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## FISCAL IMPACT REPORT

ORIGINAL DATE 02/03/14  
 LAST UPDATED 02/04/14      HB \_\_\_\_\_

SPONSOR Smith, J.A.

SHORT TITLE Gas Tax Increase, Index & Distribution      SB 228

ANALYST Graeser

### REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY14	FY15	FY16	FY17	FY18		
	\$0.0	\$0.0	\$0.0	\$0.0	Recurring	State Road Fund
					Recurring	Local Governments Road Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Note: the increased gasoline and special fuels tax rates and new distributions proposed by the bill will not go into effect until FY2020. The Taxation and Revenue Department (TRD) estimates that there will be no impact in fiscal years 2014 through 2018.

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Taxation and Revenue Department (TRD)

Department of Transportation (DOT)

### SUMMARY

#### Synopsis of Bill

Senate Bill 228 proposes a \$0.05 per gallon increase in the Gasoline Tax rate and the Special Fuel Tax rate beginning July 1, 2019, with additional \$0.02 per gallon increases in the two motor fuels taxes for the subsequent four years. Beginning July 1, 2024 the tax rate for these two motor fuel taxes would be indexed based on the chained price index for nonresidential construction. Revenue attributable to 3 cents of the initial 5 cent tax rate increase is directed to the Local Governments Road Fund, but otherwise revenue recipients share the additional revenue in proportion to their current share.

### FISCAL IMPLICATIONS

Note: the provisions of the bill take effect only as of July 1, 2019. The following is DOT's analysis of the delayed impacts.

**(Table is in thousands of dollars)**

<b>ILLUSTRATION of POTENTIAL (out year) REVENUE IMPACT</b>						
<b>Estimated Revenue</b>					<b>Recurring or Non-Rec</b>	<b>Fund Affected</b>
<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>		
17,325	36,795	56,286	75,741	95,197	Recurring(*)	State Road Fund
1,200	1,680	2,160	2,640	3,120	Recurring(*)	Tribal Gasoline Tax Sharing Agreement Distribution
42,326	46,864	51,376	55,846	60,315	Recurring(*)	Local Government Road Fund
4,571	6,410	8,249	10,082	11,916	Recurring(*)	Counties & Municipalities
2,536	3,557	4,578	5,595	6,612	Recurring(*)	County Gov't Road Fund
2,536	3,557	4,578	5,595	6,612	Recurring(*)	Municipal Road Fund
634	889	1,144	1,399	1,653	Recurring(*)	Municipal Arterial Fund
114	161	207	253	298	Recurring(*)	Aviation Fund
57	80	103	126	149	Recurring(*)	Motor Boat Fuel Fund
<b>71,301</b>	<b>99,994</b>	<b>128,681</b>	<b>157,277</b>	<b>185,872</b>	<b>Recurring(*)</b>	<b>TOTAL ALL FUNDS</b>

(\*) Recurring and increasing fiscal impacts in subsequent years under tax rate indexing provisions.

Tax rate indexing provisions beginning in FY2025 would add about 1 cent to the gasoline tax and special fuels tax rates each year.

**SIGNIFICANT ISSUES**

TRD notes the following: "... given that the average price of a gallon of gas in New Mexico was \$3.51 in 2013, and that the average household in NM spent a little over \$4,000 on gas last year (which represents about 9% of the median household income), increasing the tax on gas represents a significant additional burden to the average New Mexican. Because the cost of gas and special fuels are part of the cost of transporting goods, raising the tax on these fuels has an inflationary impact on those goods transported within New Mexico making them more expensive."

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 \$3.5 million annually for the initial five cent (\$0.05) increase, and additional incremental increases of \$1.4 million each year for the subsequent four increases of \$0.02 per gallon.

