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

ORIGINAL DATE 2/12/2007
SPONSOR Silva **LAST UPDATED** **HB** 4/aHTPWC

SHORT TITLE Dept. of Transportation Appropriation Act **SB**

ANALYST Moser

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	**FY08**		
	793,193.3	Recurring	State Road Fund, Local Gov't RF, Aviation Fund, Transportation Fund and Federal Funds

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates and relates to HB 2 and HB 7

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	**FY08**	**FY09**		
	793,193.3		Recurring	State Road Fund, Local Gov't RF, Aviation Fund, Transportation Funds and Federal Funds

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates and relates to HB 2 and HB 7

SOURCES OF INFORMATION
LFC Files
- *Report of the Legislative Finance Committee to the Forty-Eighth Legislature, First Session,* January 2007 for Fiscal Year 2007 – 2008, Volume II, pp. 331 - 337.
- Consensus Revenue Estimate, NMDOT, January 2007.

Responses Received From
NM Department of Transportation (NMDOT)

SUMMARY

Synopsis of HTPWC Amendment

The House Transportation and Public Works Committee amendment makes the following major changes to the bill:

- House Bill 4 appropriates $793,193.3 of Other State Funds and Federal Funds to the New Mexico Department of Transportation (NMDOT) for the purpose of managing three (3) programs, within four (4) budget categories.
- Expands total FTE by 82 within the department.
- Recognizes additional revenue of $8.93 million based the revised consensus revenue forecast done in January 2007.
- Increases effective vacancy rate to 6.0 percent to allow for proposed compensation package. This budgets this increase rather than having the department having to adjust operational budget during the fiscal year.
- Includes $9.36 million for 100 percent state construction program and language specifying this purpose.
- Removes restrictive language capping RailRunner expenditures and requiring a budget submittal by July 2007 for the RailRunner.

House Bill 4 reflects an overall decrease from FY07 of $14.1 million or 1.8%. The majority of this decrease is the result of projected FHWA (Federal Highway Administration) federal obligation limitation made available to the state annually through the transportation authorization act, SAFETEA-LU. House Bill 4, per the January Road Fund Outlook Update, includes a projected increase for State Road Fund in FY08 of $20.1 million or 5.2% over the original FY07 budget estimate.

House Bill 4, as amended, reflects the House Transportation and Public Works Committee (HTPWC) FY08 Budget recommendation. House Bill 4, as amended, reconciles differences between the agency request, the Executive recommendation and the LFC recommendation through a technical committee process that gains consensus through direction from the HTPWC Chairman and committee.

FISCAL IMPLICATIONS

House Bill 4, as amended, appropriates $793,193.3 to NMDOT for FY08 and funds the department's three (3) operating programs among (4) budget categories. The budget recommendation includes the proposed state employee compensation package increases within the personal services and employee benefits FY08 budget. It additionally includes a 100% state road fund.

The appropriation of $793,193.3 contained in this bill is a recurring expense to the state Road Fund, Other State Funds and Federal funds. Any unexpended or unencumbered balance remaining at the end of FY08 shall revert to the state road fund or applicable fund.

Revenue Estimates:

The department revises revenue estimates in August of each year for purposes of budget preparation, and again in January of each year for purposes of legislative deliberations. Table 1 shows the actual state revenues for FY05 and FY06, and the August 2006 forecast of state revenues for Fiscal Year 2007 and Fiscal Year 2008. The fiscal year "Budget Growth" amounts reflect year-over-year changes in the Department ***budget levels***, which differs from actual revenue growth. The column marked "Estimate Revision" for the current fiscal year (FY07) refers to the changes between the "Budget Estimate" used during the 2006 Legislative Session and the latest revised estimate.

The "preliminary" revenue numbers for Fiscal Year 2006 should be regarded as only approximate, and could be subject to significant accrual adjustments.

In addition to the (State) Road Fund, the department projects state-sourced revenues for the Highway Infrastructure Fund, the Local Governments Road Fund, the Aviation Fund, and the Transportation Program Fund.

