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FISCAL IMPACT REPORT

ORIGINAL DATE 02/25/13
LAST UPDATED 02/28/13 **HB** 604/aHTPWC
SPONSOR Gonzales
SHORT TITLE Increase Gas & Special Fuels Taxes **SB** _____
ANALYST Walker-Moran

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15		
\$0.0	\$0.0	\$56,286.0	Recurring	State Road Fund
\$0.0	\$0.0	\$1,200.0	Recurring	Tribal Gasoline Tax Sharing Agreement Dist.
\$0.0	\$0.0	\$2,459.0	Recurring	Local Gov. Road Fund (Special Fuels Tax)
\$0.0	\$0.0	\$4,642.0	Recurring	Counties & Municipalities
\$0.0	\$0.0	\$2,576.0	Recurring	County Gov. Road Fund
\$0.0	\$0.0	\$2,576.0	Recurring	Municipal Road Fund
\$0.0	\$0.0	\$644.0	Recurring	Municipal Arterial Fund
\$0.0	\$0.0	\$116.0	Recurring	Aviation Fund
\$0.0	\$0.0	\$58.0	Recurring	Motor Boat Fuel Tax Fund
\$0.0	\$0.0	\$70,559.0	Recurring	Total

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Transportation (DOT)

Taxation and Revenue Department (TRD)

Department of Finance and Administration (DFA)

Environmental, Minerals, and Natural Resources Department (EMNRD)

SUMMARY

Synopsis of HTPWC Amendment

House Bill 604, as amended by the transportation and public works committee, increases both the gasoline and special fuel taxes by five cents. Beginning in FY2015 (instead of FY2014) the gasoline excise tax will be set at 22 cents per gallon (up from the current 17 cents per gallon) and the special fuel excise tax will be set at 26 cents per gallon (up from the current 21 cents per gallon).

As amended by HTPWC, the effective date of this bill is July 1, 2014 (instead of 2013).

Synopsis of Original Bill

House Bill 604 increases both the gasoline and special fuel taxes by five cents. Beginning in FY2014 the gasoline excise tax will be set at 22 cents per gallon (up from the current 17 cents per gallon) and the special fuel excise tax will be set at 26 cents per gallon (up from the current 21 cents per gallon).

FISCAL IMPLICATIONS

This revenue estimate, as calculated by DOT, is based on the January 2013 Road Fund Forecast. Beginning in FY2015, this bill increases both the gasoline and special fuel taxes by five cents to 22 cents and 26 cents.

According to the January 2013 Notes to State Motor Fuel Excise Tax Report by the American Petroleum Institute, among the 50 states, New Mexico currently has the 8th lowest tax on gasoline, lower than the US average rate \$0.304/gallon; and the 17th lowest tax on diesel, lower than the US average rate \$0.30/gallon.

SIGNIFICANT ISSUES

Current revenue for state road funds, even when combined with federal funds, is insufficient to address needs critical to the economic welfare of the state. NMDOT economic analysis suggests state road funds will be negatively impacted even further as a result of fuel-efficient vehicles. According to the NMDOT, there are currently at least \$1.5 billion in unfunded construction needs across the state, including a routine maintenance gap of approximately \$225 million, structurally deficient bridge repair needs of \$250 million, and heavy equipment replacement needs of \$150 million. Further, there are downtown “main street” reconstruction funding needs of approximately \$340 million and major investment project and interchange funding needs of approximately \$425 million. GRIP projects that have been deferred for lack of funding total \$390 million. Although other states are exploring options to address similar problems, the department is not currently considering plans for additional revenue sources.

According to DOT, when the gasoline tax increases, tribes must also increase their tribal tax rates in order to continue qualifying for their deductions at 100 percent. If they do so, their taxes would be estimated to generate an additional \$3 million annually for a five cent (\$0.05) increase.

As reported by DFA:

The intent of the bill appears to be to increase revenues to compensate for increases in street and highway investment and maintenance costs.

Since 1951, the New Mexico tax rate for gasoline has shown a long term downward trend in real terms. Starting in 1979, real diesel taxes have generally been between \$0.20 and \$0.25 in constant 2001 dollars. The proposed incremental one time increase of the tax rate proposed by this bill will not keep up with the 7-year average growth in the price index for state and local investment in highways and streets, which is 9.7 percent (BEA, NIPA, 2005=100). The bill will pro-vide some additional revenues to the road fund. However, raising taxes on gasoline and diesel when fuel prices are rising could impact consumer spending in other areas of the economy.

ADMINISTRATIVE IMPLICATIONS

TRD will not be able to implement the GenTax modifications necessary to record the tax rate change proposed until at least October 1, 2013, after the effective date of the legislation.

TRD reports a moderate to high impact. The tax rate increase would need to be changed on the forms and instructions, the Combined Fuel Tax electronic filing web application and in GenTax. Taxpayers would need notification prior to the increases and inventory reporting requirements will need to be publicized. An inventory report will have to be developed to allow distributors/suppliers to report and pay per Sections 7-13-3.2 and 7-16A-5.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB604 conflicts with HB527. Both bills amend the fuel tax rates.

SB160 as amended by SCONC, SB527, and SB600.

POSSIBLE QUESTIONS

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

EWM/blm