F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 02/04/09
SPONSOR Gonzales **LAST UPDATED** ______ **HB** 374

SHORT TITLE Motor Vehicle Excise Tax to State Road Fund **SB** ______

ANALYST Lucero

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
None	($19,800.0)	($20,394.0)	Recurring	State General Fund (MV Excise)
None	$19,800.0	$20,394.0	Recurring	State Road Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION
LFC Files

Responses Received From
New Mexico Department of Transportation (NMDOT)
State Treasurer's Office
Department of Finance and Administration (DFA)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 374 proposes to amend the Motor Vehicle Excise Tax Act, Section 7-14-10 NMSA 1978 to redirect 16.5 percent of revenue attributable to the Motor Vehicle Excise Tax from the State General Fund to the State Road Fund.

Effective Date: July 1, 2009.

FISCAL IMPLICATIONS

This bill could have a significant impact to the Consensus Revenue Forecast for the general fund estimates. According to the December 2008 revenue estimate, FY10 recurring revenue will only support a base expenditure level that is $293 million, or 2.6 percent, less than the FY09 appropriation. Reducing the revenue allocated to the general fund will further reduce amounts available to support appropriations.

The revenue impact is based on December 2008 Consensus Revenue Forecast for the State General Fund as published by DFA/Board of Finance. However,

According to the Department of Finance and Administration (DFA), the FY2009 revenue impact assumes continuation of recent interpretations by DFA in regard to the applicability of the effective date to a change in a revenue distribution. The distribution change is effective with the distribution event next following the effective date, regardless of the accrual period of the revenue.

The New Mexico Department of Transportation (NMDOT) notes that the combination of slow-growing revenue combined with accelerated project cost inflation has severely challenged NMDOT's ability to deliver quality transportation infrastructure to serve the State's growing needs. In the absence of some significant increase in revenue dedicated to transportation needs, degraded transportation infrastructure will eventually impose a negative impact on the State's economic condition and relative competitive position.

SIGNIFICANT ISSUES:

The Motor Vehicle Excise Tax [Chapter 7, Article 14 NMSA 1978] is a tax imposed on the purchase of most vehicles at a rate of 3 percent of the price paid for a vehicle net of trade-in. The distribution of the tax proceeds has varied over time as follows:

Year	General Fund	Road Fund	Local Govt's Road Fund
1979	75%	25%	
1980	25%	75%	
1981		100%	
1986	27%	73%	
1987	33.3%	41.7%	25%
1991	75%		25%
1994	100%		$.02 per gasoline gallon

Source: NMTRD, History of New Mexico Taxes: Selected Taxes 1909-2001

This bill proposes to create an 83.5 percent /16.5 percent split of the proceeds between the general fund and road fund. The December 2008 Consensus Forecast of general fund revenues for the Motor Vehicle Excise Tax over time and the proposed revenue to the road fund (in millions) would be:

Fiscal Year	Total MVEX Revenue	Share to Road Fund
2010	$120.0	$19.8
2011	123.6	20.4
2012	127.3	21.0
2013	131.1	21.6

The 2007 Legislative session passed House Memorial 35 which took a comprehensive look at revenues for NMDOT and developed a menu of resource possibilities. This bill addresses one of those revenues. Fundamental to NMDOT is that revenues do not grow very fast (about the level of the consumer price index (CPI)) and this bill would provide for a resource that has historically had ties with the NMDOT and is a tax on highway-using transportation products.

ADMINISTRATIVE IMPLICATIONS

Both TRD and NMDOT report that this bill would have no significant administrative impact, but possibly a minimal administrative change in the distribution of Motor Vehicle Excise Tax revenues.

