

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the Legislature. LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

FISCAL IMPACT REPORT

SPONSOR <u>SFC</u>	LAST UPDATED <u>3/15/2023</u>
SHORT TITLE <u>Motor Vehicle Registration Fees</u>	ORIGINAL DATE <u>3/2/2023</u>
	BILL NUMBER <u>CS/Senate Bill 275/SFCS/aHTRC</u>
	ANALYST <u>Simon</u>

REVENUE* (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY24	FY25	FY26		
\$8,810	\$8,810	\$17,690	Recurring	State Road Fund – Fee Increases
\$260	\$320	\$380	Recurring	State Road Fund – EV Fee
\$2,985	\$2,985	\$6,000	Recurring	Counties and Municipalities – Fee Increases
\$90	\$110	\$130	Recurring	Counties and Municipalities – EV Fee
\$5	\$5	\$10	Recurring	Recycling and Illegal Dumping Fund

Parentheses () indicate revenue increases.

*Amounts reflect the most recent version of this legislation.

Relates to House Bills 321, 412, and 547 and Senate Bills 22 and 184

Conflicts with House Bill 412 and Senate Bill 22

Sources of Information

LFC Files

Responses Received From (Substitute Bill)

Department of Transportation (NMDOT)

New Mexico Livestock Board

Department Taxation and Revenue (TRD)

Department of Environment (NMED)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment to the Senate Finance Committee substitute for Senate Bill 275 (SB275/SFCS) reduces the supplemental registration fee for purely

electric vehicles from \$60 per year to \$40 per year in FY24 and FY25, from \$120 per year to \$40 per year in FY26 through FY28, and from \$120 per year to \$80 per year in FY29. The amendment reduces the supplemental registration fee for plug-in hybrid vehicles from \$30 per year to \$15 per year in FY24 and FY25, from \$60 per year to \$15 per year in FY26 through FY28, and from \$60 per year to \$40 per year in FY29 and subsequent fiscal years.

Synopsis of SFC Substitute for Senate Bill 275

The Senate Finance Committee Substitute for Senate Bill 275 (SB275/SFCS) proposes an increase to registration fees for passenger vehicles, trucks, tractors, and buses (excluding trailers). The registration fee is increased for each weight class of vehicle, with additional revenue split between the state road fund and county and municipal funds in proportion to their current revenue distributions. The bill spreads the increase over three years. When fully phased-in registration fees will be about 25 percent higher than the current level.

Additionally, the bill includes a new additional registration fee for purely electric vehicles and plug-in hybrid electric vehicles. The fee for purely electric vehicles is set at \$60 for FY24 and FY25 and \$120 for FY26 and subsequent years. The fee for plug-in hybrid vehicles is set at \$30 in FY24 and FY25 and at \$60 for FY26 and subsequent years. These additional fees are distributed in the same manner as vehicle registration fees generally.

The effective date of this bill is July 1, 2023.

FISCAL IMPLICATIONS

Currently, vehicle registration fees raise an estimated \$114 million for the state road fund and local governments, with annual fees varying from between \$21 per year and \$56 per year for passenger vehicles and between \$32 per year and \$172 per year for trucks, tractors, and buses. Attachment 1 includes a list of current and proposed fees. Vehicles that are more than five years old are subject to a lower fee than new vehicles.

The bill would raise an estimated \$12.1 million in FY24 for the state road fund and county and municipal governments, with amounts rising to \$24.2 million in FY26, when additional increases are phased in. These amounts are based on preliminary estimates produced by the Department of Transportation (NMDOT), using 2022 vehicle registration data from the Taxation and Revenue Department (TRD). NMDOT notes these estimates do not account for the possibility taxpayers will register the vehicle for a two-year term before the new surcharge goes into effect.

