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FISCAL IMPACT REPORT

ORIGINAL DATE 02/02/12
LAST UPDATED _____ **HB** _____

SPONSOR Ortiz y Pino

SHORT TITLE Increase & Index Gas & Special Fuels Taxes **SB** 264

ANALYST Walker-Moran

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Non-Rec	Fund Affected
FY12	FY13	FY14	FY15	FY16		
0	22,440	45,445	69,480	82,700	Recurring	State Road Fund
0	480	960	1,440	1,680	Recurring	Tribal Gasoline Tax Sharing Agreement Dist.
0	985	2,025	3,140	3,800	Recurring	Local Gov. Road Fund (Special Fuels Tax)
	1,845	3,695	5,590	6,570	Recurring	Counties & Municipalities
	1,025	2,050	3,105	3,645	Recurring	County Gov. Road Fund
	1,025	2,050	3,105	3,645	Recurring	Municipal Road Fund
	255	515	775	910	Recurring	Municipal Arterial Fund
	45	95	140	165	Recurring	Aviation Fund
	25	45	70	80	Recurring	Motor Boat Fuel Tax Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

N/A

SUMMARY

Synopsis of Bill

Senate Bill 264 amends section 7-13-3 NMSA 1978 to increase the gasoline and special fuel excise taxes each year from FY13 through FY15. After FY15, the fuel taxes will be adjusted according to an annual index, which is equal to the producer price index (PPI) for highway, street and other heavy construction, with the provisions that any rate increase is not greater than \$0.01 per gallon and the rate would not decrease.

The bill proposes the following per gallon tax increases:

	Gasoline (section 1 of bill)	Special Fuel(section 2 of bill)
Current Law	\$0.17	\$0.21
FY13	\$0.19	\$0.23
FY14	\$0.21	\$0.25
FY15	\$0.23	\$0.27
FY16+	\$0.23 x index	\$0.27 x index

The effective date of the provisions of this bill is July 1, 2012.

FISCAL IMPLICATIONS

The indexing provision is expected to add \$0.01 per gallon to the tax rates (around \$15 to \$17 million in revenue) each year beyond FY2014.

The gasoline tax component of the revenue impact amounts to about \$18 million in FY12; \$36 million in FY13; \$53 million in FY14; and \$61 million in FY15. The special fuel tax component of the revenue impact amounts to about \$10 million in FY13; \$21 million in FY14; \$34 million in FY15; and \$43 million in FY16.

The proposed annual \$0.02 per gallon tax increase would amount to only \$0.06 per gallon after three years. Assuming a price per gallon of \$3.00, this proposal would raise prices by only 2 percent.

The state road fund receives 76.27 percent of gasoline tax and 90.48 percent of special fuel tax revenue. Gasoline tax revenues are also distributed to city and county road, aviation and motor boat funds. The local government road fund receives the remaining 10.52 percent of special fuel tax revenue.

SIGNIFICANT ISSUES

The road fund revenues have not grown as fast as the New Mexico economy (measured by GDP), general fund revenues or, most recently, the cost of road construction. As a result, periodic rate increases have been necessary (as was done in FY 2004) to catch up with state economic growth and road infrastructure costs.

Previously, TRD noted that a series of studies generated pursuant to House Memorial 35, House Memorial 9 and House Memorial 5, which were passed in previous legislative sessions, provides a menu of options generated to explore various ways to match road fund revenue growth rates to market conditions. One of the concepts presented was to index the tax rates on the gallons of gasoline and special fuels. The index suggested in this bill is the PPI for highway, street and heavy construction, which best corresponds to road fund expenditures.

Previously, TRD reported that the proposed price index is probably a valid representation of the cost changes faced by NMDOT for highway construction and maintenance, as well as by county and municipal road departments. Highway construction and maintenance cost is heavily dependent on oil and fuel prices due to fuel consumed by heavy construction equipment and the

oil components in asphalt, so the index should track fairly closely with the cost of fuel.

OTHER SUBSTANTIVE ISSUES

The current gasoline tax rate is \$0.17 per gallon, and that rate has been in effect since July 1995. The current special fuels tax rate is \$0.21 per gallon, and that rate has been in effect since July 2004. After accounting for the effects of inflation, the adequacy of the gasoline tax in particular has eroded over time.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The gasoline and special fuel excise taxes will remain at current rates.

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

EWM/lj