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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/8/06

SPONSOR Jennings LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Taxation of Railroad Equipment SB 727

ANALYST Francis

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY06	FY07		
140.0	1,724.0	Recurring	Railroad Crossing Maintenance Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to SB 315

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
140.0	1,724.0	1,724.0	Recurring	Railroad Cross- ing Maintenance Fund
(43.0)	(517.0)	(517.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Department of Transportation (NMDOT)

### SUMMARY

#### Synopsis of Bill

Senate Bill 727 creates a new fund called the "Railroad Crossing Safety Fund," clarifies the compensating tax exemption for railroad equipment, and increases the tax on private railcars to 5 percent from 1.5 percent, and changes the method of valuation for railroad operating property. There is no effective date and so the effective date is assumed to be May 17, 2006.

The compensating tax exemption is clarified to define railcars as those that are engaged in interstate transportation.

The change in the property valuation for operating equipment (i.e., not real property such as land or buildings) establishes one method of valuation based on reproduction cost rather than a choice of methods that currently exist.

### **FISCAL IMPLICATIONS**

Raising the tax rate to 5 percent from 1.5 percent will result in additional revenues of \$1.2 million per tax year. In FY06, there is assumed to be a \$140 thousand increase in revenues as a result of the default effective date of May 17, 2006. Since all of the revenue is to be distributed to the railroad crossing safety fund, the general fund revenues will be reduced by \$517 thousand per year and \$43 thousand in FY06. In FY06, the railroad crossing safety fund revenues will increase \$140 thousand and in FY07 and subsequent years that increase is \$1.7 million per year.

The appropriation of \$1.7 million contained in this bill is a recurring expense to the railroad crossing safety fund. Any unexpended or unencumbered balance remaining at the end of shall not revert.

The change in the property tax valuation has no fiscal impact since property taxes are determined based on needs of local governments. The change in the valuation method will redistribute the tax burden amongst other taxpayers. It is likely that this change will increase the valuation of rail property since it does not allow for depreciation or obsolescence.

The change to the compensating tax exemption for railroad equipment defines railroad equipment as that equipment that is directly related to interstate commerce. There currently are insignificant amounts of rail property that is not directly related to interstate commerce and so no associated fiscal impact. However, this bill may impact the commuter rail which will not be directly involved in interstate commerce and will likely have a significant quantity of imported tangible goods.

This bill creates a new fund and provides for continuing appropriations. The LFC has concerns with including continuing appropriation language in the statutory provisions for newly created funds, as earmarking reduces the ability of the legislature to establish spending priorities.

### **TECHNICAL ISSUES**

There is no effective date for this bill and so it is assumed that the effective date is May 17<sup>th</sup>, 2006. This will pose problems for NMDOT in terms of administering and collecting this tax and educating taxpayers about the new rate and new method of valuation.

NF/mt