LFC Requester:	

AGENCY BILL ANALYSIS - 2026 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO
AgencyAnalysis.nmlegis.gov and email to **billanalysis@dfa.nm.gov**
(Analysis must be uploaded as a PDF)

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Date Prepared: *1/15/2025* *Check all that apply:*
Bill Number: *SB2* Original _x Correction __
Amendment ___ Substitute ___

Sponsor: Sen. Gonzales; Sen. Shendo; Sen. Munoz; Rep. De La Cruz
Short Financing Highway Projects

Agency Name and Code Number: DFA-341: Board of Finance
Person Writing Ashley Leach, Director
Phone: 505.629.9745 **Email** Ashley.Leach@dfa.nm.gov

SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY26	FY27		

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or	Fund Affected
FY26	FY27	FY28		

(Parenthesis ( ) indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY26	FY27	FY28	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total						

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

The bill aims to improve New Mexico's highway infrastructure by increasing funding sources and ensuring transparency in project prioritization and financing.

- **Weight Distance Tax Increase for Motor Vehicles.**
  - The weight distance tax for motor vehicles (excluding buses) is increased across all weight categories. For example:
    - Vehicles with a gross weight of 26,001 to 28,000 pounds: Tax rate increased from 11.01 mills per mile to 14.86 mills per mile.
    - Vehicles with a gross weight of 78,001 pounds and over: Tax rate increased from 43.78 mills per mile to 59.10 mills per mile.
    - Vehicles used for one-way hauls and meeting specific criteria (e.g., traveling empty for 45% or more of the mileage) will pay two-thirds of the computed tax.
- **Passenger Vehicle Registration Fee Increase.**
  - Registration fees for passenger vehicles are increased:
    - Vehicles with gross factory shipping weight ≤ 2,000 pounds: Fee increased from $27 to $33.75 (after 5 years, $21 to $26.25).
    - Vehicles with gross factory shipping weight > 2,000 but ≤ 3,000 pounds: Fee increased from $39 to $48.75 (after 5 years, $31 to $38.75).
    - Vehicles with gross factory shipping weight > 3,000 pounds: Fee increased from $56 to $70 (after 5 years, $45 to $56.25).
    - A tire recycling fee of $1.50 is added for all passenger vehicles.
- **Additional Registration Fees for Electric and Plug-In Hybrid Vehicles.**
  - New annual registration fees for electric and plug-in hybrid vehicles with a gross weight ≤ 26,000 pounds:
    - Electric Vehicles:
      1. $70 starting January 1, 2027.

2. $80 starting January 1, 2028.
3. $90 starting January 1, 2029.

- Plug-In Hybrid Electric Vehicles:

1. $35 starting January 1, 2027.
2. $40 starting January 1, 2028.
3. $45 starting January 1, 2029.

- Fees collected will be credited to the state road fund.

- **Adjustments to Formulaic Distribution of Motor Vehicle Fees.**

  - Changes to the percentage distribution of motor vehicle fees:

    - State road fund allocation increased from 74.65% to 79.72%.
    - County allocations reduced from 7.6% to 6.08%.
    - Municipal allocations reduced from 4.06% to 3.25%.

  - Other adjustments to the distribution percentages for counties and municipalities.

- **Additional Bonding Authority for Highway Projects.**

  - The State Transportation Commission is authorized to issue additional bonds for highway projects identified in the Statewide Transportation Improvement Program:

    - Up to $1.5 billion in total bond proceeds may be issued for state highway projects.
    - Bonds will be secured by federal funds or taxes/fees paid into the state road fund.
  - Restrictions:
    - Average annual bond issuance cannot exceed $290 million.
    - For fiscal year 2026, bond issuance is capped at $220 million.
    - December 2026 bond sale is capped at $130 million.
    - Bond proceeds cannot be used to retire previously issued bonds or debt obligations.

  - Bonds must be approved by the State Board of Finance and have a maximum maturity of 25 years.

  - Proceeds can be used for project expenses, bond issuance costs, and compliance with federal tax regulations.

- **Reporting Requirements for Highway Projects.**

  - The Department of Transportation must include a report in its annual budget request detailing:

    - Justification for project selection and priority ranking (traffic counts,

accident rates, economic impacts, etc.).
    - Expected lifespan of projects.
    - Revenue forecasts for bond repayment over 5 and 20 years.
    - Impact of the bond program on construction and maintenance plans.

- **Effective Dates.**

    - Sections 1, 2, and 5 (Weight Distance Tax, Passenger Vehicle Registration Fees, and Formulaic Distribution Adjustments): Effective July 1, 2026.

    - Sections 3 and 4 (Electric/Hybrid Vehicle Fees and Fee Disposition): Effective January 1, 2027.

