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FISCAL IMPACT REPORT

LAST UPDATED _____

SPONSOR Gonzales/Tallman **ORIGINAL DATE** 2/1/24

BILL

SHORT TITLE Electric & Hybrid Vehicle Registration Fees **NUMBER** Senate Bill 183

ANALYST Faubion

REVENUE* (dollars in thousands)

Type	FY24	FY25	FY26	FY27	FY28	Recurring or Nonrecurring	Fund Affected
EV Fees		\$815.0	\$2,600.0	\$4,100.0	\$6,230.0	Recurring	State Road Fund
EV Fees		\$243.5	\$777.0	\$1,215.0	\$1,860.0	Recurring	Transportation Project Fund

Parentheses () indicate revenue decreases.

*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

Agency/Program	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
EMNRD Startup		\$55.0		\$55.0	Nonrecurring	General Fund
EMNRD Operating		\$86.3	\$86.3	\$172.6	Recurring	General Fund
TRD		\$257.6		\$257.6	Nonrecurring	General Fund
Total		\$398.9	\$86.3	\$485.2	Recurring/Nonrecurring	General Fund

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Duplicates sections of Senate Bill 8.

Sources of Information

LFC Files
DOT Electric Vehicle Forecast

Agency Analysis Received From
New Mexico Attorney General (NMAG)
Energy, Minerals and Natural Resources Department (EMNRD)
Taxation and Revenue Department (TRD)
Department of Transportation (NMDOT)

SUMMARY

Synopsis of Senate Bill 183

Senate Bill 183 creates an additional annual registration fee of \$120 for purely electric vehicles and \$60 for plug-in hybrid electric vehicles. The newly created fees are distributed in an amount equal to 77 percent of total collections to the state road fund and 23 percent of total collections to the transportation project fund.

The effective date of new fees and the distribution of those fees is January 1, 2025.

FISCAL IMPLICATIONS

The fiscal impact of this bill is dependent on the forecast of the number of electric vehicles registered in New Mexico in the coming years which has increased dramatically partially a result of the Advanced Clean Cars and Trucks rule adopted in November of 2023¹. NMDOT estimates have EV sales in New Mexico growing at over 50 percent year-over-year in FY26 through FY28.

SB183 defines an electric vehicle to include vehicles that run exclusively on a battery (also called battery electric vehicles or BEVs) and those that derive part of their power from electricity stored in a battery which is capable of being recharged from an external source of electricity (also called plug-in hybrid electric vehicles or PHEVs).

The table below reports the number of BEVs and PHEVs registered in New Mexico and estimates for the following years from the Department of Transportation. The fees do not have a sunset provision. It must be noted that the impact of the additional registration fees on the state road fund and the local governments road fund does not account for any decrease in gasoline tax revenue that might occur because of substitution away from a gasoline powered vehicle towards an electric vehicle.

FISCAL YEAR	BEV	PHEV
2022*	4,382	3,996
2023*	6,917	5,028
2024	9,966	6,100
2025	13,907	7,465
2026	22,896	10,507
2027	36,681	14,575
2028	57,462	19,933

*Values are stock of all passenger, non-commercial vehicles registered in New Mexico (NM) as of June 30, 2023.

TRD analysis assumes slower growth of EVs in the out-years than NMDOT assumes, resulting in a lower revenue estimate to the state road fund and the transportation project fund. Their

¹ <https://www.env.nm.gov/transportation/>

methodology is as follows:

The electric vehicle (EV) market in New Mexico is undergoing remarkable growth. Between 2016 and 2022, electric vehicles saw an average year-to-year growth rate of an impressive 57 percent, surpassing the national average of 44 percent. Plug-in hybrids (PHEV) also showed strong growth, with an average year-to-year increase of 38 percent, compared to the national average of 21 percent.

