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

ORIGINAL DATE 2/16/15

SPONSOR Smith **LAST UPDATED** ______ **HB** ______

SHORT TITLE Increase & Index Gas Tax for Road Projects **SB** 394

ANALYST van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	**FY16**	**FY17**	**FY18**	**FY19**		
$0.0	$90,992.0	$91,726.0	$103,368.0	$108,895.0	Recurring	State Road Fund
$0.0	$4,859.0	$4,966.0	$5,570.0	$6,183.0	Recurring	Local Governments Road Fund
$0.0	$44,884.0	$44,608.0	$46,229.0	$45,957.0	Recurring	Counties & Municipalities (NEW)
$0.0	$11.0	$11.0	$594.0	$590.0	Recurring	Counties & Municipalities (OLD)
$0.0	$8.0	$8.0	$332.0	$330.0	Recurring	County Road Funds
$0.0	$8.0	$8.0	$332.0	$330.0	Recurring	Municipal Road Funds
$0.0	$8.0	$8.0	$89.0	$89.0	Recurring	Municipal Arterial Fund
$0.0	$15.0	$15.0	$30.0	$30.0	Recurring	Aviation Fund
$0.0	$20.0	$20.0	$28.0	$27.0	Recurring	Motor Boat Fuel Fund
$0.0	**$140,805.0**	**$141,370.0**	**$156,571.0**	**$162,431.0**	**Recurring**	**TOTAL**

(Parenthesis ( ) indicate revenue decreases

Conflicts with HB 262 – Gas Tax & Road Projects

SOURCES OF INFORMATION
LFC Files

Responses Received From
Department of Transportation (DOT)

SUMMARY

<u>Synopsis of Bill</u>

Senate Bill 394 increases the gasoline tax by 10 cents (from $0.17 per gallon to $0.27 per gallon) and increases the special fuels tax by ten cents per gallon (from $.21 per gallon to $.31 per gallon) effective July 1, 2015.

Beginning July 1, 2016, the bill indexes these taxes to inflation based on the chained price index" means the chained price index for nonresidential construction calculated by the United States Bureau of Economic Analysis. By April 30 of each year TRD must calculate the rate of fuel taxes to be imposed for the following fiscal year.

The bill amends the distribution gasoline tax revenues to split new revenue between the State Road Fund and a new “additional” distribution to counties and municipalities to be used for county and municipal road maintenance and repair. The allocation of the new “additional” distribution among counties and municipalities follows the same formula as used for the existing gasoline tax revenue allocation.

The new revenue from the special fuels tax is shared in proportion to the current allocations to the State Road Fund and the Local Governments Road Fund.

The effective date of the provisions of the bill act is July 1, 2015. The changes distributions of gasoline and special fuel tax receipts received on or after July 1, 2015.

FISCAL IMPLICATIONS

The Department of Transportation has estimated the impact of the fuel tax rate and revenue distribution changes DOT estimated the revenue impacts over an eight-year period to illustrate the operation of fuel tax indexing beginning in FY2017. According to DOT, fuel-tax indexing would tend to increase the applicable tax rate by one cent every year or two as follows:

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Gasoline Tax (¢/gal):	27	27	28	28	29	30	32	33
Diesel Tax (¢/gal):	31	31	32	33	34	35	36	37

DOT used assumptions for fuel consumption from department’s Road Fund Outlook five-year forecast. The price indexing forecast is based on the IHS Global Insight Long-Term US forecast of the Chained Price Index for Nonresidential Construction. DOT’s estimate for long-run revenue impacts is shown below.

Illustration of Long-Run Revenue				Recurring or Nonrecurring	Fund Affected
FY20	**FY21**	**FY22**	**FY23**		
$120,442.0	$130,256.0	$144,699.0	$155,310.0	Recurring	State Road Fund
$6,740.0	$7,201.0	$7,599.0	$8,106.0	Recurring	Local Governments Road Fund
$47,898.0	$49,156.0	$51,642.0	$53,256.0	Recurring	Counties & Municipalities (NEW)
$1,177.0	$1,746.0	$2,860.0	$3,430.0	Recurring	Counties & Municipalities (OLD)
$655.0	$971.0	$1,589.0	$1,906.0	Recurring	County Road Funds
$655.0	$971.0	$1,589.0	$1,906.0	Recurring	Municipal Road Funds
$170.0	$249.0	$404.0	$484.0	Recurring	Municipal Arterial Fund
$45.0	$60.0	$89.0	$104.0	Recurring	Aviation Fund
$36.0	$43.0	$58.0	$66.0	Recurring	Motor Boat Fuel Fund
$177,820.0	**$190,655.0**	**$210,531.0**	**$224,566.0**	**Recurring**	**TOTAL – ALL FUNDS**

SIGNIFICANT ISSUES

Fuel Tax Rates. 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 attachment).

Because neither of these taxes are ad valorem taxes, that is, imposed as a percentage of the value of the product sold, there is currently no inflationary component in the rate. This has resulted in a reduction in the purchasing power of these two taxes over time as the cost of road construction has increased. Implementing an inflation adjustment on the rates of these taxes would maintain the purchasing power of these tax revenues which together comprised 53 percent of state road fund revenues in FY13.

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 ordinary revenues of $375.7 million, $200 thousand more than FY13. DOT's January 2014 forecast update reduced FY 2015 ordinary road fund revenues, expecting them to remain flat when compared with FY14.

DOT notes the reductions in its revenue forecast were due to:

- Lowered expectations for New Mexico's economy.
- Mixed national economic news with an overall net negative impact.
- Lower than expected revenues at the end of FY 2013 and YTD in FY2014.
- A significant increase in tribal gasoline sales, reversing the trend vs. the past few years.

DOT also reported FY15 ordinary road fund revenues remain forecast significantly lower than their peak at the height of the US housing bubble. They are expected to be $18 million below their peak FY07 level. Growth has been and is expected to be below long term road fund trends, now only averaging around one percent a year instead of the two-to-three percent growth observed historically.

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.

OTHER SUBSTANTIVE ISSUES

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.

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.

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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