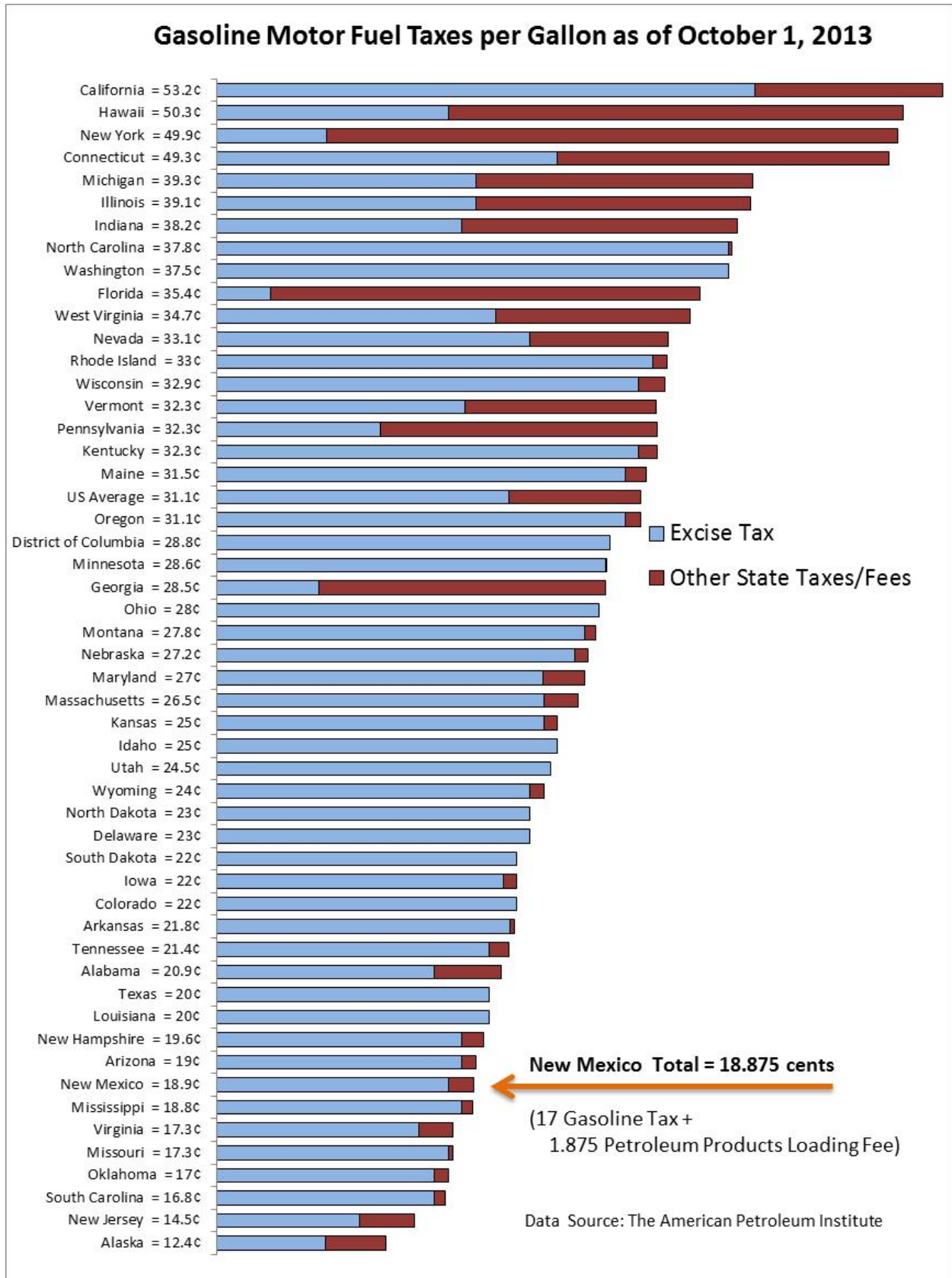
**RELATIONSHIP**

HB-74 proposes a 5¢ per gallon increase in the gasoline tax for the period 2014 through 2024 and a similar 5¢ per gallon increase in special fuels tax for the same period. SB-147 proposes a 1¢ per gallon increase in the gasoline tax and the special fuels tax for a ten-year period, with the proceeds of the tax used to pay for \$123 million in revenue bonds to complete U.S. Highway 491 from Gallup to Shiprock.