It is assumed that the EV market in New Mexico will continue to thrive for at least the next five years. Additionally, an assumption is made that the year-to-year growth rate will remain constant at 57 percent, which was calculated from the data of the last seven years. New Mexico's EV market is still far from reaching maturity. The estimation also includes the calculation of the yearly percentage of EVs out of the total number of vehicles in New Mexico. The number of registered vehicles in New Mexico increases by roughly 2 percent annually. With the assumed annual growth rate of 57 percent for electric cars, the market share of EVs is projected to be approximately 7 percent of the total registered vehicles in New Mexico by 2028.

In 2023, Tesla sold 2,698 vehicles in New Mexico, which accounted for approximately 40 percent of the total EVs registered in the state during that year. Furthermore, in 2023, Teslas made up 65 percent of all EVs in New Mexico. According to S&P Global Mobility, the number of available EV models in the US is predicted to increase from 48 to 159 by 2025. Multiple reports indicate that Tesla currently dominates the EV market and is expected to further expand its market share in the next decade. TRD assumes that Tesla will continue to increase its market share in New Mexico by 2.5 percent for the next five years.

The plug-in hybrid electric vehicle (PHEV) market has experienced an average growth rate of 26 percent over the past seven years. In 2022, automakers achieved a record-breaking sales figure of 176 thousand PHEVs, a significant increase from 69 thousand in 2020. Despite an overall decrease in the new-car market to 14.4 million from the previous year's 15.3 million, sales of plug-in hybrids are projected to reach 180 thousand in 2023. TRD assumes the number of PHEVs will continue to grow at an annual rate of 26 percent until 2028.

The weight of electric vehicles (EVs) can vary depending on several factors, including the type of vehicle, battery capacity, and additional features or components. Under the proposed bill, nearly all electric vehicles would be subject to higher registration fees. As technology advances, new materials and designs may help reduce the weight of EVs while maintaining their structural integrity.

SIGNIFICANT ISSUES

The Environment Department website summarizes the recent policy and funding EV landscape:

On July 3, 2023, Governor Lujan Grisham announced that the state would move to adopt Advanced Clean Cars and Advanced Clean Trucks rules to further advance New Mexico's goals of ensuring New Mexicans have access to zero-emission vehicles, like electric cars, qualified plug-in vehicles, and hydrogen trucks. Zero-emission vehicles fight climate change and improve local air quality. Unlike gasoline and diesel fuels, electric cars and hydrogen truck fueling stations will not pollute groundwater throughout

our state.

Fossil fuel-powered transportation in New Mexico contributes to air pollution and greenhouse gas emissions in our state. After the extraction and production of oil and gas, fossil-fuel transportation represents the second largest source of greenhouse gas emissions.

After a four-day joint public hearing, multiple stakeholder meetings, and three public meetings, the New Mexico Environmental Improvement Board (EIB) and the Albuquerque-Bernalillo County Air Quality Control Board (AQCB) voted to adopt the Clean Cars and Clean Trucks rule on November 16, 2023.

Starting in calendar year 2026, 43 percent of all new passenger cars and light-duty trucks shipped to New Mexico auto dealerships by national auto manufacturers must be zero emission vehicles. Similarly, beginning in calendar year 2026, 15 percent of all new commercial heavy-duty trucks shipped to New Mexico auto dealerships by national auto manufacturers must be zero emission vehicles. These percentages gradually increase over time.

New Mexico has invested over \$11.5 million in electric vehicle charging stations from State and federal funding sources and received an additional \$38 million in U.S. Department of Transportation federal grants. Starting in January 2024, New Mexicans who purchase a qualifying new or used electric vehicle will enjoy immediate savings of up to \$7,500 at the point of sale. This federal change eliminates the need to wait until tax return season to receive the federal tax credit.

