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## FISCAL IMPACT REPORT

ORIGINAL DATE 01/30/14  
 LAST UPDATED 02/18/14

SPONSOR Gonzales HB 98/aHf1#1/aSCORC

SHORT TITLE School Bus Fuel Gross Receipts SB \_\_\_\_\_

ANALYST van Moorsel

### REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY14	FY15	FY16	FY17	FY18		
\$0.0	\$0.0	(\$193.0)	(\$193.0)	(\$199.0)	Recurring	General Fund
\$0.0	\$0.0	(\$129.0)	(\$129.0)	(\$132.0)	Recurring	Local Governments
\$0.0	\$0.0	(\$172.0)	(\$172.0)	(\$172.0)	Recurring	Road Fund
\$0.0	\$0.0	(\$18.0)	(\$18.0)	(\$18.0)	Recurring	Local Gov. Road Fund
<b>\$0.0</b>	<b>\$0.0</b>	<b>(\$512.0)</b>	<b>(\$512.0)</b>	<b>(\$521.0)</b>	<b>Recurring</b>	<b>Total</b>

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Taxation and Revenue Department (TRD)  
 Department of Finance and Administration (DFA)  
 Public Education Department (PED)

### SUMMARY

#### Synopsis of SCORC Amendment

The Senate Corporations and Transportation Committee amendment changes the exemption to a deduction and requires taxpayers claiming the deduction to report the amount of the deduction separately. TRD is required to compile annual taxpayer reports of the deduction and, beginning in 2018, present to the Revenue Stabilization and Tax Policy Committee and the LFC a cost/benefit analysis of the deduction.

#### Synopsis of HF1 Amendment #1

The House Floor Amendment #1 amends the exemption to include “school-related activities” in the qualifying uses of the fuel. Without the amendment, fuel would have to be separately accounted for to indicate whether it was used for “school-related events” or just to and from school transportation of students (see “Technical Issues,” below).

Synopsis of Original Bill

House Bill 98 creates a new section of the Gross Receipts and Compensating Tax Act to create an exemption from gross receipts tax for receipts from the sale of, and an exemption from compensating tax for the use of fuel in a vehicle authorized by contract with the Public Education Department as a school bus for the to-and-from school transportation of students.

The effective date of this bill is July 1, 2015. There is no sunset date. The LFC recommends adding a sunset date.

**FISCAL IMPLICATIONS**

Using information from the PED, and the Taxation and Revenue Department (TRD) Combined Fuels Report, TRD estimates the impact of this bill to be about \$512 thousand in FY16. Between FY11 and FY13, contractors reported an average of about 1.4 million deductible gallons, as a combination of dyed and clear special diesel that was therefore subject to gross receipts tax. At an average price of \$3.44 per gallon, the gross receipts on 1.4 million gallons amounts to about \$323 thousand.

The remainder of fuel purchased by contractors, estimated to be about 900 thousand gallons based on PED provided expenditures less the 1.4 million deductible gallons reported, is assumed to be subject to the special fuels tax, a flat \$0.21 per gallon, amounting to about \$172 thousand in Road Fund revenues and \$18 thousand to Local Government Road Fund revenues.

This bill could result in a net gain to the general fund because these taxes are embedded in the appropriation to public schools. The FY15 education appropriation includes the approximately \$320 thousand spread over the school districts for taxes paid on fuel. However the general fund will receive only \$195 thousand in taxes; *local governments will receive the difference. Therefore, the general fund would benefit from this exemption.* As a result, the PED could reduce the appropriation request for transportation by that amount. However, the bill would likely increase the negative impact to the Road Fund; contractors currently paying fuel tax would likely stop paying the tax. The bill as introduced only applies to receipts from the sale of fuel used in a vehicle authorized by contract with the PED “as a school bus for the to-and-from school transportation of students.”

Holding the gallons taxed by each method constant, the cost to the road fund does not vary, but the general fund cost varies with price. The U.S. Energy Information Administration forecasts that diesel prices will have a flat to slight downward trend going forward.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the increasing cost of tax expenditures revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure’s fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

## PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met since TRD is required in the bill (via the SCORC amendment) to report to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

## TECHNICAL ISSUES

It is unclear whether the intent is also for fuel receipts to qualify when school buses are used for other activities, such as field trips or athletic events. TRD suggests an amendment, for example, that adds “school-related event” to read “as a school bus for the to-and-from school or school-related event transportation” could help clarify this problem. If not, fuel would have to be separately accounted for to indicate whether it was used for “school-related events” or just to and from school transportation of students.

This bill does not contain a sunset date. The LFC recommends adding a sunset date.

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

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