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

SPONSOR Griego, P. **ORIGINAL DATE** 01/24/11 **LAST UPDATED** **HB**

SHORT TITLE Extend Jet Fuel Gross Receipts Deduction **SB** 46

ANALYST Golebiewski

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
		($609.0)	Recurring	State Aviation Fund
		($288.0)	Recurring	Municipalities
		($102.0)	Recurring	Counties
		$118.0	Recurring	General Fund
		($882.0)	Recurring	Total

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates Senate Bill 84. Senate Bill 84 only differs from SB 46 based on its endorsement by the Revenue Stabilization and Tax Policy Committee.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Department of Transportation
Tax and Revenue Department

SUMMARY

Senate Bill 46 would extend the 55% jet fuel gross receipts and compensating tax deduction for five years, through the end of FY17. Under current statute, the 55% deduction would decrease to 40% beginning in FY13.

FISCAL IMPLICATIONS

The Tax and Revenue Department has estimated the total receipts from jet fuel sales to be approximately $84 million in FY13. With a 40% deduction, funds deposited to the state aviation fund from jet fuel sales would amount to $2.414 million ($50.4 million X 4.79%). With a 55% deduction, the general fund transfer to the state aviation fund from GRT on jet fuel sales would be $1.811 million ($37.8 million X 4.79%). The annual cost to the state aviation fund of extending the 55% deduction is therefore approximately $609 thousand (including the $6 thousand that is distributed pursuant to NMSA 1978 7-1-6.7 C), and the bill proposes to extend it an additional 5 fiscal years.

Other entities affected by the 55% jet fuel deduction are the municipalities and counties that would otherwise receive GRT on the deductible jet fuel. The approximate cost of extending the 55% deduction to municipalities in FY13 is estimated to be $288 thousand and the cost to counties is approximately $102 thousand. Since the majority of jet fuel sales occur at the Albuquerque International Sunport, the city of Albuquerque and Bernalillo County will be those most impacted by the extension.

The proposed extension will also affect the general fund. The approximate difference between the general fund's proportion of GRT revenue (approximately 3.85%) and the amount that must be transferred pursuant to NMSA 1978 7-1-6.7 A (4.79%) translates to a net positive effect to the general fund of approximately $118 thousand.

The net effect of the extension of the 55% deduction in FY13, as compared with the alternative of a 40% deduction, is $882 thousand. Estimates of the net effect for FY14 and FY15 are $906 thousand and $932 thousand, respectively, with detail similar to the FY13 detail presented above.

SIGNIFICANT ISSUES

The Department of Transportation notes, in FY04, the rate of distribution to the State Aviation Fund increased from 3.59% to the current 4.79% of taxable gross receipts from the sale of jet fuel. Simultaneously, the gross receipts deduction increased from 40% to 55%. These two changes were designed to offset each other so that revenue to the state aviation fund from the sale of jet fuel would be left unaffected. The 55% deduction was initially intended to sunset in FY07, and there were/are still no provisions to sunset the change in the rate of distribution. The first extension of the 55% deduction, through FY12, was passed during the 2006 regular session.

The Department of Transportation also notes that increased funding to the State Aviation Fund can generate a flow of funds from the Federal Aviation Administration (FAA). Grants to airports are extended by the FAA, provided the state can match these funds. This is potentially another source of lost funding due to the extension of the 55% deduction.

The State Aviation Fund is used to improve infrastructure, such as pavement maintenance and rehabilitation, fuel farms, general aviation terminals, and lighting projects at airports throughout the state of New Mexico.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Duplicate of SB 84

OTHER SUBSTANTIVE ISSUES

The 55% deduction, as current statute provides, does not sunset until the end of FY12.

Additionally, SB 46 narrows the gross receipts and compensating tax bases. It may have important tax policy implications, including a possible stimulation of the commercial airline industry in New Mexico. Please see attached tables for a comparison of jet fuel tax rates across states.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

If not enacted, the jet fuel deduction will decrease to 40%.

JG/svb