Table 1
FY07 and FY08 Revenue Estimates
(Dollars in Thousands)

	FY05 Actual	FY06 Preliminary	FY06 Revenue Growth	FY07 Budget Estimate	FY07 Budget Growth	FY07 Jan-07 Estimate	FY07 Estimate Revision	FY08 Jan-07 Estimate	FY08 Budget Growth
Road Fund -- Unrestricted Revenues									
Ordinary Income:									
Gasoline Tax	109,456	109,723	267	110,900	-5,902	111,776	876	113,294	2,394
Special Fuel Tax	87,902	97,127	9,225	96,000	2,500	100,000	4,000	103,400	7,400
Weight/Distance	73,781	76,453	2,672	75,700	-2,020	79,000	3,300	81,400	5,700
Trip Tax	5,724	8,576	2,852	8,000	4,000	8,000	0	6,000	-2,000
Vehicle Registration	67,768	71,470	3,702	70,270	2,955	72,900	2,630	75,100	4,830
Vehicle Transaction	1,130	1,610	480	1,100	-55	1,500	400	1,500	400
Driver's License	4,072	3,944	-128	4,200	-100	4,250	50	4,300	100
Oversize/Overweight	3,232	4,387	1,155	4,000	0	4,500	500	4,635	635
Public Regulatory Commission Fees	3,526	3,676	150	3,400	100	3,600	200	3,600	200
Penalty Assessments (Reinstatement Fees)	1,273	258	-1,015	0	-1,100	0	0	0	0
MVD Miscellaneous	1,200	2,373	1,173	1,900	900	2,444	544	2,518	618
Subtotal Ordinary Income	**359,064**	**379,597**	**20,533**	**375,470**	**1,278**	**387,970**	**12,500**	**395,747**	**20,277**
Road Fund -- Extraordinary Income:									
Asset Sales	1,283	861	-422	1,100	100	950	-150	950	-150
Equipment Buy-back Program	257	539	282	1,390	851	1,390	0	1,900	510
"Logo" Signage Revenue	1,076	730	-346	1,000	300	800	-200	800	-200
Other Revenue	2,150	6,989	4,839	1,000	0	1,000	0	1,000	0
Road Fund Interest	1,239	2,055	816	1,700	378	1,900	200	1,400	-300
Subtotal Extraordinary Income	**6,005**	**11,174**	**5,169**	**6,190**	**1,629**	**6,040**	**-150**	**6,050**	**-140**
Total Road Fund (Unrestricted Revenues)	**365,069**	**390,771**	**25,702**	**381,660**	**2,907**	**394,010**	**12,350**	**401,797**	**20,137**
Other Funds:									
Highway Infrastructure Fund:									
Leased Vehicle Gross Receipts	4,524	5,143	619	4,740	-220	5,300	560	5,450	710
Tire Recycling Fees	1,950	1,734	-216	1,750	-150	1,800	50	1,850	100
Interest	124	352	228	268	55	305	37	270	2
Total Highway Infrastructure Fund	**6,598**	**7,229**	**631**	**6,758**	**-315**	**7,405**	**647**	**7,570**	**812**
State Infrastructure Bank:									
Loan Repayments	n/a	4,278	4,278	1,740	1,740	1,740	0	3,350	1,610
Interest Earnings	313	463	150	200	-14	240	40	216	16

