234729.1

Senator Roberto "Bobby" J. Gonzales

RELATING TO TAXATION; AMENDING MOTOR VEHICLE EXCISE TAX DISTRIBUTIONS.

SENATE BILL

58TH LEGISLATURE - STATE OF NEW MEXICO - FIRST SESSION, 2027

INTRODUCED BY

DISCUSSION DRAFT

AN ACT

RELATING TO TAXATION; AMENDING MOTOR VEHICLE EXCISE TAX DISTRIBUTIONS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF NEW MEXICO:

SECTION 1. Section 7-14-10 NMSA 1978 (being Laws 1988, Chapter 73, Section 20, as amended) is amended to read:

"7-14-10. DISTRIBUTION OF PROCEEDS.--The receipts from the tax and any associated interest and penalties shall be deposited in the "motor vehicle suspense fund", hereby created in the state treasury. As of the end of each month, the net receipts attributable to the tax and associated penalties and interest shall be distributed as follows:

A. [~~fifty-nine and thirty-nine hundredths~~] ten percent to the general fund;

B. [~~twenty-one and eighty-six hundredths~~] sixty-

underscored material = new
[~~bracketed material~~] = delete

five percent to the state road fund; and

C. [~~eighteen and seventy-five hundredths~~] twenty-five percent to the transportation project fund."

SECTION 2. EFFECTIVE DATE.--The effective date of the provisions of this act is July 1, 2027.

underscored material = new
[~~bracketed material~~] = delete

.234729.1

New Mexico Legislature

Revenue Stabilization and Tax Policy Committee

Revenue Proposal Analysis

Fiscal Year 2028

Assessing the Fiscal Impact of Tax and Revenue Proposals — September 15, 2026

Motor Vehicle Excise Tax Distribution

Sponsor(s): Senator Gonzales

202#: 234729.1
September 1, 2026

One-Year Cost
$152.8 M general fund

Five-Year Cost
$804.4 M general fund

Impact by Fund (in millions)

Fund	1 Year	5 Year
General Fund	($152.8)	($804.4)
State Road Fund	$133.5	$702.6
Transp. Project Fund	$19.3	$101.8
Total	0.0	0.0

Proposal Summary

The proposal changes the distribution of motor vehicle excise tax receipts, reducing the general fund share from 59.39 percent to 10 percent, raising the state road fund share from 21.86 percent to 65 percent, and raising the transportation project fund share from 18.75 percent to 25 percent. The tax rate, base and exemptions are unchanged, and no taxpayer would pay more or less.

No purpose statement or supporting analysis accompanied the draft, however sponsors have indicated the purpose is to improve the conditions of state and local roads through the increase in the availability of revenues for those uses. The proposal would move approximately $153 million a year of recurring revenue from the general fund to two transportation funds. The provisions would take effect July 1, 2027.

Issues

Distribution Mechanics. The motor vehicle excise tax is imposed at 4 percent of the price paid for a vehicle, less any trade-in allowance, and is collected at titling. Receipts are deposited in the motor vehicle suspense fund and distributed monthly under Section 7-14-10 NMSA 1978. The proposal alters only the three percentages, which continue to sum to 100 percent. Because they are shares of receipts rather than fixed dollar amounts, each fund's allocation would continue to rise and fall with vehicle sales.

Road Funding Adequacy. The Department of Transportation (NMDOT) requested an additional $490 million in general fund support for the upcoming FY2028 budget year, on top of current transportation fund revenues. The latest NMDOT road conditions index for 2025 showed number of lane miles in poor condition increased from a low of 1,451 in 2021 to 7,307 in 2025. The primary source of the growth in poor condition lane miles is from non-interstate roads which have increased by 5,652 lane miles since 2021, while the number of interstate lane miles in poor conditions rose by a smaller 205 lane miles. NMDOT projects road fund revenue growth will average 1.7 percent a year through FY31, below expected construction cost inflation.

Legislative History of the Proposal. The distribution has been amended twice since 2019, and each change moved revenue toward transportation. Laws 2019, Chapter 270 first dedicated a meaningful share to the road fund, and Laws 2021, Chapter 22 set the current split. Senate Bill 289 in 2025 proposed the percentages contained in this draft. House

Bill 217 in 2024 would have eliminated the general fund share entirely, and Senate Bill 184 that year would have sent 75 percent to the road fund. None were enacted.

Recurring Earmark or Annual Appropriation. The 2026 budget act includes $204.5 million from the general fund for transportation, in addition to a record breaking $1.5 billion bonding package approved in Senate Bill 2, each appropriated year by year rather than earmarked in statute. The proposal suggests general fund support of roads should be automatic rather than weighed against competing claims each session. The Legislature's action on transportation revenue in 2026 through Senate Bill 2 supported the bonding package with a raised weight distance tax and registration fee expected to deliver approximately $70 million a year to the road fund beginning in FY27.

