

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

ORIGINAL DATE 1/25/09

SPONSOR Begaye LAST UPDATED _____ HB 57

SHORT TITLE Local Liquor Surtax Imposition & Rates SB _____

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
		\$10,420.0	Recurring	Local Governments
		\$548.0	Recurring	TRD Operating Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to HB 78, HB36

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

House Bill 57 authorizes local governments to enact local option liquor excise taxes. The bill would allow any county to levy a tax not to exceed 25 percent of the current liquor excise tax (which varies by type of liquor) on wholesalers that distribute to retailers within the county. The tax is imposed for three years unless the voters of the county vote to extend for three year increments.

The revenue from the tax can only be used for educational programs for the prevention of and treatment of alcoholism and drug abuse within the county. The provisions for election and governance, including the requirement of a joint powers agreement with the most populous municipality within the county, are the same as for the local liquor excise tax. As with the local liquor excise tax, the taxation and revenue department (TRD) can withhold up to 5 percent of the tax collections for administration.

FISCAL IMPLICATIONS

TRD has calculated the fiscal impact assuming that every county is able to pass the surtax and levy the maximum 25 percent. In FY11, assuming that it will take time for counties to get a surtax on the ballot and voted on, the surtax would generate \$10.4 million for local programs and about \$550 thousand for TRD administration. The fiscal impact is based on the consensus revenue estimating group forecast of the liquor excise tax. TRD notes that this mechanism makes forecasting difficult and that there may be significant monthly fluctuations in local government revenue. TRD has provided the following table that shows the revenue by county.

HB-57 -- Illustration of Approximate Revenue Yield by County
(thousands of dollars)

<u>COUNTY</u>	<u>Approx. Share of Statewide Liquor Surtax</u>	<u>Allocated Share</u>	<u>Less 5% Admin Fee</u>	<u>County Program Revenue</u>
BERNALILLO	43.18%	4,937.0	246.8	4,690.1
CATRON	0.07%	8.5	0.4	8.1
CHAVES	2.20%	251.1	12.6	238.5
CIBOLA	0.90%	103.0	5.1	97.8
COLFAX	0.55%	63.1	3.2	59.9
CURRY	1.82%	208.5	10.4	198.1
DE BACA	0.11%	12.1	0.6	11.5
DONA ANA	7.63%	872.5	43.6	828.8
EDDY	3.20%	366.2	18.3	347.9
GRANT	1.35%	154.4	7.7	146.7
GUADALUPE	0.19%	21.9	1.1	20.9
HARDING	0.04%	5.0	0.2	4.7
HIDALGO	0.48%	55.2	2.8	52.4
LEA	3.25%	371.2	18.6	352.6
LINCOLN	0.90%	102.4	5.1	97.3
LOS ALAMOS	0.70%	80.2	4.0	76.2
LUNA	0.71%	81.3	4.1	77.3
McKINLEY	3.97%	454.1	22.7	431.4
MORA	0.07%	8.1	0.4	7.7
OTERO	2.15%	246.0	12.3	233.7
QUAY	0.41%	46.6	2.3	44.3
RIO ARRIBA	0.75%	85.5	4.3	81.2
ROOSEVELT	0.50%	56.8	2.8	53.9
SANDOVAL	3.16%	360.8	18.0	342.8
SAN JUAN	4.28%	489.0	24.5	464.6
SAN MIGUEL	2.01%	229.8	11.5	218.3
SANTA FE	9.48%	1,083.6	54.2	1,029.4
SIERRA	0.45%	51.9	2.6	49.3
SOCORRO	0.48%	55.4	2.8	52.7
TAOS	2.17%	247.6	12.4	235.2

HB-57 -- Illustration of Approximate Revenue Yield by County
(thousands of dollars)

<u>COUNTY</u>	<u>Approx. Share of Statewide Liquor Surtax</u>	<u>Allocated Share</u>	<u>Less 5% Admin Fee</u>	<u>County Program Revenue</u>
TORRANCE	1.09%	124.7	6.2	118.5
UNION	0.22%	25.4	1.3	24.1
VALENCIA	1.53%	175.3	8.8	166.6
TOTAL	100.00%	11,434.1	571.7	10,862.4
Total, excluding McKinley Co.		10,980.0	549.0	10,431.0

Note: McKinley County Local Liquor Excise Tax currently yields about \$1 million per year.

Source: Taxation and Revenue Department

Revenue in McKinley county which is the only county that has levied the current local liquor excise tax would decline because the new rate, 25 percent of the current liquor excise tax, yields only about half of the current 5 percent of sale value McKinley levies.

SIGNIFICANT ISSUES

DFA:

Drug and alcohol abuse are significant issues in New Mexico. According to the New Mexico Department of Health website, New Mexico ranked 2nd in the country for alcohol related deaths per 100,000 population from 1990-1998, and 1st in the country for drug related deaths per 100,000 population during the same time period.

A study published in the February 2009 issue of "Addiction" Journal finds that the more alcoholic beverages cost, the less likely people are to drink. The researchers analyzed 112 studies spanning nearly four decades, and documented a concrete association between the amount of alcohol people drink and its cost. The senior author of the study, Alexander C. Wagenaar, a professor of epidemiology and health policy at the University of Florida College of Medicine, has said that using taxes to raise prices on alcohol could be among the most effective deterrents to drinking that researchers have discovered, beating things like law enforcement, media campaigns or school programs.

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc

ADMINISTRATIVE IMPLICATIONS

TRD:

Significant administrative impact on TRD would include modifications to existing forms and instructions related to local liquor tax, computer systems development, and revenue accounting and distribution changes. Frequent changes associated with individual counties imposing the tax would be on-going for a number of years. Considerable taxpayer outreach and education would be required to inform wholesalers of counties imposing the tax. Revised audit procedures would be required. Increased inquiries from local governments regarding their revenue flows would be expected.

The 5% administrative fee would eventually cover administrative costs, however, a cash flow challenge would likely occur early on, since system development costs tend to be front-loaded whereas administrative fees are collected gradually as more counties impose the tax and the tax revenue is collected over time.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to HB 78 which changes the way flavored malt beverages are taxed and HB 36 which bans flavored malt beverages.

TECHNICAL ISSUES

TRD notes Section 5 (page 11, line 11) imposes the surtax for “*not more than* three years”, while the new surtax extension language (page 11, lines 14 and 15) imposes the extended period of the surtax “for another three-year period”. Since the bill repeals the existing local liquor excise tax statute effective June 19, 2009 it should probably include a transition or temporary provision to address continuation of the McKinley County local option tax. The McKinley County local option tax is scheduled to expire on March 1, 2010.

OTHER SUBSTANTIVE ISSUES

DFA:

Although counties will have the option of passing a local ordinance imposing the surtax, a county may choose not to pass an ordinance, or the constituents may choose not to vote to approve an ordinance. Therefore, an increase in the cost of alcohol may not be realized, and funding may not be generated to implement educational, prevention and treatment programs. In the past, Otero and Chaves counties had the ability to impose a local options tax through the Local Liquor Excise Tax Act, and chose not to pass an ordinance.

ALTERNATIVES

The definition of county under current law could be changed to allow more counties to levy the existing local liquor excise tax.

NF/mt