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Senator Roberto "Bobby" J. Gonzales

RELATING TO TAXATION; INCREASING THE GASOLINE TAX AND THE
SPEICAL FUEL EXCISE TAX.

SENATE BILL

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

INTRODUCED BY

DISCUSSION DRAFT

AN ACT

RELATING TO TAXATION; INCREASING THE GASOLINE TAX AND THE
SPECIAL FUEL EXCISE TAX.

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

SECTION 1. Section 7-13-3 NMSA 1978 (being Laws 1971,
Chapter 207, Section 3, as amended) is amended to read:

"7-13-3. IMPOSITION AND RATE OF TAX--DENOMINATION AS
"GASOLINE TAX".--

A. For the privilege of receiving gasoline in this
state, there is imposed an excise tax at a rate provided in
Subsection B of this section on each gallon of gasoline
received in New Mexico.

B. The tax imposed by Subsection A of this section
shall be [~~seventeen cents (\$.17)~~] twenty cents (\$.20) per
gallon received in New Mexico.

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1 C. The tax imposed by this section may be called
2 the "gasoline tax".

3 SECTION 2. Section 7-16A-3 NMSA 1978 (being Laws 1992,
4 Chapter 51, Section 3, as amended) is amended to read:

5 "7-16A-3. IMPOSITION AND RATE OF TAX--DENOMINATION AS
6 SPECIAL FUEL EXCISE TAX.--

7 A. For the privilege of receiving or using special
8 fuel in this state, there is imposed an excise tax at a rate
9 provided in Subsection B of this section on each gallon of
10 special fuel received in New Mexico.

11 B. The tax imposed by Subsection A of this section
12 shall be [~~twenty-one cents (\$.21)~~] twenty-five cents (\$.25) per
13 gallon of special fuel received or used in New Mexico.

14 C. The tax imposed by this section may be called
15 the "special fuel excise tax".

16 SECTION 3. EFFECTIVE DATE.--The effective date of the
17 provisions of this act is July 1, 2027.

Proposal Summary

The proposal raises the gasoline tax from 17 cents to 20 cents per gallon and the special fuel excise tax from 21 cents to 25 cents per gallon. The tax bases, exemptions, deductions and distribution formulas are unchanged.

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 raise an estimated \$57 million a year, of which roughly \$9 million would flow automatically to municipal and county road funds. The provisions would take effect July 1, 2027.

Issues

Rate History. These are among the oldest unchanged rates in New Mexico statute. The gasoline tax was last increased in 1993, from 16 cents to 22 cents, then reduced to 20 cents in 1994 and to its present 17 cents by Laws 1995, Chapter 6, where it has remained for 31 years. The special fuel excise tax was enacted at 18 cents in 1992 and raised to 21 cents by the 2003 first special session, where it has remained for 22 years. Because both are levied per gallon rather than as a percentage of price, their real value falls every year by construction.

Erosion of the Road Fund Base. The state road fund depends on these two taxes for roughly 45 percent of its revenue. NMDOT reports that rising fuel efficiency alone will reduce revenue by \$35.8 million between FY25 and FY30 as average fuel economy improves from 22.14 to 23.87 miles per gallon, and that nominal road fund revenue is expected to decline 13 percent by 2050 while construction costs rise 136 percent, halving real recurring revenue. New Mexico raises \$2,577 in gasoline tax per lane mile against a national average of \$12,684.

Adjusted for inflation as measured by the consumer price index from the date the Legislature last set each rate in 1995, the 17-cent gasoline rate would need to be adjusted to 37.2 cents today to match its previous real value., Similarly, the 21-cent special fuel rate set in 2004 would need to be 37.0 cents. Gasoline has lost 54 percent of its purchasing power and special fuels 43 percent. The proposed rates recover part of that ground rather than all of it. Furthermore, consumer prices have increased at a slower rate than construction costs, meaning rates would be even higher if sought to maintain purchasing power parity with previous rates, given today's road costs.

Gasoline and Diesel Tax Increase

Sponsor(s): Senator Gonzales

**202#: 234731.1,
September 1, 2026**

**One-Year Impact
\$57.0 M**

**Five-Year Impact
\$292.6 M**

Impact by Fund (in millions)

Fund	1 Year	5 Year
State Road Fund	\$46.9	\$241.3
Local government road funds	\$9.2	\$46.8
Other distributions	\$0.9	\$4.5
Total	\$57.0	\$292.6

Interstate Comparison. NMDOT reports the state's gasoline tax is fourth lowest in the nation and the lowest among Arizona, Utah, Colorado, Oklahoma and Texas, having fallen from eighth lowest in 2013 by standing still. Counting the 1.875-cent petroleum products loading fee levied alongside it, the Tax Foundation puts New Mexico at 18.9 cents against Arizona at 19.0, Texas and Oklahoma at 20.0, Colorado at 30.2 and Utah at 32.6. TRD's analysis of the identical 2026 proposal concluded the new rate “would put New Mexico at 45th, tied with Oklahoma assuming other state rates remain unchanged.”

Legislative History of the Proposal. Senate Bill 506 in 2019 would have added 5 cents to each tax and was scored at \$75.6 million. House Bill 173 in 2020 proposed a rising surtax split among the road fund, a clean infrastructure fund and a low-income rebate fund. Senate Bill 168 in 2021 proposed a penny a year for five years. Senate Bill 185 in 2026 proposed exactly the gasoline increase in this draft, and Senate Bill 213 that year proposed indexing both taxes to inflation. None was enacted.

