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FISCAL IMPACT REPORT

SPONSOR	Harper/Hochman-Vigil/Jones/Garcia, H./Lundstrom	**LAST UPDATED**	
		ORIGINAL DATE	02/13/23
SHORT TITLE	Liquor & Motor Vehicle Tax Disbursements	**BILL NUMBER**	House Bill 321
		ANALYST	Faubion

REVENUE*
(dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY23	FY24	FY25	FY26	FY27		
--	($25,100)	($25,300)	($25,600)	($25,800)	Recurring	General Fund - Liquor Excise Tax
--	$7,600	$7,700	$7,700	$7,800	Recurring	Local DWI Fund – Liquor Excise Tax
--	$15,200	$15,300	$15,500	$15,600	Recurring	Human Services Department – Liquor Excise Tax
--	$2,500	$2,600	$2,600	$2,600	Recurring	Drug Court Fund – Liquor Excise Tax
--	($249)	($249)	($249)	($249)	Recurring	Municipality (Farmington) – Liquor Excise Tax
--	($164,600)	($167,700)	($173,900)	($178,400)	Recurring	General Fund – Motor Vehicle Excise Tax (MVX)
--	$78,010	$79,470	$82,390	$84,540	Recurring	State Road Fund – MVX
--	$86,630	$88,260	$91,500	$93,880	Recurring	Transportation Project Fund (Local Governments) - MVX
--	**($189,700)**	**($193,000)**	**($199,500)**	**($204,200)**	**Recurring**	**Total -General Fund**

Parenthesis ( ) indicate revenue decreases
*Amounts reflect most recent version of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
	$79.8	--	--	$79.8	Nonrecurring	TRD

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent version of this legislation.

Conflicts with HB230, SB259, SB220, SB61, SB38, and SB184.

Sources of Information

LFC Files

<u>Responses Received From</u>
Taxation and Revenue Department (TRD)
Department of Transportation (DOT)
Human Services Department (HSD)

SUMMARY

Synopsis of House Bill 321

House Bill 321 (HB321) redistributes the liquor excise tax to the local DWI grant fund, the drug court fund, and to the Human Services Department (HSD) to match federal funds for the state Medicaid program. This bill also redistributes the motor vehicle excise tax (MVX) to the state road fund and the transportation project fund.

The effective date of this bill is July 1, 2023.

FISCAL IMPLICATIONS

The total negative general fund revenue impact of House Bill 321 is $189.7 million in FY24 to $204.2 million in FY27.

Liquor Excise Tax
House Bill 321 distributes the liquor excise tax as follows: 60 percent to the local DWI grant fund (up from 45 percent); 10 percent to the drug court fund (up from 5 percent); and 30 percent to the Human Services Department for the state medicaid program (a new distribution). The bill removes the distributions to class A municipalities (currently only Farmington) and to the general fund (currently roughly 49.5 percent). This bill does not increase the liquor excise tax rate.

Based on the distribution changes, the general fund would no longer receive any revenue from liquor excise tax net receipts versus approximately 49.5 percent under current statute, resulting in a negative general fund revenue impact of $25.1 million to $25.8 million through the forecast period.

The amount to be distributed to municipalities that are located in a class A county with a population of more than 30 thousand but less than 60 thousand is amended to have no distribution instead of the $20,750 monthly in current law, resulting in $249 thousand of revenue loss per year. The increase in the amount distributed to the drug court fund would result in a revenue gain of $2.5 million and $2.6 million through the forecast period. The local DWI grant fund distribution would increase by $7.6 million to $7.8 million.

The new 30 percent distribution to HSD would result in approximately $15.2 million to $15.6 million in revenue through the forecast period. Importantly, this distribution will allow the state to receive federal match for Medicaid programs. The Human Services Department (HSD) notes the following regarding Medicaid matching:

> Assuming the state funds from the liquor excise tax can be used by the Medicaid program and matched with Medicaid federal funds, the revenue would bring an additional $57.9

million in federal funds to the state Medicaid program in FY24 and $58.3 million in FY25. These matching amounts are based on the FY24 blended FMAP of 73.76 percent.

