce their consumption. In New Mexico, consumers have the option of purchasing cigarettes from Native American retail outlets

### **ADMINISTRATIVE IMPLICATIONS**

The Department of Health (DOH) would be responsible for managing the Fund through grants or contracts to counties, municipalities, and private organizations. SB 293 proposes that the DOH would use a maximum of ten percent of the Fund for administration, and the contractors or grantees also would use a maximum of ten percent of their awards to administer the grants or contracts.

### **RELATIONSHIP**

- HB 178, which would appropriate twelve million dollars from the tobacco settlement fund for substance abuse treatment in New Mexico.
- HJM2, which proposes to work with American Indian tribes and pueblos to impose their own excise tax on cigarettes.
- SB148, which proposes to phase-in a food, gross receipt tax credit and phase-in an increase in the cigarette excise tax by 60 cents by FY2004.
- Duplicate bills HB 294 / SB 297, which would appropriate an additional \$8,450,000 from the DWI, grant fund for six specific New Mexico counties.
- HB 174 which would appropriate a one time amount of \$1.3 million for one year with subsequent \$700,000 annual appropriations from the DWI fund to one specific New Mexico county for construction of a substance abuse treatment facility.
- SB 160, which would allocate \$300,000 for substance abuse treatment in three northern New Mexico counties.

### **TECHNICAL ISSUES**

SB 293 does not define "substance abuse". It is unknown whether tobacco cessation programs would qualify for funding under these guidelines.

### **OTHER SUBSTANTIVE ISSUES**

SB 293 would provide a significant, recurring source of income for substance abuse treatment in New Mexico. SB 293 is beneficial from a public health standpoint because it would not only fund needed substance abuse treatment services, it could also impact consumption of cigarettes. Studies have shown that increasing cigarette prices leads to decreased consumption. SB 293 would increase

the price of a pack of cigarettes by \$1.44. The New Mexico Department of Tax and Revenue reports that approximately ninety-five million taxable packs of cigarettes are sold each year.

The Department of Health needs to work with the judiciary to inform them of what services are available and how courts can apply for any funding through this bill.

The Public Defenders Office notes that the court referral to a Local Substance Abuse Center, would, as a sentencing alternative, enable the Judge to maintain the offender under the jurisdiction of the Court and help insure rehabilitation.

HPC state that many New Mexico residents have alcohol and drug problems that require costly intervention and treatment and that alcohol abuse is a substance abuse, which leads to DWI accidents and deaths. New Mexico has the fifth-highest rate of DWI accidents and death in the US. Further alcohol abuse and high drug use in some areas of New Mexico contributes to high school dropout, domestic violence, and crime, and accentuates poverty.

**BD/njw**