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FISCAL IMPACT REPORT

ORIGINAL DATE 8/16/08
 SPONSOR Tripp LAST UPDATED 8/17/08 HB 15
 SHORT TITLE Temporarily Suspend Gasoline Tax SB _____
 ANALYST White

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY09	FY10		
\$255,094.0		Non-Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
(\$107,787.0)	(\$35,929.0)		Non- Recurring	Gasoline Tax Receipts*
(\$83,538.0)	(\$27,840.0)		Non-Recurring	Special Fuel Tax Receipts*
\$143,716.0			Non-Recurring	Gasoline Tax Replacement Fund
\$111,380.0			Non-Recurring	Special Fuel Tax Replacement Fund

(Parenthesis () Indicate Revenue Decreases)

*See disbursement explanation in Significant Issues below.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

No Response Received From

Department of Transportation (DOT)

SUMMARY

Synopsis of Bill

House Bill 15 creates a one-year exemption for the \$0.17 per gallon gasoline excise tax and the \$0.21 per gallon special fuels excise tax effective October 1, 2008 to September 30, 2009. The bill also ensures that these fuels will remain exempt from the gross receipts tax; under current law, fuel on which the gasoline excise or special fuels tax is imposed is exempt from gross receipts and compensating taxes.

The bill creates two new funds, the gasoline tax replacement fund and the special fuel tax replacement fund, which will receive monthly transfers from the General Fund which may only be used to make distributions to ordinary recipients of the gasoline and special fuels excise taxes. In each of the twelve months that the gasoline excise tax is exempt, the gasoline tax replacement fund will receive one twelfth of 101.225 percent of total FY08 gasoline tax collections. In each of the twelve months that the special fuels excise tax is exempt, the special fuel tax replacement fund will receive one twelfth of 101.225 percent of total FY05 special fuel tax collections. These two new funds will revert to the General Fund after the last distributions are made in November 2009.

FISCAL IMPLICATIONS

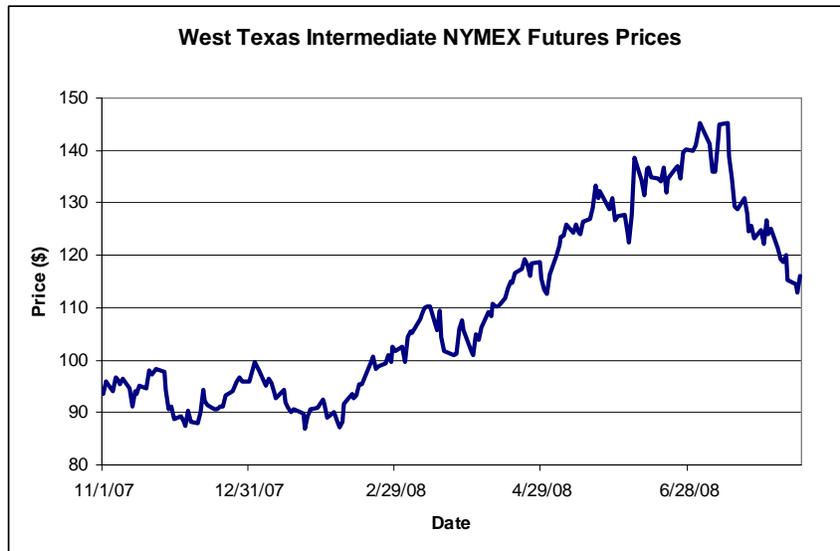
Preliminary gasoline excise tax collections from DOT totaled about \$141.977 million in FY08. Multiplied by 101.225 percent, the General Fund transfer to the gasoline tax replacement fund will be about \$143.716 million.

Preliminary special fuels tax collections from DOT totaled about \$110 million in FY08. Multiplied by 101.225 percent, the General Fund transfer to the special fuel replacement fund will be about \$111.38 million. HB15 would transfer one-twelfth of this amount per month to the special fuel replacement fund.

SIGNIFICANT ISSUES

The gasoline excise tax is imposed for the privilege of receiving gasoline in New Mexico. The tax liability is owed by the gasoline distributor or rack operator. As a rule, distributors pass the gasoline tax to consumers in the form of higher retail gasoline prices. The rate of the gas excise tax has fluctuated from as little as \$0.14 per gallon in FY89 to as much as \$0.22 per gallon in FY94. The last rate change to \$0.17 per gallon became effective in FY96. Gasoline excise tax collections are distributed to the state road fund, the General Fund, tribal governments, and several different county and municipality funds. Local government distributions are earmarked for road-related expenditures.

Retail prices of gasoline have skyrocketed over the last year due primarily in part to the recent spike in crude oil prices. The table below shows how the price of West Texas Intermediate (WTI) crude oil futures prices as traded on the New York Mercantile Exchange (NYMEX) has spiked since November, 2007.



At its peak in July of this year when WTI was trading at over \$140 per barrel the average price for regular unleaded gasoline in the State of New Mexico was \$4.078 close to an all time high. Higher gasoline prices reduce the amount of disposable income New Mexicans have to spend on other goods and services. Therefore temporary suspension of the state gas tax would have a positive short-term effect upon New Mexico disposable income.

ADMINISTRATIVE IMPLICATIONS

TRD notes the bill will require moderate changes to systems and changes in reporting procedures and that passage of the bill could delay implementation of a new program for tracking and reporting gasoline and special fuels excise taxes

OTHER SUBSTANTIVE ISSUES

The suspension of gasoline excise and special fuel taxes could be potentially harmful to the ratings of some State bonds which are secured by gasoline excise taxes. Although language in the bill specifically states that distributions from the gasoline tax replacement fund are intended to “avoid any impairment of outstanding bonds secured by a pledge of revenues from the gasoline tax,” bond ratings agencies may not view these temporary revenues the same. By not having an underlying tax pledged to secure these bonds, credit ratings agencies could potentially downgrade these bonds despite the fact that the debt will still be serviced by state monies. A downgrade of this kind is more likely now than in the past due to recent credit market conditions and the increased scrutiny of credit ratings agencies.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

New Mexican’s will continue to pay the gasoline excise and special fuels taxes.

DW/svb