	FY05 Actual	FY06 Preliminary	FY06 Revenue Growth	FY07 Budget Estimate	FY07 Budget Growth	FY07 Jan-07 Estimate	FY07 Estimate Revision	FY08 Jan-07 Estimate	FY08 Budget Growth
Total State Infrastructure Bank	**313**	**4,741**	**4,428**	**1,940**	**1,726**	**1,980**	**40**	**3,566**	**1,626**
Local Government Road Fund:									
From Interest	383	818	435	830	232	940	110	840	10
From Special Fuel	9,199	10,181	982	10,067	263	10,522	455	10,880	813
From PPL Fee	6,772	6,984	212	6,926	-150	6,992	66	7,125	199
From DWI reinstatement fees & ID cards	1,152	1,049	-103	1,150	50	1,150	0	1,150	0
From Gasoline Tax (MAP)	2,151	2,156	5	2,180	-110	2,195	15	2,224	44
Leased Vehicle Gross Receipts	1,508	1,714	206	1,580	-73	1,765	185	1,820	240
Total Local Government Road Fund Income	**21,165**	**22,902**	**1,737**	**22,733**	**212**	**23,564**	**831**	**24,039**	**1,306**
Aviation Fund:									
Gas Taxes (Aviation)	388	389	1	395	-18	396	1	401	6
Aviation Jet Fuel	919	703	-216	985	-110	930	-55	1,000	15
Aircraft License Fees	73	68	-5	78	-2	71	-7	71	-7
0.046% of General Fund GRT (Aviation)	714	815	101	781	75	842	61	0	-781
Total Aviation Fund Income	**2,094**	**1,975**	**-119**	**2,239**	**-55**	**2,239**	**0**	**1,472**	**-767**
Transportation Fund:									
Motorcycle Registration (Fund 8)	75	86	11	74	1	83	9	85	11
Motorcycle Training Fund Interest (Fund 8)	3	5	2	7	2	8	1	7	0
Driver Improvement Fees (Fund 9)	196	179	-17	190	30	190	0	190	0
DWI Prevention (Fund 10)	162	204	42	160	30	160	0	160	0
Traffic Safety Fees (Fund 5)	878	683	-195	900	0	700	-200	725	-175
Traffic Safety Fees Interest (Fund 5)	37	92	55	80	20	91	11	82	2
Community DWI Prevention Fee (Fund 5)	742	584	-158	750	0	700	-50	725	-25
Ignition Interlock Devices (Traffic Safety)	n/a	1,186	1,186	n/a	n/a	900	900	550	550
Total Transportation Fund Income	**2,093**	**3,019**	**926**	**2,161**	**83**	**2,832**	**671**	**2,524**	**363**
TOTAL STATE REVENUES	**397,332**	**430,637**	**33,305**	**417,491**	**4,558**	**432,030**	**14,539**	**440,968**	**23,477**

Road Fund

Included in the Road Fund are unrestricted and restricted revenues. Restricted revenues are typically earmarked funds for special purposes such as Aviation, Traffic Safety programs, and grants to local governments. Unrestricted revenues (to the "State Road Fund") support the bulk of the activities associated with the state highway system and, therefore, receive the most scrutiny during the budget and appropriation process.

Prior year tax revenues (FY06) to the State Road Fund came in about 1.4% stronger than forecast for budget purposes. Strength in Special Fuels Tax, along with a resurgence in Trip Tax revenue, more than offset the weakened growth in Gasoline Tax revenue caused by high gasoline prices.

This latest estimate has revised expected FY07 revenues up by $12.5 million, primarily based on continued strength in heavy truck (Special Fuels and Weight-Distance) taxes, and stronger than expected Vehicle Registration revenue in FY2006. While the ***revenue*** trend is forecast to maintain a generally normal rate of growth (about 1% in FY07 and about 2% in FY08), the growth in the ***budget*** is forecast at about $20 million or 5% for FY08.

Aviation Fund

The 34% reduction in FY08 revenue to the Aviation Division results from the sunset of funding for the Air Service Assistance Program pursuant to Section 7-1-6.7, Subsection C.

SIGNIFICANT ISSUES

Federal Funding Outlook. The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was signed by President Bush on August 10, 2005, ending a two-year effort by Congress to reach agreement on funding for highway, highway safety, motor carrier safety, and mass transit. This bill authorizes funding for federal fiscal years (FFY) 2004-2009.

Over this five year period, New Mexico was scheduled to receive $1.8 billion in highway funding, representing a 30.3 percent increase over SAFETEA-21 levels. Due to rescissions imposed by Congress, New Mexico in FY08 alone may only receive about $321 million, $35 million less than was received in FY07. Similar obligation shortfalls are expected for the remaining years of SAFETEA-LU. Actual amounts are unknown because of the seemingly endless continuing resolutions in the federal budget process. Additionally, the number of earmarked and high-priority projects designated within SAFETEA-LU has grown substantially from prior years further impacting the availability of federal funding for state defined projects.

