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FISCAL IMPACT REPORT

ORIGINAL DATE 1/26/22

SPONSOR Rubio LAST UPDATED _____ HB 3

SHORT TITLE Department of Transportation Appropriation Act SB _____

ANALYST Jorgensen

APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Nonrecurring | Fund Affected |
|---------------|---------------|------------------------------|---|
| FY22 | FY23 | | |
| | \$625,813.0 | Recurring | State Road Funds |
| | \$504,150.7 | Recurring | Federal Funds |
| | \$8,300.0 | Recurring | Internal Service Funds/Interagency Transfers |
| | \$1,138,263.7 | | |

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

SUMMARY

Synopsis of Bill

House Bill 3 (HB3) includes the FY23 operating budget appropriations for the Department of Transportation (NMDOT) based on the Legislative Finance Committee's FY23 budget recommendation and includes recommended performance measures and targets.

HB3 appropriates \$1.14 billion, including \$625.8 million from state revenues and \$504.2 million from federal funding sources, to support the operational activities of NMDOT in FY23. The bill authorizes 2,578.5 employees for the department.

FISCAL IMPLICATIONS

Department of Transportation (NMDOT) revenues come from two sources: state road fund (SRF), primarily used for highway maintenance, and federal funding awards, primarily used for construction and debt service payments. HB3 increases total appropriations by \$122.3 million over FY23 to reflect increased revenue from in the state road fund and additional federal funds to reflect enactment of the Infrastructure Investment and Jobs Act.

HB3 appropriates state funds totaling \$625.8 million including \$520.4 million in regular state road fund revenue, \$85.4 million in restricted use state funds, and \$20 million from state road fund balance as shown in the appropriations table. In addition, HB3 appropriates \$504.2 million in federal funds, and \$8.3 million from the weight distance permit ID fund and grants transferred to the agency.

SIGNIFICANT ISSUES

NMDOT forecasts SRF revenue every January and July, budgeting projected revenue in the request. For FY23, NMDOT expects a 5.5 percent increase from the road fund. The largest sources of revenue to the SRF are fuel taxes, generating 47 percent of total revenue; fees on commercial trucking, accounting for 23 percent of revenue; and taxes on vehicle sales and registration fees, amounting to 26 percent of revenue.

Federal funding stagnated over the past several years; however, the state is likely to see a 20 percent increase for FY23 as a result of passage of the Infrastructure Investment and Jobs Act. Use of federal funds require a state match of between 8 percent and 20 percent, and SRF is used to provide these matching funds.

The department estimates total unfunded construction and maintenance needs for FY21 at \$547 million, including \$311 million for routine maintenance and \$236 million for roadway reconstruction. The department also projects a funding shortfall of \$159 million for bridge maintenance, reconstruction, and replacement.

In the five years from FY15 though FY20, total construction costs increased by 23 percent; however, the changes have not been uniform. For example, base course costs increased by 53 percent and structural concrete increased by 50 percent, but hot mix asphalt only increased 3 percent. At the LFC capital outlay subcommittee, NMDOT staff noted construction bid costs have been increasing over the past year, with average bids coming in 20 percent to 30 percent higher than previously estimated. It is unknown whether the cost increases are transitory, driven by temporary shortages in materials and labor, or if the elevated costs will persist. Given the large increases in infrastructure spending made possible by the new federal legislation and increased competition among states for a limited pool of contractors, construction and maintenance costs could continue increasing.

The department currently has \$1.1 billion in outstanding debt obligations, including the issuance of an additional \$234.6 million in debt authorized during the 2021 session. In FY23, the department will spend \$175.1 million to service debt. This amount includes \$124.6 million from federal sources and \$41.7 million from the SRF. Debt service payments will increase through FY24, when the state will spend \$194.6 million. However, debt service cost will then fall dramatically; in FY25, debt service will be \$111.6 million, and the state will have retired all debt by the end of FY32.