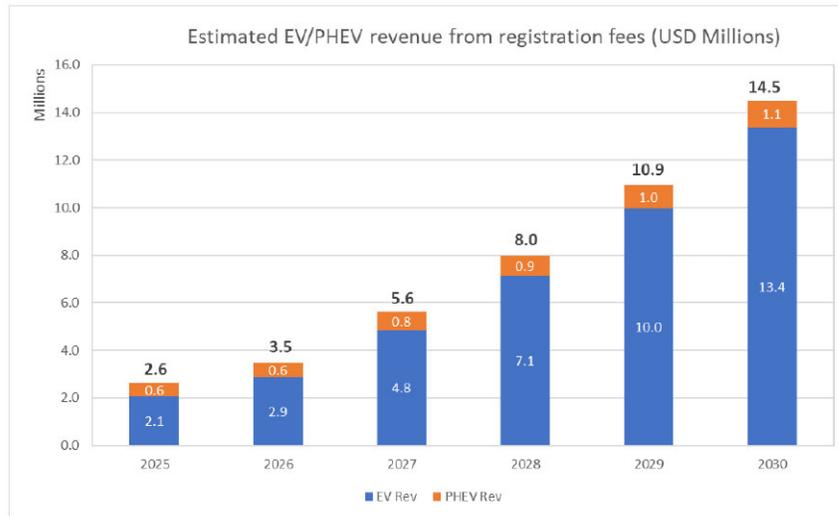
While federal funding has largely concentrated on electric vehicle chargers along heavily trafficked interstate corridors, the administration will request \$55 million this legislative session to build out a state-wide network for charging stations to improve infrastructure in rural New Mexico.

EMNRD notes the following:

Establishing a registration fee for electric vehicles (EVs) and plug-in hybrids (PHEVs) is one way to shore up New Mexico's state road fund as fuel economy of vehicles improves. Currently, gasoline-powered vehicles directly contribute to road maintenance through the state-imposed gas tax collected at the pump (\$0.17 per gallon). Electric vehicles do not pay any gas tax, and even gasoline-powered vehicles pay less than they used to, as fuel economies have improved. Thus, other sources of funding for the state road fund are necessary. A registration fee would ensure that EV and PHEV drivers contribute to vital road repairs and infrastructure improvements.

EMNRD has provided some preliminary, estimated impacts of the registration fees outlined in SB183. These forecasts are based on projected adoption rates modeled from the National Renewable Energy Laboratory's state alternative fuel vehicle registration data. In the table below, EMNRD assumes the adoption rate of new EVs accelerates in 2026 following the implementation of the Advanced Clean Cars Rule for Model Year 2027 vehicles. The assumptions below do not reflect definite impacts. However, EMNRD

believes that substantial revenue – in the millions of dollars - would be collected via these fees, even in FY25.



A flat fee on electric vehicles may shift a disproportionate burden of replacing revenue on to EV users, as the per gallon assessment of taxes for the State Road Fund and the Transportation Project Fund naturally allows heavier internal combustion engine users of state roads to assume a proportional burden of the tax contributions. A flat annual fee will effectively overcharge EV users who don't drive much, and potentially undercharges those who drive more. That said, a flat fee is probably the most practical way to offset these road fund costs in the near term.

TRD notes the following:

Gasoline taxes play a crucial role in funding transportation infrastructure, such as roads and bridges. However, electric vehicles, as they do not consume gasoline, do not contribute to gasoline tax revenue. As a result, policymakers have begun exploring alternative methods to generate revenue for the maintenance and improvement of transportation infrastructure. One such approach is the introduction of registration fees specifically for electric vehicles.

Registration fees play a crucial role in ensuring that all vehicles, regardless of their fuel source, contribute their fair share towards road maintenance. With the increasing number of electric vehicles entering the market, it is essential to establish a sustainable funding mechanism for maintaining roads and bridges. By implementing registration fees, the loss of gasoline tax revenue can be offset, helping to maintain the necessary funding for infrastructure maintenance.

