FISCAL IMPACT REPORT

SPONSOR Leavell **ORIGINAL DATE LAST UPDATED** 1/31/15 **HB**

SHORT TITLE Motor Vehicle Tax to Road Fund **SB** 214

ANALYST van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	**FY16**	**FY17**	**FY18**	**FY19**		
$0.0	($15,000.0)	($60,000.0)	($107,000.0)	($156,000.0)	Recurring	General Fund
$0.0	$15,000.0	$60,000.0	$107,000.0	$156,000.0	Recurring	State Road Fund

(Parenthesis ( ) indicate revenue decreases

Conflicts with HB 262 – Gas Tax & Road Projects

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 214 amends the Motor Vehicle Excise Tax Act to phase in a change to the distribution of motor vehicle excise tax revenues. The schedule of changes is shown below:

Distribution of Motor Vehicle Excise Tax Revenue

Fiscal Year	Current	SB214	
	General Fund	General Fund	State Road Fund
2015	100%	100%	0%
2016	100%	90%	10%
2017	100%	60%	40%
2018	100%	30%	70%
2019	100%	0%	100%

FISCAL IMPLICATIONS

The December Motor Vehicle Excise Tax consensus forecast was used to estimate the fiscal impact of this bill. As the percentage of the tax revenue to the general fund decreases, the negative general fund impact is of the same magnitude as the positive revenue impact to the state road fund.

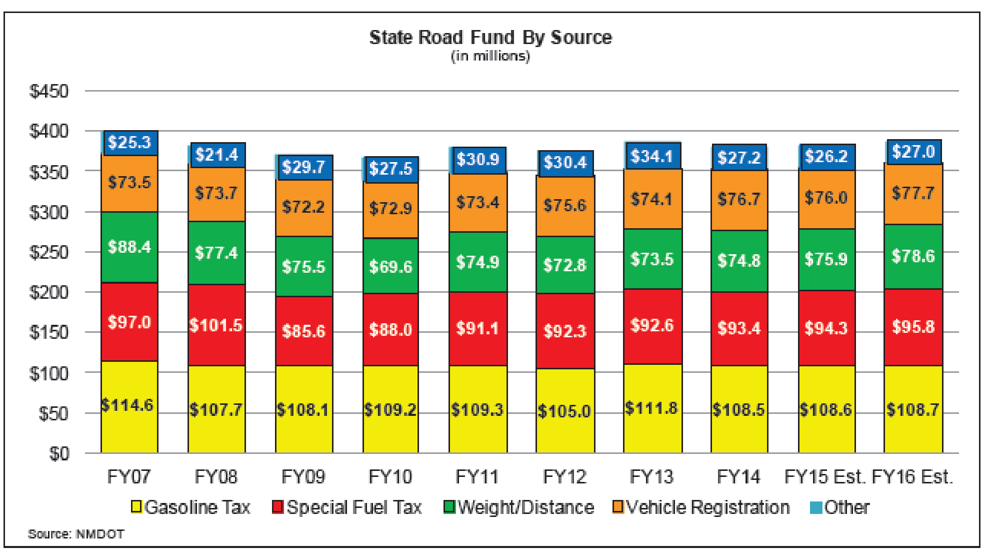
This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the significant general fund revenue reductions resulting from this bill, revenues may be insufficient to cover growing recurring appropriations.

SIGNIFICANT ISSUES

Transportation Infrastructure. New Mexico's statewide transportation infrastructure network, 30 thousand lane miles of interstate corridors and U.S. and state highways, is maintained by the New Mexico Department of Transportation (NMDOT). Construction needs of the transportation network have increased as routine maintenance is deferred, expenses have increased, and maintenance has been performed less frequently. At the same time, revenue growth is not keeping pace with inflation, and debt service payments require a sizeable share of revenue. To ensure a safe, reliable, and robust transportation network, the Legislature and NMDOT must work together to identify efficiency gains and new revenue sources.

