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FISCAL IMPACT REPORT

ORIGINAL DATE 1/22/19

SPONSOR Soules **LAST UPDATED** _____ **HB** _____

SHORT TITLE Forfeited Lottery Prizes to Tuition Fund **SB** 80

ANALYST Valenzuela

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY19	FY20	FY21		
	\$1,000.0 - \$2,000.0	\$1,000.0 - \$2,000.0	Recurring	Lottery Tuition Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

FY20 LFC Budget Recommendation, Volume 2, pages 369 - 370

Responses Received From

New Mexico Higher Education Department (HED)
 New Mexico Independent Community Colleges (NMICC)
 New Mexico Lottery Authority (NMLA)

SUMMARY

Synopsis of Bill

Senate Bill 80 amends the New Mexico Lottery Act, to change the release of unclaimed lottery prizes into the lottery tuition fund, as required under Section 21-21N-5 NMSA 1978. The current practice is that these balance are deposited back into the prize fund.

This bill also replaces language in Section 6-24-21(A). When referring to the existing ability of the internal auditor to designate a person to witness certain promotional drawings and test certain equipment, the language has been revised from “his” designee to “the internal auditor’s” designee.

FISCAL IMPLICATIONS

SB80 does not contain an appropriation. However, enactment would increase revenue into the New Mexico Lottery Tuition Fund by the amount of fund balance in the unclaimed prize fund, which changes each year depending on sales activity. According its audit, the Lottery Authority

held \$1.3 million in this fund at the end of FY17 and \$1.7 million in FY18. The New Mexico Lottery reports that since 2008, the lottery tuition fund has benefited from more than \$40 million of unclaimed prize fund dollars.

NMLA, during the fiscal year, using the funding to manage its cash flow while meeting three objectives: (1) funds are used to pay 30 percent of gross revenues to the lottery tuition fund, (2) then funds are used to enhance instant-game ticket prizes to generate more sales, and (3) then funds are used to meet operational costs of the lottery. Attachment A provides a financial statement for the NMLA, which details annual expenses.

According to HED, a \$1.3 million increase in tuition revenue would increase the per-student scholarship award by approximately 3 percent based on the current set of lottery recipients.

SIGNIFICANT ISSUES

Consumer Fatigue. Lotteries nationally have had difficulty attracting new consumers to participate at the levels seen before the Great Recession. Prior to 2009, average annual sales for NMLA were \$146 million. After 2009, average annual sales dropped by \$8 million, to \$138 million. According to the National Conference of State Legislatures (NCSL), the nationwide decline results in part from consumer fatigue with lottery games and from consumers delaying participation until jackpots increase to astounding levels. Powerball revenues in FY06 were \$54.8 million; and in FY18, revenues dropped to \$29 million.

NMLA has little, if any, control over the revenue volatility tied to the national lottery games. However, it can mitigate the impact of these revenue swings with its management of local instant ticket sales, which represent more than 50 percent of NMLA sales revenue. Compared with FY17, during which ticket sales declined 28.3 percent from the prior year, ticket sales from the New Mexico lottery rebounded in FY18 by \$7.98 million, or 6.3 percent. Fiscal year 2017 represented the lowest gross ticket sales in the past decade.

In contrast, instant ticket sales continued a decades-long slide, declining to \$72 million in FY18, down from the high in FY07 of \$91 million. NMLA maintains declines in instant ticket sales are related to uncompetitive prize payouts, a result of the requirement for the NMLA to transfer 30 percent of its gross monthly revenues to the lottery tuition fund.

Declining Lottery Scholarship Revenues. The volatility of revenues from NMLA has required prior legislatures to infuse the scholarship fund with additional financial support from other funds, such as a \$4 million special appropriation from 2018 and prior year use of liquor excise tax revenues. The projected FY20 tuition sector average is predicted to be 7 of sector average tuition, depending on tuition rates, enrollment trends and actual revenues. The HED Cabinet Secretary will set the FY20 sector average on or before June 1, 2019.

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