Reductions in federal funding significantly impact the state's ability to maintain and preserve its existing roadways. Without the expected growth in these funds, the department does not have sufficient resources to address future needs and to keep pace with escalating construction costs. In FY07, federal highway funding accounts for 61 percent of the debt servicing requirements of the department.

STIP and GRIP Implementation and Project Planning. To fund GRIP, the Legislature in 2003 authorized the issuance of $1.6 billion of bonds over an eight-year period to fund 37 transportation projects, including commuter rail in the Interstate 25 corridor. Debt service for these bonds comes from the state's existing dedicated federal and state transportation revenue streams.

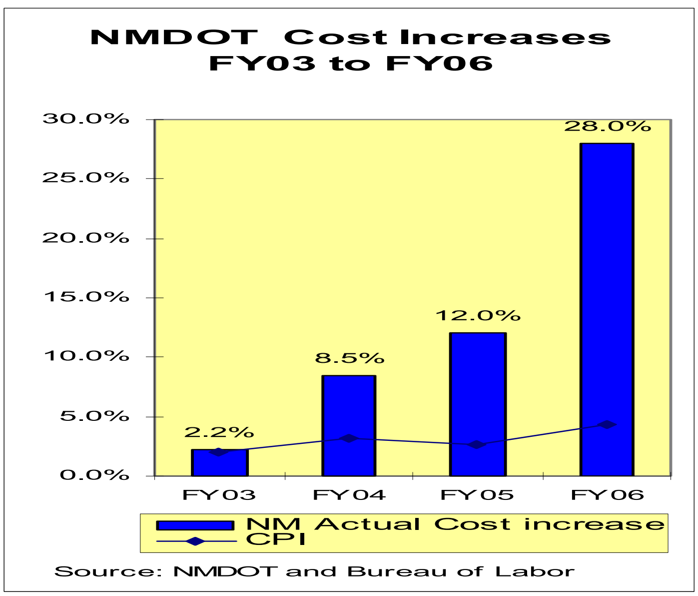
Prior to passage of GRIP legislation, many of the corridors and projects identified in GRIP had been programmed in the Statewide Transportation Improvement Plan (STIP) using federal funds for one level or another of pavement preservation for the period between federal fiscal year 2004 and federal fiscal year 2009. It is estimated that over $338 million in this STIP funding will "overlap" GRIP funding. This overlap gave the department the ability to accommodate the additional cost of $318 million associated with the commuter rail. When added to the original $1.585 billion for GRIP, the true cost of the GRIP program is closer to $2 billion.

As predicted, GRIP has had a positive economic impact on the state. Major projects were able to be moved forward years ahead of schedule. Presently over 97 percent of the GRIP projects have been awarded to New Mexico contractors with over 1,700 private sector jobs created throughout the state.

GRIP was initiated in response to a study conducted by NMDOT that showed $11 billion in needs on state-maintained roads. At the conclusion of the GRIP program in 2011, the total STIP program will shrink in size to less than $150 million per year with approximately $9 billion in needs, in 2003 dollars, left unmet. The department's bonding capacity will be extremely limited based on the size of debt remaining on the GRIP bonds. Alternative funding mechanisms are needed not only for the vast statewide needs but also the very different and costly needs found in the growing metropolitan area of Bernalillo, Sandoval, and Valencia counties. The department must consider how, post GRIP, the state will handle the expensive major projects in metropolitan areas without significantly depleting STIP statewide. The department should initiate serious study of this issue sooner rather than later.

The implementation and coordination of the STIP program with the GRIP represents a continuing challenge for NMDOT. GRIP is driving the STIP. In FY08 GRIP projects alone will account for 79 percent of all construction activity within NMDOT.

Inflation. In December 2005 the department reported to LFC it had experienced 12 percent inflationary growth on all GRIP projects. The department projected at that time that inflation in FY06 would be about 3.5 percent. Unfortunately, the FY06 inflation level was closer to 28 percent. This inflationary spiral is associated with the price of oil combined with national shortages of both steel and concrete. It has dramatically increased project costs, delayed construction, and required the use of STIP funds from the deferred projects to supplement the GRIP program. The department in October 2006 estimated that GRIP is under-funded by $250 million and the remainder of STIP by as much as $120 million for plan years 2005 to 2009. These cost increases are not unique to New Mexico and other states are struggling with the same issues regarding the continued funding of their programs.



