

BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

January 22, 2024

Bill: HB-112

Sponsor: Representative Dayan Hochman-Vigil and Senator Antoinette Sedillo Lopez

Short Title: Liquor Tax Distribution for Treatment

Description: This bill creates two new distributions of 24% each of net receipts attributable to the liquor excise tax for the provision of alcohol and substance use disorder prevention and treatment. The first 24% distribution is made directly to counties in proportion to their respective populations. The second 24% distribution is made to the county alcohol and substance use disorder prevention and treatment fund. The bill also amends Section 7-1-6.40 NMSA 1978 to change the distribution amount of net receipts from the liquor excise tax made to certain municipalities (Farmington) for the provision of alcohol treatment and rehabilitation services from \$20,750 to 0.5%.

Effective Date: July 1, 2024

Taxation and Revenue Department Analyst: Lucinda Sydow

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2024	FY2025	FY2026	FY2027	FY2028		
--	(\$24,300)	(\$24,500)	(\$24,700)	(\$24,900)	R	General Fund
--	\$4	\$6	\$8	\$10	R	Municipality – Class A County (Farmington)
--	\$12,100	\$12,200	\$12,300	\$12,400	R	All Counties
--	\$12,100	\$12,200	\$12,300	\$12,400	R	County Alcohol and Substance Use Disorder Prevention and Treatment Fund

* In thousands of dollars. Parentheses () indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact: The new distribution proposes to modify the transfer to certain municipalities in Class A counties, and to include counties and the County Alcohol and Substance Abuse Prevention and Treatment Fund as new recipients of funds of the net receipts attributable to the liquor excise tax. This proposal will reduce the liquor excise tax revenue to the General Fund from 50% to 1.5%. Tax & Rev used the December 2023 Consensus Revenue Estimating Group (CREG) forecast for the liquor excise tax receipts to determine the impact of the new distributions. The estimated impact is based on the bill's new distribution percentages, which include the change from a fixed to a percentage-based distribution to a municipality located in a class-A county with a population of more than 30,000 but less than 60,000. Currently, Farmington is the only municipality that meets such criteria.

Policy Issues: Alcohol and substance abuse are among the costliest health problems in the United States. 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 and to counties directly may impact and support community programs. This would establish a consistent future fund balance for budgeting appropriations from these funds but would permanently divert revenue from the General Fund.

New Mexico’s tax code is out of line with most states in that more complex distributions are made through the tax code. As an alternate to this proposal and revenue earmarks, county substance abuse funding needs could be provided for through regular appropriations in HB-2. The more complex the tax code’s distributions are, the costlier it is for Tax & Rev to maintain the GenTax system and the more risk is involved in programming changes.

Instead of requiring Tax & Rev to distribute to all 33 counties based on population, the bill could distribute all associated county revenue to the new County Alcohol and Substance Abuse Prevention and Treatment Fund established in Section 2 and from that fund a single allocation could be made to each respective county by the Department of Health (DOH). Requiring the distribution to be made by Tax & Rev will require GenTax programming, whereas distributing the funds through DOH will not.

Technical Issues: Based on Tax & Rev’s Information Technology Division (ITD) analysis of the proposal, a minimum of just under 4 months are required for programming, the July 1, 2024, implementation date is not achievable. A January 1, 2025, effective date is recommended.

Other Issues: Section 1, Subsection B proposes to change the Farmington flat amount carve out to a percentage-based amount. There is a Local Liquor Excise Tax, Section 7-24-10 NMSA 1978, which has similar legislative prescribed uses, that perhaps could be expanded to permit Farmington to enact this tax.

Administrative & Compliance Impact: Tax and Rev will make information system changes to accommodate new distributions. Implementing the changes to distributions will have a moderate impact on ITD taking approximately 600 hours or about 3.75 months at a cost of \$132,000 in contractual costs.

Tax & Rev’s Administrative Services Division (ASD) will need to define and test requirements for new distributions to the new fund and to each county. These new distributions will also require changes to revenue reports and audit financial statements. It is anticipated this work will take approximately 100 hours split between 2 Full-Time Equivalent (FTE) of a pay band 70 and a pay band 80 at a cost of approximately \$3,200.

Future recurring costs will occur to adjust county population proportions with the release of a new decennial census.

Estimated Additional Operating Budget Impact*				R or NR**	Fund(s) or Agency Affected
FY2024	FY2025	FY2026	3 Year Total Cost		
\$132	--	--	\$132	NR	Tax & Rev – ITD contractual costs
\$3.2	--	--	\$3.2	NR	Tax & Rev – ASD staff workload

* In thousands of dollars. Parentheses () indicate a cost saving. ** Recurring (R) or Non-Recurring (NR).

Related Bills: Similar to SB-220 (2023 Legislative Session)