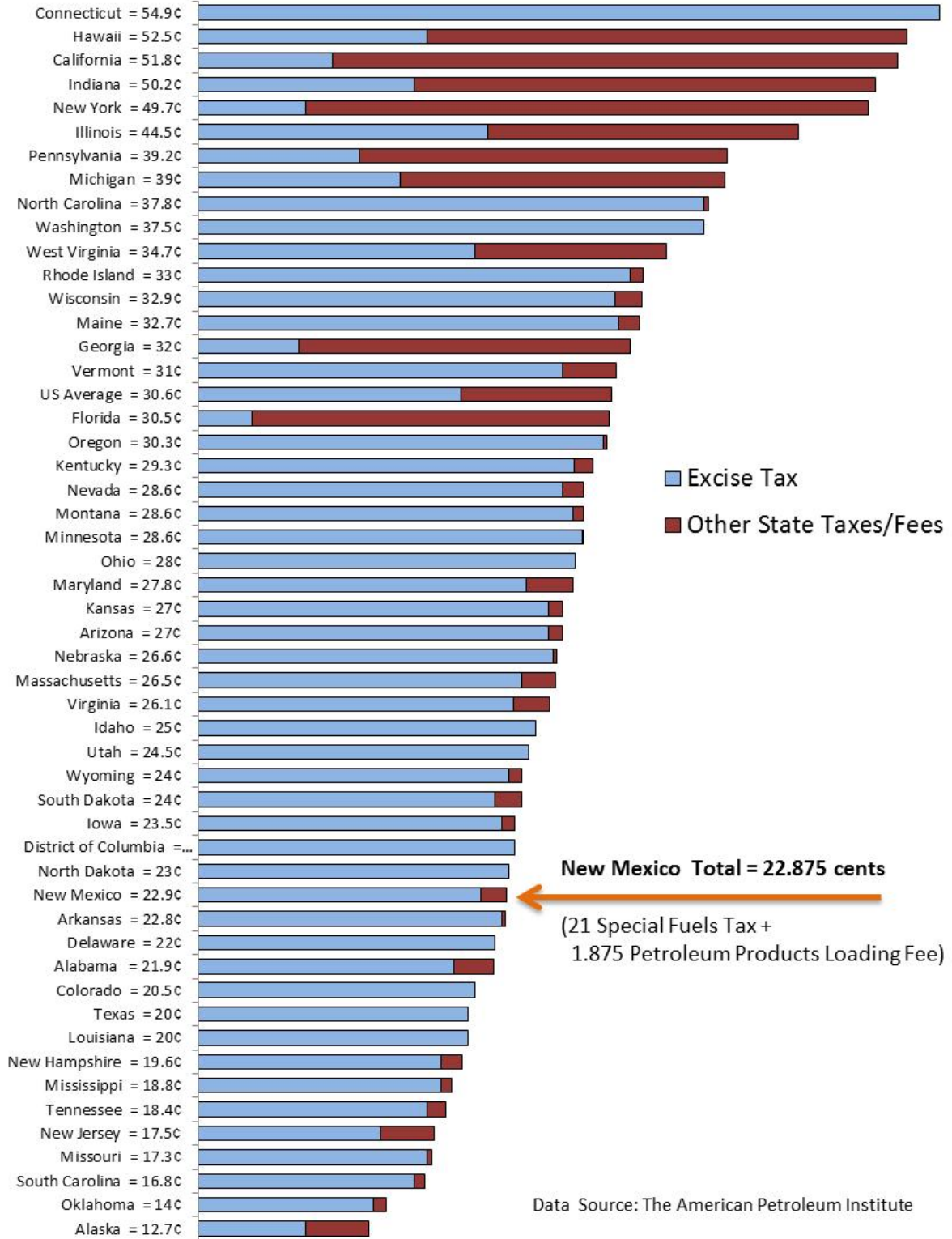
**TECHNICAL ISSUES**

The date referenced in Section 4 (page 5, line 16), the APPLICABILITY SECTION, should specify July 1, **2019** rather than July 1, 2014.

OTHER SUBSTANTIVE ISSUES



### Diesel Motor Fuel Taxes per Gallon as of October 1, 2013



## ADMINISTRATIVE IMPLICATIONS

TRD notes moderate to high impact for SB-228, because of annual changes to the tax rate each July 1. “Forms and electronic reporting would need to be changed in 2014. Starting in 2019, all forms and electronic reporting would need to be changed yearly. The NM distributors would need to be educated on the changes as well as department employees that work with this tax program. In 2024, the implementation of the “calculation method” would need to be put in place. Every year between 2019 and after, taxpayers and TRD will have to file an inventory tax return to report and pay on inventories of gasoline and special fuels. An inventory tax return has not been filed under the current GenTax system, and that filing system needs to be developed. Web applications and bulk file applications will need to be reconfigured and companies will need to reset the rates annually. Advance taxpayer notice would be important to the success of administration of this bill after 2023. Forms and instructions will need to be revised and inventory tax forms will need to be resurrected. Additional filings would be expected as the inventory returns are filed. One additional FTE would be needed to absorb the additional annual filing requirements. This bill will require configuration of changes on tax rates for gasoline and special fuels, and on distribution rates for effected taxes totaling 180 hours.”

## WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

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

This bill is a tax increase, but a tax increase with a delayed effective date. By FY 2024, the gasoline tax would have increased from 17¢ per gallon to 30¢ per gallon. However, with the indexing provisions of the bill, funding would increase each year, roughly proportional to increases in road building and maintenance costs. New Mexico has approximately \$1.5 *billion* in maintenance needs to the State’s streets, roads and bridges. This proposal would significantly help reduce that backlog.

LG/jl