What the Legislature did enact in 2026 was Senate Bill 2, which raised the weight distance tax and registration fees and added electric vehicle fees, delivering approximately \$70 million a year to the state road fund to support a \$1.5 billion bonding package.

Comparison to Approved Guidelines

Against the committee's guidelines the proposal performs well. Seven sub-questions are met, five are partly met, one is unmet, and five have no applicability in a tax rate increase proposal. Those five — the economic development clause, taxpayer behavior, a sunset, an expenditure cap, and the identification of eligible taxpayers — are marked not applicable rather than scored against.

The criteria fully met are the substantive ones. The problem is identified and documented: rates last changed in 1993 and 2003 against a road fund whose purchasing power has fallen for three decades. The mechanism is direct, since a per-gallon rate applied to an unchanged base raises revenue without altering who is taxed or how. Fiscal impact is complete — approximately \$57 million a year, no general fund effect, \$9.2 million reaching municipal

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?	N/A
6	Expenditure Cap	If feasible, does the proposal include an annual or aggregate cap on total cost?	N/A
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?	

and county road funds automatically, and the impact identified as recurring. The proposal also confines its burden to road users, and the data needed to monitor it are already published monthly by the Taxation and Revenue Department.

What is partly met is definitional rather than substantial. The record establishes why revenue is needed but not why a rate increase is preferable to inflation indexing or other road usage charges. Expected outcomes, affected populations and the measure of success are each inferable, but none is stated in the proposal. Reporting is partial in the same way: utilization and cost would be captured, outcomes specific to this proposal would not.

Fiscal Impacts

Staff estimates the proposal would raise approximately \$57 million in recurring revenue in FY28, its first year of operation, and approximately \$293 million over FY28 through FY32. Of the FY28 amount, roughly \$46.9 million would go to the state road fund, \$9.2 million to municipal and county road funds, and \$0.9 million to the state aviation and motorboat fuel tax funds and to qualified tribe gasoline tax sharing agreements. There is no general fund impact; the only general fund distribution from these taxes is a fixed \$33,333 a month, which does not vary with the rate.

Methodology. The estimate rests on NMDOT's July 2026 Road Fund Outlook, which forecasts state road fund revenue from each fuel by fiscal year. Because every distribution is a fixed percentage of net receipts, a rate increase scales revenue proportionally. Gasoline is forecasted at \$113.5 million to the road fund in FY28, which at 17 cents is \$6.68 million per penny; special fuel is forecast at \$141 million, which at 21 cents is \$6.71 million per penny. Applying the three-cent and four-cent increases yields \$20 million and \$26.9 million to the road fund respectively, and \$27.3 million and \$29.7 million across all funds.

Local Government Share. Revenues generated by the gasoline tax increase are distributed according to existing statutory allocation formulas. Of total gasoline tax revenues, 5.76 percent is distributed to the county government road fund, 0.13 percent to the motorboat fuel tax fund, 0.26 percent to the state aviation fund, 10.38 percent to municipalities and counties, 76.27 percent to the state road fund, 5.76 percent to municipalities, and 1.44 percent to the Municipal Arterial Program (MAP) within the local governments road fund. In sum, local governments receive 23.34 percent of incremental gasoline revenue and 9.52 percent of incremental special fuel revenue, or approximately \$6.4 million and \$2.8 million respectively — \$9.2 million a year in total, distributed by formula on taxable fuel sales in each jurisdiction and restricted to road purposes for all but the smallest municipalities and counties.

The two fuels are moving in opposite directions, which matters for the five-year figure. The forecast has special fuel revenue to the road fund rising from \$135.5 million in FY27 to \$151.6 million in FY31, while gasoline is essentially flat and turns down in FY31 as typical consumer vehicle fuel efficiency improves. Diesel therefore supplies a growing share of the increase, rising from \$29.7 million in FY28 to \$32.7 million by FY32 while gasoline holds near \$27 million throughout.

Other Considerations

Rate Erosion and Indexing. A rate increase resets the level of road mile purchasing power but does not eliminate the trend of decreasing gasoline tax value due to inflation or fuel efficiency. Senate Bill 213 in 2026 addressed the purchasing power declines by indexing rates to inflation, and Senate Bill 2 addressed electrification through electric and plug-in hybrid vehicle fees. However, only Senate Bill 2 passed, leaving inflation adjusted declines in the purchasing power of gas and special fuels taxes as a primary issue.

Distributional Effects. The fiscal impact report on the previously introduced House Bill 173 stated the incidence plainly: although lower-income households pay less in absolute terms, the amount is a higher percentage of their income. Rural households bear more of the burden because they drive farther, and lower-income households tend to own older, less efficient vehicles, which compounds the effect. Scaling a household example, a two-vehicle family driving average mileage would pay roughly \$28 more a year from the 3-cent gasoline increase.

Revenue Volatility. The effect is mildly favorable. Per-gallon fuel taxes are among the most stable sources the state has, because gallons consumed vary far less year to year than prices, incomes or corporate profits, and the tax is insensitive to fuel price swings entirely. The stability is the mirror image of the erosion problem: the same insensitivity to price that makes the revenue predictable is what prevents it from keeping pace with costs.

Potential Questions

Tax Policy Design

- What funding gap or inflation adjustment is the increase intended to close, and what would success look like?
- Is there a road condition or project target that, once reached, would indicate the increase had done its work?
- Should a rate increase be paired with inflation indexing, so that the erosion does not simply resume from a higher base? What are the trade-offs between a one-time increase the Legislature controls and an automatic inflation adjustment?

Administration

- Can NMDOT and local road departments absorb the additional revenue on this timetable, and does the project pipeline convert it into work within the period?

Fiscal Sustainability

- 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?