Distribution of Funds From Vehicle Registration Fees
(dollars in millions)

January 2023 Revenue Projections						Addtl Rev. SB275/SFCS/aHTRC		
Fund	Percent	FY21 Actuals	FY22 Actuals	FY23 Proj.	FY24 Proj.	FY24	FY25	FY26
State Road Fund	74.7%	\$84.9	\$84.6	\$85.0	\$85.9	\$9.1	\$9.1	\$18.1
County General Funds	7.6%	\$8.6	\$8.6	\$8.7	\$8.7	\$0.9	\$0.9	\$1.8
County Road Funds	7.6%	\$8.6	\$8.6	\$8.7	\$8.7	\$0.9	\$0.9	\$1.8
Municipal Streets Funds	4.1%	\$4.6	\$4.6	\$4.6	\$4.7	\$0.5	\$0.5	\$1.0
County and Municipal General Funds	6.1%	\$6.9	\$6.9	\$6.9	\$7.0	\$0.7	\$0.7	\$1.5
Total	100.0%	\$113.6	\$113.3	\$113.9	\$115.0	\$12.1	\$12.2	\$24.2

Source: NMDOT, January 2023 Revenue Forecast, Analysis of SB75/SFCS/aHTRC

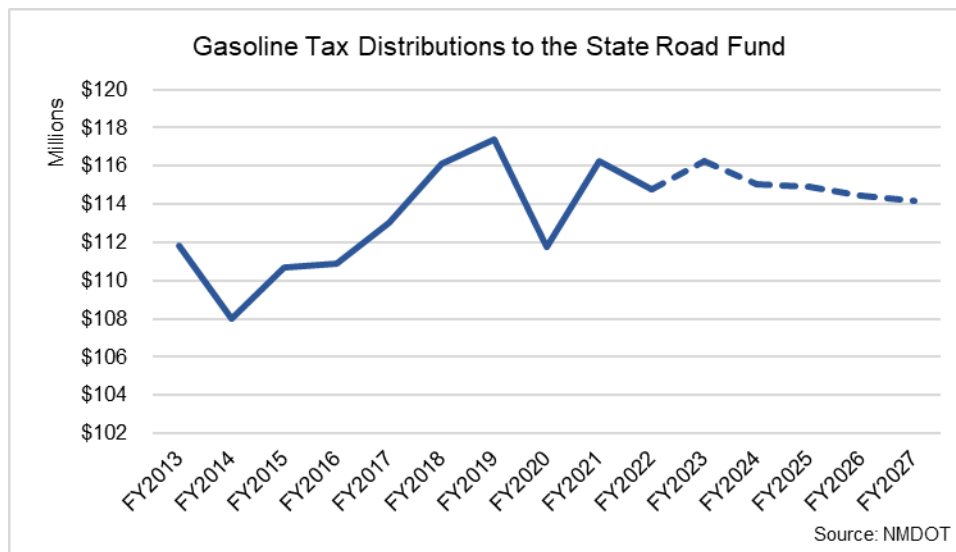
Analysis of a prior version of the bill from TRD suggest surcharges from electric vehicles will produce less revenue for the road fund; however, the department’s estimates were based on static numbers of electric vehicles, while NMDOT’s analysis provides a more detailed analysis that includes forecasted growth in electric vehicles and plug-in hybrids.

In addition to the funds listed above, a small amount of the registration fees for large trucks is transferred to the recycling and illegal dumping fund of the Environment Department (NMED). NMDOT estimates this fund would receive about \$5,000 in additional revenue in FY24 and FY25 and about \$10 thousand in FY26 and subsequent years. NMED notes demand for the program far outpaces available funding, but additional revenue from the bill is minimal.

SIGNIFICANT ISSUES

Electric Vehicles

This issue of surcharges for electric or other high-fuel efficiency vehicles has been the subject of interest for several years in light of revenue projects showing declining revenue from the gasoline tax. Traditionally, the gasoline tax has been the largest source of revenue for the state road fund, which is used for road construction and maintenance projects as well as to fund the operating budget for NMDOT. In 2013, gasoline taxes accounted for nearly 30 percent of state road fund revenue; by FY27, the department projects they will account for only 20 percent. Limited revenue growth for the state road fund will impact the ability of NMDOT to adequately maintain the state’s roadways.