The Taxation and Revenue Department notes the following methodology for determining the fiscal impact:

> The new distribution proposes to include HSD as a new recipient of the liquor excise tax. This proposal will eliminate liquor excise tax revenue to the general fund since 100 percent of the net receipts will now be redistributed to other funds. The Taxation and Revenue Department (TRD) used the December 2022 Consensus Revenue Estimating Group (CREG) forecast for the liquor excise tax receipts to determine the impact of the new distributions. The estimated effect is based on the bill's new distribution percentages, which include the repeal of the distribution to a municipality located in a class-A county with a population of more than 30 thousand but less than 60 thousand. Currently, Farmington is the only municipality that meets such criteria.

Motor Vehicle Excise Tax

House Bill 321 distributes 50 percent of the motor vehicle excise tax to the state road fund (up from 21.86 percent) and 50 percent to the transportation project fund (up from 18.75 percent). The general fund would no longer receive any revenue from the motor vehicle excise tax net receipts versus approximately 59.39 percent under current statute, resulting in a negative general fund revenue impact of $164 million to $179 million through the forecast period. The road fund will receive an additional $78 million to $84 million, and the project road fund will receive an additional $86 million to $94 million.

TRD notes the following methodology for determining the fiscal impact:

> TRD used CREG's December 2022 forecast to estimate the impact of the proposed motor vehicle excise tax distribution changes. The bill repeals the distribution to the general fund and amends the distribution percentages to the state road fund and the transportation project fund, which benefits local governments. The CREG's forecast for motor vehicle excise tax was apportioned based on the proposal.

LFC has concerns with including continuing appropriation language in the statutory provisions for created funds because earmarking reduces the ability of the Legislature to establish spending priorities.

SIGNIFICANT ISSUES

Liquor Excise Tax

TRD notes the following policy issues:

> The bill's new distribution allocates more funds to treat drug and alcohol abuse and supports Medicaid in the state. Alcohol and substance abuse are among the costliest health problems in the United States. Different studies have shown that public investment reduces alcohol and substance abuse and delays abuse initiation at young ages. In that regard, the redistribution of revenue to targeted substance abuse funds may impact and support community programs. This would establish a consistent future fund balance for budgeting appropriations from these funds but would permanently divert gross receipts revenue from the general fund. The public investment may reduce future costs associated with alcohol and substance abuse.

New Mexico's tax code is out of line with most states in that more complex distributions are made through the tax code. In addition, the diversion of tax revenue directly to HSD for the support of Medicaid versus appropriating from the general fund through HB2 as is traditionally done reduces the transparency of Medicaid funding in the state. The more complex the tax code's distributions, the costlier it is for TRD to maintain the GenTax system and the more risk is involved in programming changes.

Finally, the bill repeals a distribution based on very targeted language, which at present allows only Farmington to meet the eligibility. This targeting does not meet equity principles of good tax policy regarding all cities being afforded the same distribution from the liquor excise tax. Many municipalities might face funding needs for alcohol treatment and rehabilitation services.

Motor Vehicle Excise Tax
TRD notes the following policy issues:

Directing all MVX revenue to the state road fund and local governments road funds is a supportable earmark since the cost of maintaining roads is directly tied to vehicle sales, which contribute to road deterioration. This would enable direct planning of budget use with forecasted MVX revenue. This proposal though would eliminate a recurring general fund revenue source, reducing the legislature's budgetary flexibility with respect to the broad appropriation needs of the general fund in future years. In FY22, MVX revenue made up 1.5 percent of all general fund recurring revenue.

ADMINISTRATIVE IMPLICATIONS

TRD will need to make information system changes that will have a moderate impact on the Information Technology Division (ITD). The estimated time to develop, test and implement the changes is approximately 240 hours or 1.5 months for an estimated $13,300 of staff workload cost, and $63 thousand in application and configuration changes in Tapestry to amend the distributions for MVX. This legislation will have a moderate impact on the TRD Administrative Services Division (ASD) of 60 hours for two ASD staff focused on testing and verifying the new distributions and reports.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB321 conflicts with SB61, SB220, SB259, and HB230 which also change the liquor tax revenue distributions.

HB321 conflicts with SB38, which repeals sections of the Motor Vehicle Excise Tax Act which includes the imposition of MVX and the distribution of MVX proceeds. HB321 conflicts with SB184, which also changes the distribution of MVX revenues by different percentages to the same NMDOT funds.

TECHNICAL ISSUES

TRD notes the distribution to HSD does not designate a specific fund for the distribution of revenue and for state accounting purposes.

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.

JF/rl/ne/mg