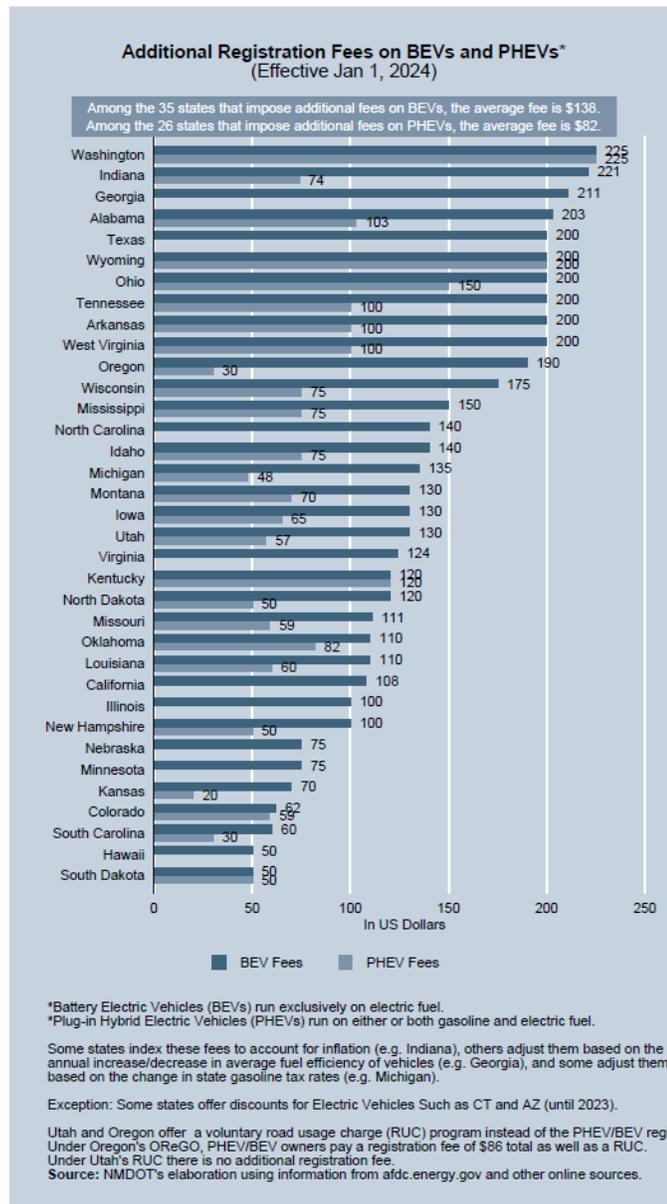
Imposing higher registration fees on electric vehicles could discourage their adoption and hinder efforts to reduce greenhouse gas emissions. Some may contend that electric vehicles are already subject to other fees and taxes, such as sales taxes and electricity taxes, and imposing additional fees may disincentivize people from transitioning to cleaner transportation options. A higher registration fee for vehicles which promote clean energy use, may seem to contradict efforts for Executive Order 2019-0031 on Climate Change and Waste Prevention.

NMDOT notes the following:

Currently SB183 applies to PHEVs with an all-electric range of forty miles; however, the average all-electric range of PHEVs currently available is about 29 miles. Approximately 20 percent of available PHEV models have an all-electric range of forty miles or greater. This means a significant portion of PHEVs currently available will not be eligible for the additional PHEV registration fee.

Owners of PHEVs and BEVs, due to the enormous fuel savings afforded by those vehicles, do not adequately contribute to the construction, maintenance and improvement of public roads and highways fuel via taxes in the same way as gasoline vehicle owners do. As the number of PHEVs and BEVs increase on the roads of New Mexico, funding from fuel taxes will grow increasingly inadequate for the necessary maintenance and improvement of New Mexico's roads and highways. The additional annual fees proposed in SB 183 introduce this mechanism.

As shown below, several other states have moved in this direction: Thirty-five states impose an additional annual fee on BEVs, and twenty-five states impose an additional fee on PHEVs.



ADMINISTRATIVE IMPLICATIONS

The Taxation and Revenue Department notes the following:

TRD's Administrative Services Division (ASD) anticipates this bill will take approximately 80 hours between 2 full-time equivalent (FTE) staff for testing, creating new reports and establishing new revenue distributions. This will result in \$4,600 in staff workload costs. Implementation of this bill will have a high impact on the TRD's Information Technology Division (ITD). The estimated time to develop, test and implement the changes is approximately 920 hours or 6 months and approximately \$253,460, of which \$202,400 is contractual costs and \$51,060 is staff workload costs.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 183 duplicates sections of Senate Bill 8 which also proposes electric vehicle and charging unit tax credits.

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