FISCAL IMPLICATIONS

- The issuance of transportation bonds will increase the state's overall debt portfolio, but all outstanding transportation bond debt will be fully retired by 2031. At the same time, the state's general obligation and severance tax bonds have a rapid 10-year amortization schedule, with debt falling as additional debt is assumed through new issuances.

- The Board of Finance, through its annual Debt Affordability Study (2025), monitors the state's key debt ratios—debt per capita and debt as a percentage of personal income—and compares them to those of other states and peers.

- Although transportation bond debt is included in the ratio calculations, the state is well positioned to assume additional debt given its existing ratios. As of 2025, New Mexico's ratios (approximately $1,047 and 1.8%, respectively) were below Moody's State Medians of $1,189 per capita and 2.0% of personal income (Debt Affordability Study, 2025).

- The annual issuance limitations set forth in the bill (e.g., $220M for FY 2026 and $130M for the December 2026 bond sale) will introduce limited new debt as existing debt retires, further mitigating impacts on the state's debt ratios.

- The issuance of debt for impactful economic investments, such as roads, tunnels, and bridges, is considered a good capital investment by the ratings agencies and is evaluated alongside debt ratios.

- Issuance of transportation bonds by the Transportation Commission is an appropriate method for funding transportation initiatives, given the NM Department of Transportation's dedicated revenue source, a history of successfully funding larger road initiatives, and existing administrative systems and structures that ensure successful project completion.

    - For example, NMDOT oversees the timing of road projects. Thus, it can closely and effectively align issuance timelines with project readiness, which is critical for issuing tax-exempt municipal bonds.

    - It also has established partnerships necessary for issuance and project approvals. Nationally, major transportation initiatives have primarily been funded through dedicated user fees, including road user, delivery, weight-distance, fuel, licensing, permitting, and registration fees.

SIGNIFICANT ISSUES

PERFORMANCE IMPLICATIONS

- Revenue for transportation bond repayment comes from federal funds, taxes, and fees paid into the state road fund. The State Transportation Commission, from time to time, has issued system revenue bonds pledging the state road fund and federal funds as sources of repayment. This practice dates back to the passage of Article IX, Section 16 of the New Mexico Constitution and to laws enacted by the fifth legislature authorizing the issue and sale of state highway bonds to fund the construction and improvement of state highways.

    - By pledging the state road fund, NMDOT has achieved creditable bond ratings (Aa1, AA+, and AAA), with Moody's recently upgrading its rating, while pledging federal highway funds as a secondary revenue source.

    - This strengthens NMDOT's credit in the municipal market, attracting more investors to purchase the bonds and securing a better rate. NMDOT's credibility in the market is very strong, partially due to the very high coverage ratios. Furthermore, the state road fund and federal highway funds are under the control and direction of the State Transportation Commission. The state road fund was created to generate dedicated revenue from road user fees for operational and maintenance expenses and to issue state highway bonds.

ADMINISTRATIVE IMPLICATIONS

- The Board of Finance does not anticipate any additional administrative implications from the bill. The Board of Finance has an established process and administrative capacity to review the issuance of transportation bonds. Existing staff and resources are sufficient to review such transactions.

- Further, the Board of Finance has experience reviewing bond issuances, as it currently reviews the issuance of system revenue bonds for higher education institutions and the issuance of bonds for other state agencies.

- While transportation projects may be funded from other sources, such as the general fund or other bonding programs, utilizing the additional capacity authorized under the bill provides greater stability and predictability for project planning and execution and frees up other funding sources for other state priorities.

    - Specifically, the bill's funding approach is preferable to using severance tax bonds. Severance tax bonds introduce volatility into transportation project planning and execution because their capacity can be unexpectedly reduced. Severance tax bonds have traditionally been used for general capital appropriations, and their capacity is insufficient to fund large transportation initiatives contemplated by the bill.

    - While the bond-rating agencies monitor the state's overall debt portfolio and corresponding debt ratios, the issuance of debt for transportation projects secured by dedicated revenue sources will not negatively affect the state's debt portfolio or debt ratios.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

- While the bill creates additional capacity for the State Transportation Commission to issue bonds for transportation projects, it does not explicitly authorize the use of anticipated federal funding through vehicles such as Grant Anticipation Revenue Vehicles (GARVEEs) bonds or financings under the Transportation Infrastructure Finance and Innovation Act.
    - Other states use GARVEEs or TIFIA financing as important tools to leverage future federal funding or secure better financing terms to deliver necessary transportation infrastructure upgrades or maintenance projects at current prices.
- The statute's prohibition on maturity dates exceeding 25 years may limit the state's ability to negotiate the best possible terms for financings funded by federal funds.

ALTERNATIVES

N/A.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The new 2026 TRIP report states New Mexico now has $7.5 billion in unmet needs for transportation infrastructure. Without the new bonding authority the state will be more reliant on general fund revenue to complete critical road projects, which will contribute to road project delays across the state.

AMENDMENTS

N/A.