State Road Fund. The state road fund is composed of revenues from gasoline tax, special fuel (diesel) tax, weight-distance tax on commercial trucking, vehicle registration fees, and other fee and permit assessments. In FY14, the road fund realized revenues of $374.5 million, 0.3 percent more than FY13. NMDOT estimates road fund growth of 1.8 percent between FY15 and FY16.

The slow growth in road fund revenues is related to a plateau in gasoline tax revenue brought on by gains in passenger vehicle efficiency, fewer vehicle miles traveled per-capita, and slow population growth.



Special fuels tax and weight-distance tax revenues are driven by national consumer demand and tend to be closely related to the state of the U.S. economy. NMDOT noted the slowing growth rate of special fuels tax revenue is primarily due to increasing efficiency in heavy trucks.

Although the state road fund continues to grow, albeit slowly, the purchasing power of the fund has been significantly diminished as a result of material and construction industry price increases. NMDOT estimates that, relative to calendar year 2005, the purchasing power of the state road fund has decreased by more than 10 percent.

Declining revenues are further constrained by significant, long-term debt obligations associated with the Governor Richardson's Investment Partnership (GRIP) projects. The total outstanding principal on transportation infrastructure debt is currently $1.44 billion. In FY16, NMDOT will pay $141 million in debt service. When the effects of debt service are accounted for, the purchasing power of the state road fund decreased 32 percent since 1999.

<u>New Mexico Transportation Needs.</u> NMDOT recently completed the first-of-its-kind assessment of all system-wide lane miles. The assessment used state-of-the-art imaging equipment to determine roadway conditions throughout the state. The results show New Mexico roadways are in significantly worse condition than previously thought: In FY12, 84.5 percent of non-interstate lane miles were reported in good or fair condition; in FY13, the assessment showed only 70 percent were in good or fair condition. Based on this assessment, NMDOT estimates FY15 highway construction and maintenance needs total $866.1 million. The combined maintenance and construction budgets for FY15 total $407.5 million resulting in an unfunded need, or gap, of $458.6 million.

Maintenance Needs. NMDOT estimates total system wide maintenance needs to be $266 million in FY15. The current $150.2 million maintenance budget for FY15 leaves a maintenance gap of $115.8 million. The maintenance gap estimate represents the per year cost of implementing a regular maintenance schedule for roads statewide based on current road conditions.

Because NMDOT is unable to provide maintenance consistently, roadways continue to deteriorate to the point of needing to be reconstructed at a significantly increased cost. NMDOT estimates the annual cost of maintaining a good condition road to be $15 thousand per lane mile, a fair condition road costs an average $180 thousand per lane mile, and a poor condition road may cost $500 thousand to $1.2 million per lane mile to rehabilitate or reconstruct.

Construction Needs. NMDOT estimates the FY16 need for construction to be $600.1 million. The largest need is for roadway reconstruction and rehabilitation, which NMDOT estimated to be $452.6 million. In addition to roadway construction, another $147.5 million is needed to replace and repair bridges across the state. The current funding available for new construction is $257.3 million, leaving a gap of $342.8 million in FY15.

ALTERNATIVES

The Transportation and Infrastructure Revenue Subcommittee was created by the Legislative Council Service in 2013 to identify current and new sources of transportation revenue and make recommendation to the full Legislature to meet the needs of the states transportations infrastructure network. The committee endorsed two revenue increasing bills for the 2015 session. The first would reduce public school capital outlay funding by $100 million and increase the state road fund by that amount in each fiscal year from 2016 to 2021. The second would authorize counties or municipalities to increase their special fuels tax by up to 2 cents to match the current local government authority for a gas tax increase. NMDOT stated, while local governments currently have additional taxing authority over gasoline, none has exercised the option to increase the tax.

Alternative road funding options that do not have the negative general fund impact include increasing the motor vehicle excise tax and transferring the marginal revenue to the road fund, or increasing gasoline and special fuel taxes and transferring the additional revenue to the road fund. HB262 – Gas Tax & Road Projects – includes such provisions.

New Mexico's Motor Vehicle Excise Tax is currently 3.0 percent, lower than surrounding states. 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.

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

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