

Synopsis of HAFC Amendment

The House Appropriations and Finance Committee Amendment #1 strikes HEC's amendments 1 and 5, so that the provisions of the bill require NMLA transfer at least \$38 million in any fiscal year.

Synopsis of HEC Amendments

The House Education Committee amendments:

- Limit the years in which NMLA must return \$38 million or else be required to transmit at least 30 percent of each month's gross revenues to FY19 through FY23. If NMLA transfers at least \$38 million annually between FY19 and FY23, NMLA would thereafter be required to transmit all net revenues with no floor on transfers.
- Require transfer of all unclaimed prizes to the lottery tuition fund.

Synopsis of Original Bill

House Bill 147 amends the New Mexico Lottery Act to remove a requirement that NMLA transfer at least 30 percent of gross revenues for deposit in the lottery tuition fund, instead requiring all *net* revenues be transmitted for deposit in the fund. The bill mandates that, if the total amount transmitted for any fiscal year is less than \$38 million, NMLA shall thereafter be required to transmit 30 percent of gross revenue each month, essentially reverting the act to its current provisions.

FISCAL IMPLICATIONS

NMLA reports the requirement to transfer 30 percent of gross revenues for scholarships hinders its ability to grow sales through higher prize payouts. The authority states, since the mandatory gross revenue transfer requirement was added in 2007, NMLA has paid an average of 60 percent scratcher sales prize payouts, whereas states with growing scratcher sales pay out 65 percent to 76 percent of scratcher sales. NMLA suggests higher prize payouts result in more sales, which increase the amount of revenues available for scholarships, and that transfer of net revenues, rather than a percent of gross revenues, is an industry best practice across the US. NMLA, citing data from *La Fleur's* magazine, notes New Mexico's instant ticket sales dropped 14 percent in the second quarter of 2017, the second largest decline in the country. According to NMLA, total scratcher sales growth in the US between 2007 and 2017 was 45 percent, compared with New Mexico's -21 percent. NMLA also projects removal of the statutory requirement will result in an annual increase of \$11.3 million by 2023. LFC staff are unable to verify these projections, and no source was provided.

Scratcher sales comprise about 57 percent of NMLA's gross revenues. The remainder comes from large prize-pool ticket sales and other similar products. Although scratcher ticket sales have fallen since FY07, with a brief up-tick in FY16, total revenues transferred for lottery scholarships have grown since then. In FY07, NMLA transferred \$34.8 million of its \$148.8 million in gross revenues for scholarships. The high-water mark was FY16, when NMLA brought in a record \$154.4 million in gross revenues and transferred \$46.3 million for scholarships. FY17 saw a sharp drop, however, as NMLA recorded \$126.1 million in sales – the lowest revenues since FY01 – and transferred \$37.8 million for scholarships.

New Mexico Lottery Revenue History (dollars in millions)				
Fiscal Year	Gross Revenues	Net Transfers for Education	Operating and Game Expenses	Percent Transferred for Education Initiatives
FY96 (Partial Year)	\$28.5	\$6.3	\$22.2	22.1%
FY97	\$82.4	\$21.9	\$60.5	26.6%
FY98	\$85.4	\$20.1	\$65.3	23.5%
FY99	\$89.7	\$19.6	\$70.1	21.9%
FY00	\$111.2	\$24.5	\$86.7	22.0%
FY01	\$113.7	\$25.9	\$87.8	22.8%
FY02	\$129.5	\$29.7	\$99.8	22.9%
FY03	\$133.6	\$33.1	\$100.5	24.8%
FY04	\$142.6	\$35.9	\$106.7	25.2%
FY05	\$134.7	\$32.2	\$102.5	23.9%
FY06	\$150.6	\$36.9	\$113.7	24.5%
FY07	\$148.8	\$34.8	\$114.0	23.4%
FY08	\$147.8	\$40.8	\$107.0	27.6%
FY09	\$142.6	\$40.8	\$101.8	28.6%
FY10	\$143.6	\$43.6	\$100.0	30.4%
FY11	\$135.6	\$41.3	\$94.3	30.5%
FY12	\$133.9	\$41.3	\$92.6	30.8%
FY13	\$141.8	\$43.7	\$98.1	30.8%
FY14	\$136.1	\$40.9	\$95.2	30.1%
FY15	\$137.1	\$41.1	\$96.0	30.0%
FY16	\$154.4	\$46.3	\$108.1	30.0%
FY17	\$126.11	\$37.84	\$88.28	30.0%

Source: NMLA 2015 Annual Report & LFC Files

The significant volatility in lottery sales over the last two decades makes it difficult to pinpoint low payouts on scratcher sales as the sole reason for falling revenues. Several other economic and demographic factors are likely to influence lottery ticket sales.

HED, which distributes lottery revenues for scholarships among New Mexico’s higher education institutions, notes the change to annual distribution of net revenue cannot ensure additional revenue from year-to-year. According to HED, the department bases projections for scholarships on the monthly transfer of funds from NMLA and, in the short-term, the change contained in HB 147 will have minimal impact on the lottery tuition fund.

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