New Mexico is not alone in reliance on gasoline taxes for road maintenance revenue. Nationwide, fuel taxes account for 40 percent of transportation funding, according to the National Association of State Budget Officers. As fuel efficiency has risen, states have responded by adding additional annual registration fees for electric vehicles and for plug-in hybrid vehicles. According to the National Conference of State Legislatures, 31 states have enacted special registration fees. Fees can be as low as \$32 for plug-in hybrid vehicles to as high as \$225 for purely electric vehicles.

Registration Fees

After gasoline taxes, vehicle registration fees are one of the largest revenue sources to the state road fund, which is used to fund NMDOT operations, for routine maintenance projects on state roadways, and to meet matching requirements for federally funded road construction projects. Registration fees account for 15 percent of the total state road fund revenues. For FY24, the House Appropriations and Finance Committee Substitute for House Bills 2 and 3 appropriates \$549 million in state road fund revenue, including \$85.9 million in vehicle registration fees.

Current vehicle registration fees were set in 2004. NMDOT notes that since 2004 the cost of construction materials has increased by 115 percent and revenue has not kept pace with inflation. The department also notes New Mexico has lower-than-average registration fees, at \$62 per year for a passenger vehicle, compared with a nationwide average of \$104 per year.

While higher vehicle registration fees may raise more money for road construction and repair, it would also mean higher costs for New Mexicans. The Livestock Board notes farming and ranching operations typically rely on heavier vehicles, which pay higher registration fees.

PERFORMANCE IMPLICATIONS

Additional revenue to the state road fund could be used by NMDOT to improve the condition of state roads. The conditions of state roads are key performance measures for NMDOT’s performance-based budget. NMDOT assesses all New Mexico roads each calendar year using a pavement condition rating (PCR) score to measure roadway conditions. For calendar year 2021, road condition data shows significant improvement in New Mexico’s roadways, which the department partially credits to significant additional resources appropriated by the Legislature for road maintenance activities.

CY21 Road Condition Survey	CY17 Actual	CY18 Actual	CY19 Actual	CY20 Actual	CY21 Target	CY21 Actual	Rating
Interstate miles rated fair or better	93%	95%	90%	88%	>90%	97%	G
National highway system miles rated fair or better	89%	97%	88%	84%	>86%	97%	G
Non-national highway system miles rated fair or better	79%	84%	85%	76%	>75%	95%	G
Lane miles in poor condition	4,606	3,783	4,420	6,805	<5,425	1,451	G
Program Rating	G	G	G	Y			G

A PCR score of 45 or less indicates a road in poor condition. In 2021, the average PCR score for the state was 72.1, up from the average 2020 score of 54.9 and average 2019 score of 57.4. The number of lane miles with a rating of below 45 fell by nearly 80 percent, from 6,805 in 2020 to 1,451 in 2021.

However, to continue recent gains, the department has noted a need for additional resources to keep up with routine maintenance needs. NMDOT estimates a gap of \$266.4 million between the department’s FY23 operating budget and estimated need for routine maintenance.

ADMINISTRATIVE IMPLICATIONS

TRD notes concerns with the effective dates of the bill. The department states the date of July 1, 2023 is not feasible and suggests an effective date of July 1, 2024.

TRD reports the bill would require the department to make updates to its systems, with an estimated additional operating cost of \$244.2 thousand on a nonrecurring basis. House Appropriations and Finance Committee Substitute for House Bills 2 and 3 includes a \$5 million special appropriation to TRD to update its systems with tax changes approved by the Legislature. Additionally, TRD notes the complexity of the fee tables could increase the amount of time it takes the Motor Vehicle Division to process a transaction.

TECHNICAL ISSUES

NMDOT notes electric vehicles are currently subject to regular registration fees and the additional language in Section 1 and Section 2 of the bill may be unnecessary.

Both NMDOT and TRD suggest specific definitions of electric vehicles could help clarify which vehicles are subject to which surcharge rate. TRD suggests the following:

For purposes of this section, "electric vehicle" means a vehicle powered only by a form of electricity and "plug-in hybrid vehicle" means a motor vehicle with a hybrid propulsion system that operates on both electricity obtained from the grid and traditional fuel.