Comparison to Approved Guidelines

The proposal meets several of the committee's submission criteria. Most of the criteria marked unmet could be satisfied by Department estimates of additional activity supported by the earmark, and goals and outcomes expected.

Several criteria are specific to tax expenditures and are not applicable to a distribution change. Of the many criteria met, the targeting is especially successful in the recipient funds have strict permissible uses intended to address the problem statement and are fixed by statute. There are several criteria marked as partly met. Measurable goals and targets are already taken into consideration in typical department reporting to the Legislature, however the proposal submission does not include specific goals or targets that would be met with the additional distributions.

Four criteria are unmet. An earmark set as a percentage of receipts is uncapped by construction, so general fund exposure grows automatically with vehicle sales whether or not road needs grow at the same rate, and the draft contains no repeal date or reporting requirement, to evaluate whether the earmark needs continuation based on performance and need. Finally, additional performance or outcomes are not specified in the proposal.

1	Clearly Stated Purpose	Does the proposal identify the problem to be solved?	✓
		Does it explain why a tax policy change is the right solution?	✓
		If an economic development incentive, is the purpose included in the language of the proposal itself?	N/A
2	Theory of Change or Logic Model	Does the proposal explain how the tax change will achieve the intended outcome?	✓
		Does it identify the taxpayer behavior it is intended to influence?	N/A
3	Measurable Goals and Targets	Does the proposal identify expected outcomes?	◍
		Does it identify affected populations or activities?	◍
		Does it explain how success will be measured?	◍
4	Fiscal Impact Analysis	Does the proposal estimate the impact on the general fund?	✓
		Does it estimate the impact on the local government and other funds?	✓
		Does it identify the impacts as recurring or nonrecurring?	✓
5	Expiration Date (Sunset)	Does the proposal include a delayed repeal?	✗
6	Expenditure Cap	If feasible, does the proposal include an annual or aggregate cap on total cost?	✗
7	Effective Targeting	Does the proposal clearly identify eligible taxpayers or activities?	N/A
		Does it limit benefits to those populations or activities necessary to achieve the state purpose?	✓
8	Reporting Requirements	Does the proposal require sufficient reporting on utilization, cost, and outcomes?	◍
		Does it provide for data collection, sharing, and analysis?	✓
		Does it identify performance measures and targets?	✗

On the committee's tax principles, the proposal is neutral on efficiency, simplicity and equity, because no taxpayer's rate, base or treatment changes. The tension for the proposal exists with respect to adequacy and with accountability. It removes about 1.1 percent of recurring general fund revenue permanently and without a cap, and once enacted it would operate indefinitely, unless amended again by the Legislature.

Fiscal Impacts

Staff estimates the proposal would reduce recurring general fund revenue by approximately $152.8 million in FY28 and by approximately $804 million over FY28 through FY32, with the same amounts accruing to transportation: roughly $133.5 million a year to the state road fund and $19.3 million to the transportation project fund, annually, and growing. All amounts are recurring.

Methodology. The estimate applies the change in each fund's share to forecasted receipts. The August 2026 consensus revenue estimate projects the general fund's 59.39 percent share at $183.8 million in FY28, $188.5 million in FY29 and $193.8 million in FY30, implying total receipts of approximately $309.4 million in FY28. The general fund share falls by 49.39 percentage points, or 83.2 percent of what it now receives.

Revenue Volatility. Receipts from this tax derive from vehicle sales, which are cyclical but not correlated with oil and gas prices, so removing them concentrates a general fund base countercyclical with extraction revenue. The proposal has no direct negative impact on local government funds, but the secondary effect on local governments is positive. The transportation project fund makes grants to counties, municipalities and tribes at up to 95 percent of project cost, or 100 percent where the Department of Finance and Administration certifies financial hardship, so the roughly $20.1 million a year added to that fund would flow entirely to local and tribal projects.

Administrative cost is expected to be immaterial. TRD already distributes these receipts monthly under an existing formula, and the change alters three percentages in a distribution table rather than any form, system or taxpayer obligation.

Potential Questions

Tax Policy Design

- Is there a road condition or project target that, once reached, would indicate the transfer had done its work?
- Is a permanent statutory earmark the right instrument, given that the Legislature generally appropriates to transportation each year?

Administration

- Can NMDOT absorb the additional revenue on this timetable considering the bonding package and other increased road fund revenues?

Fiscal Sustainability and Opportunity Cost

- Should the relevant agencies be required to report additional outcomes produced from the increased revenues to determine whether the additional revenue meets the intent of the proposal?