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FISCAL IMPACT REPORT

SPONSOR	<u>HTPWC</u>	LAST UPDATED	<u>2/24/2023</u>
	Concerns of Police Survivors License	ORIGINAL DATE	<u>2/24/2023</u>
SHORT TITLE	Plate	BILL NUMBER	<u>CS/House Bill 141/ HTPWCS</u>
		ANALYST	<u>Anderson/Gray</u>

REVENUE* (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY23	FY24	FY25		
	\$63 - \$315 See fiscal implications	\$63 - \$315 See fiscal implications	\$126 - \$630 See fiscal implications.	Law Enforcement Protection Fund

Parentheses () indicate revenue decreases.

*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
		\$26.6		\$26.6	Nonrecurring	MVD Operating

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent version of this legislation.

Relates to Senate Bill 142.

Sources of Information

LFC Files

Responses Received From

Taxation Revenue Department (TRD)

SUMMARY

Synopsis of HTPWC Substitute for House Bill 141

The House Transportation and Public Works Committee substitute for House Bill 141 creates a new specialty license plate—referred to as the “concerns of police survivors” (COPS) special registration plate—to recognize the family and friends of law enforcement officers killed in the line of duty. An initial fee of \$45 will be assessed in addition to the regular vehicle registration fees for issuance COPS special registration plate. Vehicle owners would then pay a renewal fee of \$35 annually to retain and renew the COPS special registration plate.

At payment of the initial fee, \$10 will be deposited into the motor vehicle suspense fund at the Motor Vehicle Division (MVD) of the Taxation Revenue Department (TRD) to defray the cost of making and special registration plate. The remaining \$35 paid per license will be distributed to the law enforcement protection fund (LEPF), which provides funding to local law enforcement agencies for training, equipment, and retention payments, as well as additional funds for state police operations and the New Mexico Law Enforcement Academy (NMLEA). The annual \$35 renewal fee will also be paid to the (LEPF).

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

FISCAL IMPLICATIONS

The \$10 fee established by this bill will go to the MVD for the manufacture and issuance of the initial plate to the applicant. The MVD cannot anticipate how many of these plates will be requested.

Increased distributions to LEPF. The law enforcement protection fund (LEPF) is a contemplated beneficiary of the COPS license plate fee. Currently, LEPF receives 10 percent of insurance tax revenue from life, general casualty, and title insurance business, but changes to the fund administration and increased distributions from the fund has created uncertainty in revenues. See significant issues.

TRD analysis did not provide data to estimate increased contributions to LEPF. This analysis uses available data to estimate the possible range of distributions made to LEPF.

In New Mexico, data from IHS Markit estimates there are about 80 thousand new cars sold annually, while national estimate put the number of used car sales in New Mexico to be around 100 thousand annually. This analysis uses this data to estimate the possible range of distributions made to the law enforcement protection fund (LEPF).

Two key assumptions are made. First, it is assumed that each new transaction will result in the issuance of a license plate. Second, it is assumed no less than 1 percent and no more than 5 percent of all transactions will result in the purchase of a COPS specialty plate.

With those assumptions, the estimated range of increased revenue to LEPF is between \$63 thousand and \$315 thousand annually.

Costs to TRD. TRD notes the initial cost of creating a new plate is typically about \$800: about \$250 for the design costs and \$5.50 per plate in the initial batch of 100.

Implementation of this bill will have a moderate impact on TRD's Information Technology Division. The estimated time to develop, test, and implement the changes is approximately 480 hours (12 weeks) for an estimated \$26,659 of staff workload cost. This bill allows changes in the vehicle special plate fee process, registration fee calculation, and distributions. Application and configuration changes are required to the system. Fee and reverse distribution will change for new recipients.

SIGNIFICANT ISSUES

TRD reports the total cost of manufacturing and distributing license plates has increased significantly because of increases in material costs, specifically aluminum costs and shipping costs, and suggests the plate fee be increased from \$10 to \$12 to allow for these increased costs.

TRD also reports that the process of creating artwork and the approval process—both internally and with law enforcement stakeholders—can be lengthy. The agency requests an effective date of July 1, 2024 instead of July 1, 2023.

Background information on the LEPF

The LEPF provides funding to local law enforcement agencies for training, equipment, and retention payments, as well as additional funds for state police operations and the New Mexico Law Enforcement Academy (NMLEA). The fund is set to receive 10 percent of insurance tax revenue from life, general casualty, and title insurance business. The Office of the Superintendent of Insurance (OSI) managed the insurance premium tax program (which distributes insurance tax funds) until 2020, when administration of the program transferred to the Taxation and Revenue Department (TRD). Since then, TRD has updated the tax returns for the program, which it contends allows them to appropriately manage the program, but the agency has been unable to provide data documenting accurate revenues and distributions.

These changes have created uncertainty in revenue to the LEPF, which comes after the Legislature substantially increased distributions from the fund based on potentially incorrect prior year revenues. Between FY11 and FY20, the fund saw a 37 percent increase in revenue, with an average year-over-year increase of 5 percent and \$19.9 million distributed to the fund in FY20. Using projections based on these past revenues and anticipated continued increases, the Legislature increased distributions from the fund during the 2020 and 2022 legislative sessions, which resulted in an additional distribution of at least \$4.8 million in FY23 and an anticipated increase of \$10.1 million more in FY24, with substantial projected unused revenue (\$3.9 million in FY24 and \$5.4 million in FY25) reverting to the law enforcement retention fund to allow that program to continue.

In FY21, the LEPF received \$16.4 million in revenue, a drop of 17 percent compared with the prior year, and in FY22 it received \$5.9 million, less than a third of its FY21 revenue and far below the \$24.1 million projected. These changes threaten the \$224.3 thousand NMLEA is set to receive for officer training and the \$2 million available for state police in the event of governor-ordered special deployments. At current revenue levels, the retention program will have to reduce distributions in FY24 and will be insolvent by FY25, resulting in about 20 percent of law enforcement officers receiving a 5 percent retention stipend in FY23, 20 percent receiving a smaller stipend in FY24, and the remaining 60 percent receiving no stipends in FY25, FY26, and FY27. Death benefits for the families of officers killed in the line of duty were also set to increase in FY24, from \$250 thousand to \$1 million, but these benefits are funded from the LEPF. Local law enforcements will be the hardest hit by these changes, and instead of seeing average distributions more than double between FY22 and FY24, agencies' distributions are anticipated to be prorated based on available funds; they are unlikely to see distributions above FY22 levels and may even see reduced funding.

DFA apparently has already made distributions to local law enforcement agencies for FY23 that substantially exceed the revenue the agency received in FY22 and will likely exceed FY23 revenues as well. In September, DFA distributed \$10.2 million to local law enforcement agencies after transferring \$750 thousand to DPS for officer survivor benefits in July. If FY23 revenues are similar to FY22, the fund will be deficient by over \$5 million.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB141 relates to Senate Bill 142, which would authorize a new specialty plate commemorating New Mexico miners.

GA/BG/rl/hg/al/ne