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FISCAL IMPACT REPORT

ORIGINAL DATE 2/26/19

SPONSOR Smith/Ingle LAST UPDATED _____ HB _____

SHORT TITLE Motor Vehicle Tax to Road Funds SB 505

ANALYST Iglesias

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY19	FY20	FY21	FY22	FY23		
\$0.0	\$104,800.0	\$107,300.0	\$109,500.0	\$111,600.0	Recurring	NEW State Road Maintenance Fund
\$0.0	(\$50,700.0)	(\$51,900.0)	(\$53,000.0)	(\$54,000.0)	Recurring	General Fund

Parenthesis () indicate revenue decreases

Conflicts with HB 6, HB 188, SB 421, SB 487, and SB 609. Relates to HB 609 and SB 504.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Transportation (DOT)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

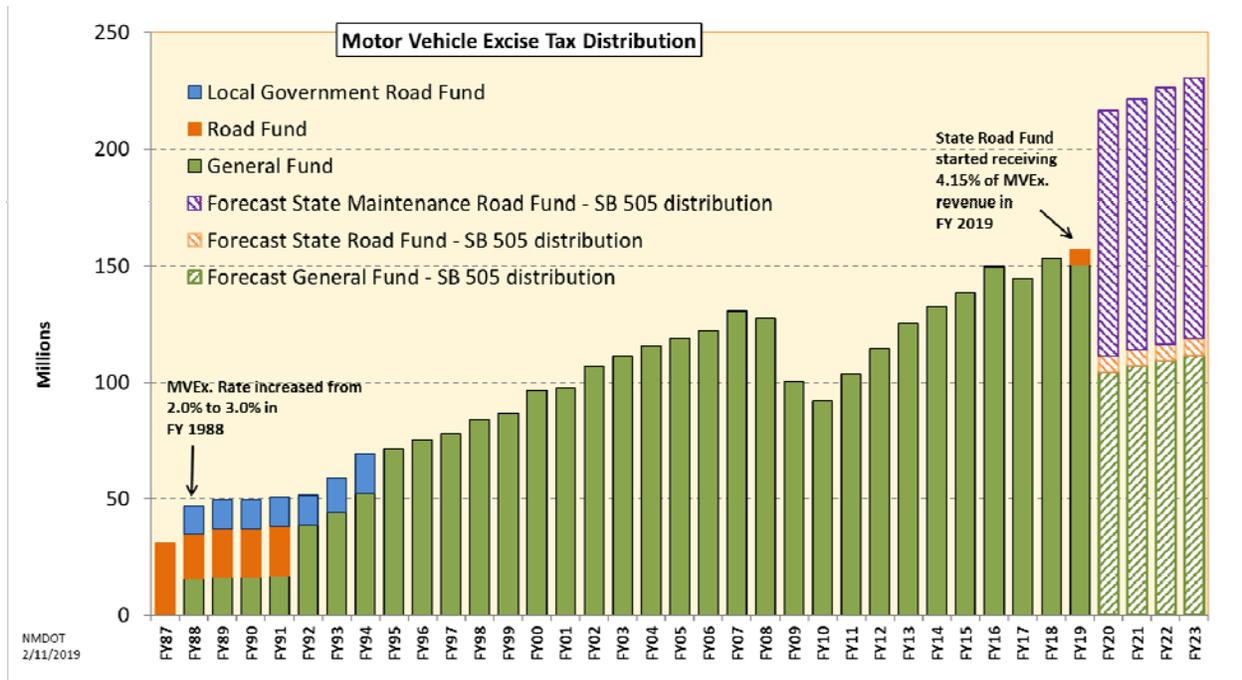
Senate Bill 505 increases the motor vehicle excise tax (MVX) to 4 percent from the current rate of 3 percent. The bill distributes 48.44 percent of all MVX revenue to a newly created state road maintenance fund. The bill designates this new fund for improvement or maintenance of existing public roads or bridges. It will be a nonreverting fund in the state treasury and will be administered by the Department of Transportation (DOT) and cannot be used for bonding. The bill changes the current state road fund distribution of MVX revenue to 3.12 percent from the current distribution of 4.15 percent. Remaining MVX revenue goes to the general fund. The effective date of this bill is July 1, 2019.

FISCAL IMPLICATIONS

The fiscal impact analysis uses the December 2018 consensus revenue estimate and DOT's January 2019 state road fund estimates as the starting point. Both DOT and LFC staff estimate this bill will generate about \$54 million in additional MVX revenue in FY20.

The state road fund currently receives about \$6.5 million in MVX revenue, and this bill adjusts the state road fund distribution to have no fiscal impact to the state road fund.

Currently, aside from a 4.15 percent distribution to the state road fund, MVX revenues go to the general fund, totaling about \$150 million annually. This bill sends the new revenue generated from the tax increase plus some of the amount currently going to the general fund to the new maintenance fund. This results in revenue of about \$100 million annually for the maintenance fund and a negative general fund impact of about \$50 million annually.



This analysis is based on the assumption that the increase in the MVX rate will not reduce the demand for vehicles, and consequently will not reduce the MVX tax base.

SIGNIFICANT ISSUES

The motor vehicle excise tax is one of the most stable sources of general fund revenue, currently providing about \$150 million in annual funding. Redistribution of a portion of this revenue source from the general fund increases the state’s reliance on other, potentially more volatile revenue sources.

ADMINISTRATIVE IMPLICATIONS

According to the Taxation and Revenue Department (TRD), implementation of this bill will have a moderate impact on the department’s Information Technology division, but costs will be absorbed in normal operations. TRD states the bill’s effective date is feasible.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill conflicts with the following: HB 6 and SB 421, which increase the MVX rate to 4.625 percent and 4.5 percent respectively; SB 188, which phases in a redistribution of MVX revenues

from the general fund to the state road fund; and SB 487, which temporarily diverts one-third of MVX revenues to the state road fund.

This bill relates to SB 504 and HB 609, which also create the state road maintenance fund but send fuel tax revenues to the fund.

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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