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FISCAL IMPACT REPORT

ORIGINAL DATE 02/16/21

SPONSOR Gonzales/Tallman LAST UPDATED _____ HB _____

SHORT TITLE Increase Gas Tax SB 168

ANALYST Iglesias

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY21	FY22	FY23	FY24	FY25		
\$0.0	\$12,305.0	\$24,880.0	\$37,936.0	\$51,391.0	Recurring	State Road Fund
\$0.0	\$945.0	\$1,889.0	\$2,841.0	\$3,796.0	Recurring	Municipalities and Counties Fund - (excl. P&I)
\$0.0	\$24.0	\$48.0	\$72.0	\$96.0	Recurring	State Aviation Fund
\$0.0	\$12.0	\$24.0	\$36.0	\$48.0	Recurring	Motorboat Fuel Tax Fund
\$0.0	\$525.0	\$1,048.0	\$1,577.0	\$2,107.0	Recurring	County Government Road Fund
\$0.0	\$525.0	\$1,048.0	\$1,577.0	\$2,107.0	Recurring	Municipal Roads Fund
\$0.0	\$132.0	\$262.0	\$395.0	\$527.0	Recurring	Municipal Arterial Program of Local Governments Road Fund
\$0.0	\$590.0	\$1,209.0	\$1,872.0	\$2,574.0	Recurring	Local Governments Road Fund
\$0.0	\$240.0	\$480.0	\$720.0	\$960.0	Recurring	Tribal Tax Sharing Agreements (Pueblo of Santo Domingo and Nambe)
\$0.0	\$15,298.0	\$30,888.0	\$47,026.0	\$63,606.0	Recurring	TOTAL

Parenthesis () indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

Agency	FY21	FY22	FY23	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD	\$5.2	\$5.2	\$5.2	\$15.6	Recurring	General Fund

Parenthesis () indicate expenditure decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

Department of Transportation (DOT)

SUMMARY

Synopsis of Bill

Senate Bill 168 increases the gasoline excise tax and the special fuel excise tax by five cents per gallon (from 17 cents to 22 cents and from 21 cents to 26 cents, respectively) over a five-year period, with a one-cent increase each fiscal year beginning in FY22.

There is no effective date of this bill. It is assumed that the effective date is 90 days following adjournment of the Legislature.

FISCAL IMPLICATIONS

The fiscal impact estimate uses the Department of Transportation’s (DOT) January 2021 Road Fund Forecast to estimate the bill’s revenue impact. Demand for motor fuels tends to be inelastic – meaning consumption often does not change with small changes in price. Therefore, the estimate assumes the tax changes will not affect DOT’s volume projections for gasoline and special fuels.

The gasoline tax change is estimated to generate \$9.1 million in FY22, increasing to \$36.6 million by FY25. The special fuels tax change is estimated to generate \$6.2 million in FY22, increasing to \$27 million in FY25.

The bill does not change the percentage distributions of either tax, therefore all gasoline and special fuel tax recipients will benefit from the increase. The primary beneficiaries are state and local road funds.

Revenue Uses					Five Year Total	Fund Affected
FY21	FY22	FY23	FY24	FY25		
\$0.0	\$12,305.0	\$24,880.0	\$37,936.0	\$51,391.0	\$126,512.0	State Roads
\$0.0	\$2,585.0	\$5,194.0	\$7,867.0	\$10,584.0	\$26,230.0	Local Roads
\$0.0	\$408.0	\$814.0	\$1,223.0	\$1,631.0	\$4,076.0	Other gas tax beneficiaries
\$0.0	\$15,298.0	\$30,888.0	\$47,026.0	\$63,606.0	\$156,818.0	TOTAL

SIGNIFICANT ISSUES

The last increase in the state gasoline tax occurred in 1993, when the tax was raised from \$0.16 to \$0.22 per gallon. It has since been reduced twice to the current rate of \$0.17 per gallon. The special fuels tax rate was last increased in 2003, when it was raised from \$0.18 per gallon to its present rate of \$0.21 per gallon. New Mexico fuel taxes are lower than in surrounding states and lower than the national average (see Attachments A and B).

Gasoline prices fluctuate with crude oil prices. However, gasoline tends to be a relatively inelastic product in that price fluctuations do not tend to significantly increase or reduce demand. As such, the revenues resulting from passage of this bill would likely remain consistent regardless of changes in prices at the pump.

The Taxation and Revenue Department (TRD) notes gasoline taxes are understood to be regressive, meaning that although households with lower incomes pay less in these taxes than middle and high-income households, this lower amount is a higher percentage of their overall lower income.

TRD also notes that inflation has caused fuel tax revenues to lose their purchasing power. The tax imposed in 1995 at 17 cents now is the equivalent of 10 cents after adjusting for inflation. The special fuel tax rate has been in place since 2003 at a rate of 21 cents per gallon. In today's terms, this rate is equivalent to 15 cents.