TRD notes other types of electric vehicles could be subject to the registration fee and suggests the following amendment:

Provided however, the provisions of this subsection shall not apply to neighborhood electric vehicles as defined in sections 66-1-4.12 and 66-3-1103.

Additionally, TRD suggests removing electric from the trailers listed on Page 5, Lines 6 and 7, noting trailers cannot have an electric engine.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Several bills have proposed increases in revenue to the state road fund to support investments in transportation infrastructure. These include:

- **House Bill 321**, which would increase the distribution of the motor vehicle excise tax from 21.86 percent to 50 percent, generating an additional \$78 million in FY24 for the state road fund;
- **House Bill 412**, which would generate an estimated \$570 thousand in FY24 (increasing in future years) for the state road fund through additional registration fees on electric and plug-in hybrid vehicles;
- **House Bill 547/HTRCS**, which would generate additional revenue for the state road fund and the transportation project fund by increasing distributions of the motor vehicle excise tax that are currently paid into the general fund;
- **Senate Bill 22**, which is similar to HB412, but includes higher registration fees than

HB412, raising an estimated \$850 thousand; and

- **Senate Bill 184**, which would increase the distribution of the motor vehicle excise tax from 21.86 percent to 60 percent for the state road fund.

Attachment

1. Motor Vehicle Registration Fees, Current Fees and SB275 Proposal

JWS/al/ne/hg/mg

Motor Vehicle Registration Fees, Current Fees and SB275/SFCS/aHTRC Proposal

Age of Vehicle	Up to 5 Years Old			More Than 5 Years Old		
	Current Fee	Proposed FY24/FY25 Fee	Proposed FY26 and Later Fee	Current Fee	Proposed FY24/FY25 Fee	Proposed FY26 and Later Fee
Passenger Vehicles						
2,000 lbs. or less	\$27.00	\$31.50	\$34.00	\$21.00	\$24.00	\$27.00
2,001 to 3,000 lbs.	\$39.00	\$44.00	\$49.00	\$31.00	\$39.00	\$39.00
Greater than 3,000 lbs.	\$56.00	\$63.00	\$70.00	\$45.00	\$50.50	\$56.00
Trucks, Tractors, and Buses						
4,000 lbs. or less	\$40.00	\$45.00	\$50.00	\$32.00	\$36.00	\$40.00
4,001 to 6,000 lbs.	\$55.00	\$62.00	\$69.00	\$44.00	\$49.60	\$55.20
6,001 to 8,000 lbs.	\$69.00	\$77.50	\$86.00	\$55.20	\$62.00	\$68.80
8,001 to 10,000 lbs.	\$84.00	\$94.50	\$105.00	\$67.20	\$75.60	\$84.00
10,001 to 12,000 lbs.	\$99.00	\$111.50	\$124.00	\$79.20	\$89.20	\$99.20
12,001 to 14,000 lbs.	\$113.00	\$127.00	\$141.00	\$90.40	\$101.60	\$112.80
14,001 to 16,000 lbs.	\$128.00	\$144.00	\$160.00	\$102.40	\$115.20	\$128.00
16,001 to 18,000 lbs.	\$143.00	\$161.00	\$179.00	\$114.40	\$128.80	\$143.20
18,001 to 20,000 lbs.	\$157.00	\$176.50	\$196.00	\$125.60	\$141.20	\$156.80
20,001 to 22,000 lbs.	\$172.00	\$193.50	\$215.00	\$137.60	\$154.80	\$172.00
22,001 to 24,000 lbs.	\$187.00	\$210.50	\$234.00	\$149.60	\$168.40	\$187.20
24,001 to 26,000 lbs.	\$201.00	\$226.00	\$251.00	\$160.80	\$180.80	\$200.80
26,001 to 48,000 lbs.	\$118.00	\$133.00	\$148.00	\$118.00	\$133.00	\$148.00
Greater than 48,000 lbs.	\$172.00	\$193.50	\$215.00	\$172.00	\$193.50	\$215.00

Source: Senate Bill 275