The department anticipates continued adjustments will be required for both GRIP and STIP projects with the expected continuation of this inflationary trend. The department continues to stress that projects within STIP will be completed but may be delayed to meet the new funding requirements.

Through October 2006 NMDOT had designed and let for construction 35 GRIP projects valued at over $421 million. This represents approximately 24 percent of the total GRIP program. Eighty-four projects are under contract for design with an additional 70 projects being designed in-house. The department is scheduled to have spent $677 million by the end of FY07, $30 million less than originally projected.

The construction community might not have the capacity to accommodate such an aggressive program, especially in light of steep inflationary pressures and lack of materials. This concern partly stems from the observation that actual payments to contractors from GRIP proceeds have not kept pace with the planned drawdown for GRIP proceeds. Paying debt service on bond issuances does not make financial sense.

Bond Program and Debt Management. The department has a total outstanding debt of $1.6 billion with an FY08 debt service obligation of $139.2 million for all NMDOT bonds. The Transportation Commission established an internal policy limiting annual debt service for all bonds to no more than $160 million. The GRIP bonds account for $1.14 billion in outstanding principal with a final maturity date in 2024. Total GRIP interest and bond expenses will total $720 million through maturity of the bonds.

Road Maintenance. Maintenance costs for FY06 also accelerated dramatically. In addition to oil and material costs, other major factors contributing to these high costs are the mobilization of materials and equipment to remote areas. The total number of lane miles within the NMDOT system has increased by 10 percent as has the average number of miles maintained per FTE since FY97.

Chip-Seal Program. This program is a major component of the maintenance program of the department. Chip-sealing resurfaces existing roads, thus prolonging their lives. Between FY99 and FY06, chip-sealing costs increased 92.3 percent, and the miles sealed decreased 42.6 percent. In 1999 the 2,400 miles chip-sealed equated to a five to six year maintenance cycle. In comparison, the 1,378 miles sealed in FY06, at over $7 thousand per mile, equates to a nine to ten year cycle. By moving to a nine to ten year cycle, the quality of the roads throughout the state will erode at the same rate but will take twice as long to be repaired as in the past.

Bridge Maintenance. The state has 256 bridges considered structurally deficient. This is a decrease from a high of 281 deficient bridges reported in FY04. Funding levels for bridge maintenance are at an all-time high with many bridges scheduled for replacement within various STIP and GRIP projects. Bridge replacement costs have risen from an FY05 cost of $75 per square foot to FY06 estimates of $110 per square foot. These increases are a direct result of rising steel, concrete, and energy pricing.

Public Transportation Initiatives. The department's strategic plan includes as a key element the development of transportation alternatives, such as commuter rail or bus service.

Commuter Rail. GRIP legislation provided for reconstruction and improvement of the Interstate 25 (I25) corridor from Belen to Santa Fe to accommodate public transportation elements, including commuter rail. In a partnership between the department and the Mid-Region Council of Governments (MRCOG), NMDOT is approaching commuter rail in two phases: Belen to Bernalillo, and Bernalillo to Santa Fe.

Phase one service between Albuquerque and Bernalillo began on July 14, 2006. Service between Albuquerque and Belen is behind schedule and tentatively scheduled to begin December 2006. MRCOG is targeting December 2008 as the completion date for phase two. This phase will require building approximately 25 miles of new track around La Bajada and into Santa Fe. Public hearings have been held and are continuing regarding the selection of this route.

NMDOT has earmarked $318 million of GRIP funds and another $75 million of federal monies for the completion of the commuter rail project. The federal funds are contingent on successful acceptance of the department's alternative analysis by the federal government. The New Mexico Legislature in 2006 made the department's appropriation for contractual services contingent on total costs for commuter rail not exceeding these levels.

