F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 02/12/16
SPONSOR Martinez **LAST UPDATED** **HB**

SHORT TITLE Car Tax for Road Projects and Projects Fund **SB** 276

ANALYST Alejandro

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY16	**FY17**	**FY18**	**FY19**	**FY20**		
($5,000.0)	($5,100.0)	($400.0)	($300.0)	($250.0)	Recurring	General Fund
$0.0	$97,900.0	$104,400.0	$107,100.0	$109,200.0	Recurring	Highway District Projects Fund
($5,000.0)	**$92,800.0**	**$104,000.0**	**$106,800.0**	**$108,950.0**		**Total**

Parenthesis ( ) indicate revenue decreases

SOURCES OF INFORMATION
LFC Files

Responses Received From
New Mexico Finance Authority (NMFA)
New Mexico Department of Transportation (DOT)
Taxation and Revenue Department (TRD)
State Treasurer's Office (STO)
Attorney General's Office (AGO)

SUMMARY

Senate Bill 276 proposes to increases the motor vehicle excise tax from 3 percent to 5 percent for a 15-year period beginning July 1, 2016. The revenues from the increase – 40 percent of net receipts attributable to the tax – would be allocated to a newly created Highway District Projects Fund to be used for specified highway projects in each of the six highway districts.

Senate Bill 276 allows for proceeds from the Highway District Projects Fund to be used by the State Transportation Commission to issue and sell bonds amounting to no more than $650 million for the major investment in highway projects outlined in the bill. Any balances that remain in the fund after the bonds have been retired would revert to the State Road Fund for the acquisition of rights of way, planning, design, engineering, construction, improvement and maintenance for state highway projects.

At the end of the 15-year period, June 30, 2031, the motor vehicle excise tax would revert to 3 percent.

FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) used the January 2016 Consensus Forecast for the motor vehicle excise tax (MVEX) to estimate the taxable value of vehicle sales in FY16 through FY20. Once the taxable value was estimated, the new tax rate of 5 percent was applied, as well as the distribution of 60 percent of receipts to the General Fund, and 40 percent to the newly created Highway District Projects Fund.

The New Mexico Department of Transportation (DOT) asserts that an increase in MVEX will reduce the demand for vehicles, because of price elasticity. In particular, the agency assumes that the tax increase will cause a two percent reduction in the motor vehicle tax base. Consequently, this will lead to a small revenue reduction. However, this loss in revenue may be more than offset by the increase in the gross receipts tax revenue related to the implementation of the 23 construction projects identified in the bill.

According to the New Mexico Finance Authority (NMFA), at current rates, and assuming a bond issue with a 15-year life and revenue to debt service coverage of 1 - 1, $650 million in project funds for the projects specified in the bill as eligible to be funded could be generated if the new tax produced $50 million per year in new revenue. However, as a standalone fund with standalone bonds not supported by the State Road Fund as the bill is now structured, the DOT, whether issuing bonds on its own or issuing bonds through the NMFA, could not actually issue bonds with only 1 - 1 coverage. Coverage would need to be at least 1.5 – 1, thereby reducing the value of the new tax by 1/3 and limiting projects funded from bond funds to about $425 million assuming $50 million per year in revenue. Vehicles sales would need to be $6.25 billion per year to generate the $50 million in new revenue, or about $3,125 per year for each New Mexico resident, which may be slightly unrealistic.

SIGNIFICANT ISSUES

NMFA offers the following analysis regarding the bonding provisions contained in the bill:

SB 276 creates the standalone Highway District Projects Fund that does not take advantage of the leveraging possibilities of the new revenue being created by the increase in the motor vehicle excise tax. Were the new revenue to flow through the State Road Fund and be a component of the State Road Fund, 50 percent more of the designated projects could be funded from bond proceeds than would be the case with the revenue kept outside of the State Road Fund.

A workable solution would be for all of DOT's new MVEX revenues to flow into the State Road Fund with the Highway Districts Projects Fund being a sub fund of the State Road Fund, just as the Highway Infrastructure Fund (HIF) is. Funds in HIF are dedicated for specific statutory road projects. With the Highway Districts Projects Fund being part of the State Road Fund, State Road Funds will provide the excess coverage necessary for the Highway Districts Projects Fund to maximum its borrowings for project purposes at a lower cost to the DOT as the new bonds could be issued in existing senior and subordinate liens.

Assuming the relationship between the new Highway District Projects Funds and the State Road Fund are properly structured and the issue of flow of funds is clarified, the NMFA is able to support DOT in the issuance of bonds backed by the vehicle excise tax increase. Such bonds would be well received in the municipal tax-exempt market, and DOT issuing through the Finance Authority would achieve attractive rates befitting the likely AAA/Aa1 ratings of the bonds.

DOT notes that because it will be servicing approximately $1.9 billion in debt through the year 2027, bonding is not recommended at this time.

TECHNICAL ISSUES

According to DOT, the proposed Highway District Projects Fund is duplicative of the State Road Fund. The proposed issuance and sale of bonds by the State Transportation Commission, would require coverage with State Road Fund money and all of DOT's Federal Highway Administration (FHWA) revenues. If the bill is enacted and the aforementioned provisions are implemented, it would be imperative that DOT's revenue stream adequately match the bond service debt created by the issuance of new bonds.

In addition, the highway projects referenced in the bill, if properly programmed, could be included in the State Transportation Improvement Plan (STIP), which is its primary intended purpose.

TRD interprets the changes proposed in the bill to apply beginning July 1, 2016, which represents June 2016 revenue. If the sponsor of the bill intended for these changes to apply to revenue beginning July 1, 2016, TRD recommends that an Applicability Section be added to the bill to clarify that the changes apply to revenues beginning July 1 of 2016.

PERFORMANCE IMPLICATIONS

The NMFA states that it is well prepared to issue bonds backed by State Road Funds for the purposes proposed by SB 276 at the direction of the State Transportation Commission and DOT.

ADMINISTRATIVE IMPLICATIONS

The STO indicates that establishment and maintenance of the Motor Vehicle Suspense Fund and Highway District Project Fund, as outlined in the bill, would be covered by the agency's existing operating budget.

TRD estimates a moderate impact on administration and implementation processes and on financial distribution business processes. Because the bill increases the MVEX rate, and changes the distribution of the MVEX, programming changes will be required to the Tapestry system. TRD's Financial Distribution Bureau staff will need to verify Tapestry system changes (the tax increase and distribution), by performing selected tests of data, functionality and reporting, prior to authorizing Tapestry to move changes into production.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB 276 conflicts with SB 7, HB 199, HB 233 and HB 272, all of which propose changes to the distribution of MVEX revenues.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Projects identified in each of the six highway districts will need to seek an alternate source of funding.

LA/al/jle