Many local governments have seen a real decline in the amount of their gasoline tax distributions over the years, reportedly due in part to competing sales of gasoline by Native American tribes in the vicinity of municipal limits. Additionally, gradually increasing fuel efficiency may contribute to observed declines. County and municipal funds would benefit directly from this bill. Local governments are responsible for the maintenance, repair and construction of approximately 44,000 miles of roads compared to 30,000 miles of roads for which the state is responsible.

It should be noted that Native American tribes can increase their taxes in step with state increases but preserve any differential they deem appropriate.

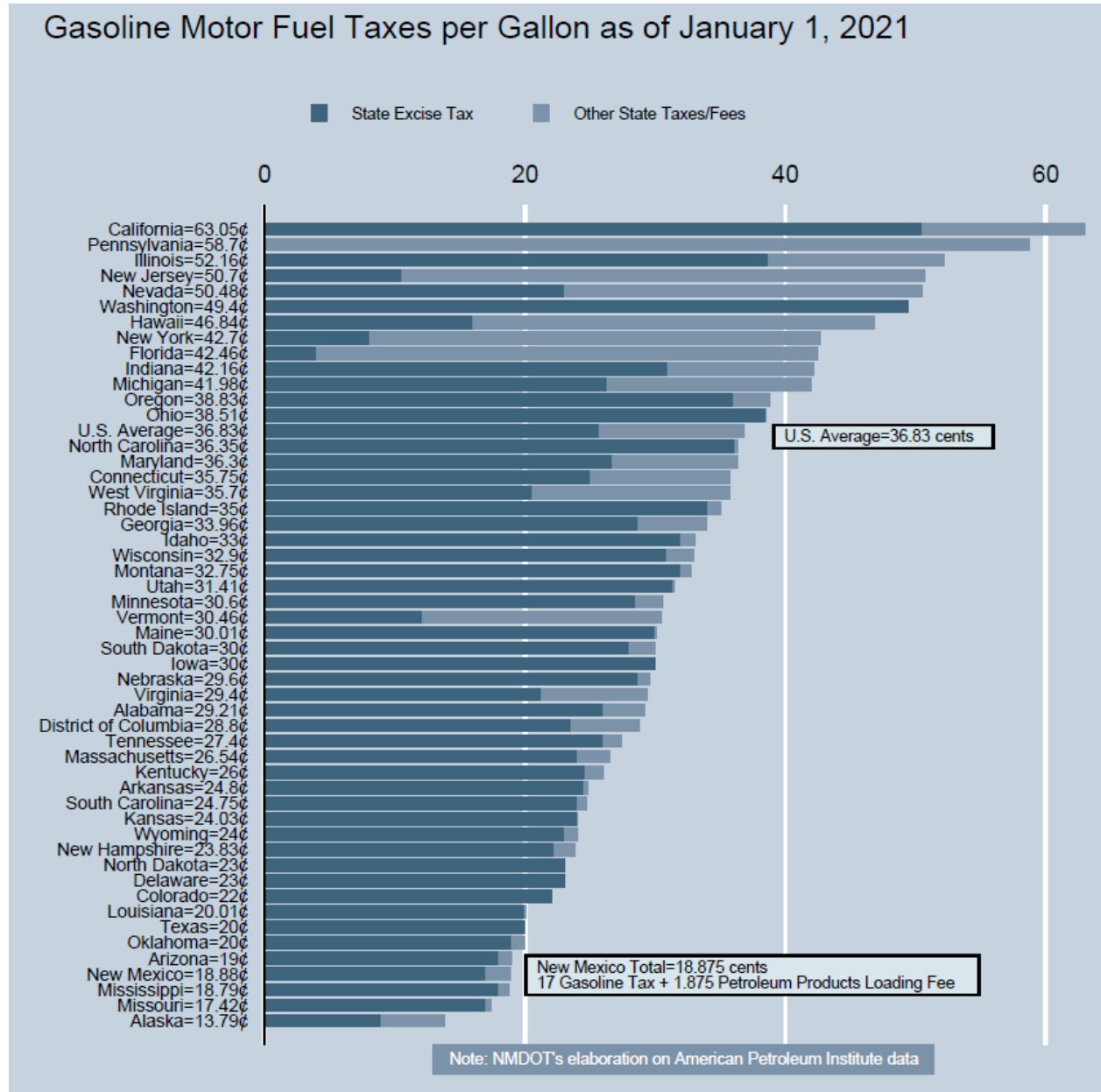
Gasoline prices fluctuate with crude oil prices. However, gasoline tends to be a relatively inelastic product in that price fluctuations do not tend to significantly increase or reduce demand. As such, the gasoline and special fuel volumes would likely remain consistent regardless of changes in prices at the pump.

ADMINISTRATIVE IMPLICATIONS

TRD states implementation will have a low impact on TRD's Information Technology Division requiring approximately 100 hours of effort or approximately 1 month for an estimated cost of \$5,164 of staff workload. Changes to the systems, forms, publications and instructions will be needed. Audit and compliance staff training will need to take place to educate them on the new rates.

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ATTACHMENT A



ATTACHMENT B