TECHNICAL ISSUES

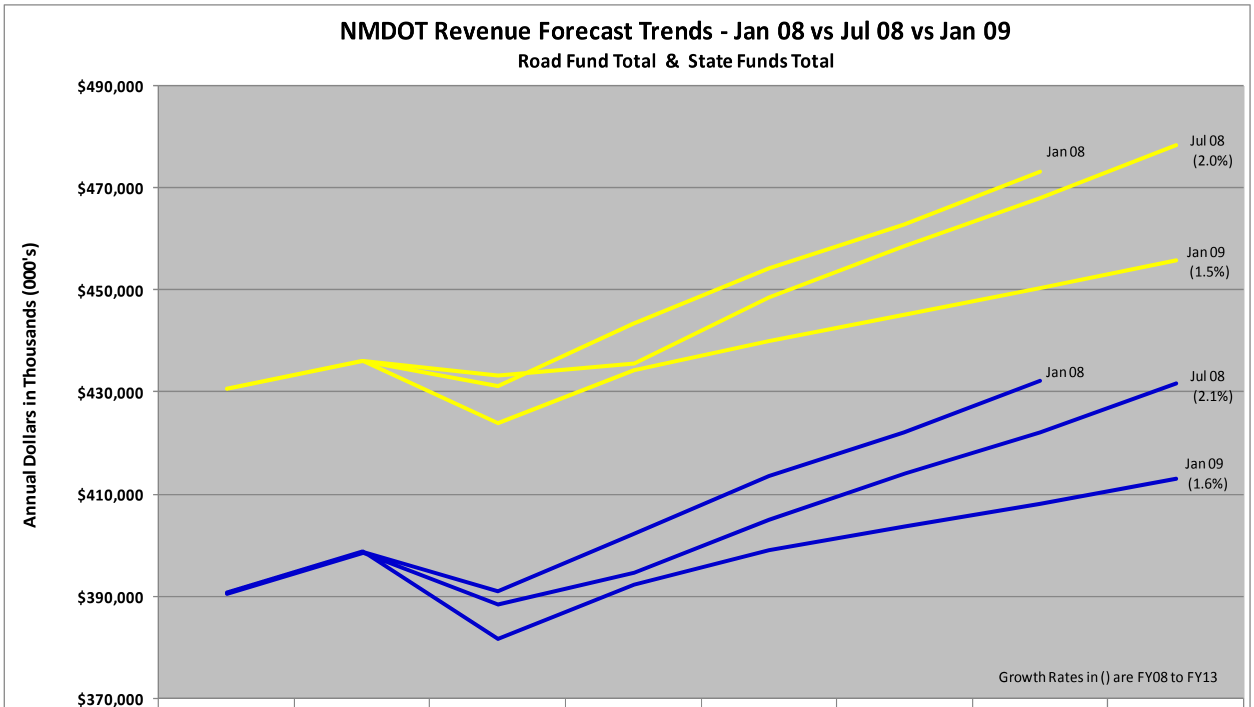
According to the December 2008 revenue estimate, FY10 recurring revenue will only support a base expenditure level that is $293 million, or 2.6 percent, less than the FY09 appropriation. This bill proposes to reduce the revenue allocated to the general fund.

OTHER SUBSTANTIVE ISSUES

NMDOT revenues consist of those that go into the road fund for unrestricted uses and those that flow into other funds for specified or restricted uses such as Aviation, Traffic Safety, Local Governments, etc. State road fund revenues are about $400 million annually while all other funds are about $40 million.

NMDOT has prepared its semiannual revenue forecast through FY13 and the results from FY 07 are shown on the graph below (State Road Fund in Blue and Total State Funds in Yellow). Recent trends have shown a reduction from FY07 revenues as well as a decline in the rates of growth into the future. Forecast future growth rates are below 2 percent. This holds true for revenues while operational expenses grow at 5 percent to 6 percent. The two lines are now crossing with cutbacks necessary in personnel (13 percent current vacancy rate, 360 positions unfilled) and reduced replacement investments for road ($8 million) and computer ($2 million) equipment.

Historically, 20 years ago the State Road Fund was at about 14 percent of the general fund; today it is at about 7 percent. Investments in transportation infrastructure are not keeping up with either the level of the economy or the levels of State government activity. Given the growth outlook for existing revenues, it becomes apparent that new sources will be necessary, hence, the potential return of a portion of the Motor Vehicle Excise Tax revenue to NMDOT.



	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Jan08 Tot RF	390,771	398,794	390,970	402,150	413,756	422,343	432,369	
Jul08 Tot RF	390,771	398,794	388,590	394,880	405,075	414,100	422,350	431,800
Jan09 Tot RF	390,771	398,794	381,701	392,300	399,200	403,700	408,300	413,200
Jan08 Tot SR	430,637	436,103	431,162	443,508	454,344	462,975	473,355	
Jul08 Tot SR	430,637	436,103	433,129	435,594	448,612	458,594	467,930	478,449
Jan09 Tot SR	430637	436103	424,034	434,475	440,175	445,360	450,455	455,850

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Continued negative pressure on service deliverability as expenditure growth confronts slow revenue growth.

DL/svb