In FY06 the department purchased 10 bi-level passenger rail cars ($22.9 million) and four locomotives ($9.6 million). A fifth locomotive was purchased for $2.25 million using monies from Sandoval County. Station costs are estimated at $16 million for seven stations with some of the costs of the Bernalillo station to be paid by Sandoval County.

NMDOT and MRCOG are finalizing an operational budget that will outline both operational revenues and expenses for the next three to five years. This projection will also include forecasts of capital needs. These budget projections are critical because expected operational losses will need to be offset by other revenue sources. Preliminary analysis indicates that to some extent these revenues may come from the state road fund. This would overload a funding stream currently hard-pressed to meet the needs of the state highway system.

Phase one operational costs are being subsidized for the first three years of operation with federal congestion mitigation and air quality (CMAQ) funding of $10 million per year. MRCOG estimates actual costs will be about $14 million per year.

Investment in public transportation systems, such as commuter rail, is good public policy provided that the benefits outweigh the costs. The development of light rail systems within congested metropolitan areas in addition to enhanced high occupancy vehicle and bus transportation efforts, such as Park and Ride, may represent a greater benefit to the public than the establishment of a commuter rail system.

Sustainability of Park-and-Ride Programs. The development of consumer demand for public transportation is not simply an issue of generating sufficient volume, but also an issue of changing behavior. The surge in retail gasoline prices has served as that change agent. Park-and-Ride ridership levels are at an all time high. The communities being served by Park-and-Ride are concerned that NMDOT will seek to reduce funding levels for park-and-ride programs as commuter rail to Santa Fe becomes reality. This would be a mistake. These two programs should not be viewed as competitors but rather as complementary services with each serving a distinct need.

Park-and-Ride ridership has more than doubled on the Albuquerque-to-Santa Fe route due to the sharp rise in gasoline prices. In FY06 the department opened new routes between Santa Fe and Las Vegas and between White Sands missile range and Las Cruces. However, the Espanola routes continue to experience ridership issues that have resulted in reviews of service. The department has effectively adjusted routes and service levels to meet demand. NMDOT should continue to evaluate costs and benefits, including the impact of reduced traffic congestion. Additionally, all alternatives should be considered in meeting public transportation needs. Van pools for certain markets might be more practical and affordable in addressing commuters' needs than Park-and-Ride buses.

PERFORMANCE IMPLICATIONS

Performance targets set under the Accountability in Government Act and those listed in HB 4 are a culmination of meetings between the Agency, the Executive, and the LFC. In light of increased revenue these targets have been set with realistic improvement standards for maintaining the current conditions of the highway system and continued improvement in other programs. The following table reflects the FY08 performance targets recommended by the HTPWC outlined in HB4.

1	**Infrastructure and Programs**	**HB 4**
A	Quality: Ride quality index for new construction	>=4.3
B C	Output: Annual rural public transportation ridership Output: Revenue dollars per passenger on park and ride	700,000 $2.25
D	Explanatory: Annual number of riders on park and ride	275,000
E	Outcome: Annual number of commuter rail riders between Belen and Bernalillo	300,000
F G	Quality: Percent of final cost over bid amount Explanatory: Percent of programmed projects release to bid according to schedule	<=4.0% 85%
H I	Outcome: Percent of front-occupant seat belt use by the public Outcome: Number of alcohol-related traffic fatalities per one hundred million vehicles miles traveled	91% .88
J	Outcome: Number of non alcohol-related traffic fatalities per one hundred million vehicles miles traveled	1.12
K	Quality: Percent of runway miles rated good per federal aviation administration standards in public use airports	60%
2	**Operations**	**HB 4**
A	Outcome: Number of statewide improved pavement surface miles	4,500
B	Efficiency: Maintenance expenditures per lane mile of combined system miles	$3,500
C	Quality: Customer satisfaction levels at rest areas	90%
3	**Program Support**	**HB 4**
A	Outcome: Percent of vacancy rate in all programs	10%
B	Quality: Number of external audit findings	<=4
C	Quality: Percent of prior-year audit findings resolved	100%
D E	Efficiency: Percent of payments made in less than thirty days Output: Number of worker days lost due to accidents	99% 127

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Related to HB 7 and HB2

GM/csd