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

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SPONSOR	Lundstrom	**LAST UPDATED**	2/24/07	**HM**	35/aHTPWC
SHORT TITLE	Transportation Needs & Funding Strategies			**SB**	
				ANALYST	Moser

SOURCES OF INFORMATION
LFC Files

Responses Received From
NM Department of Transportation (NMDOT)

SUMMARY

Synopsis of HTPWC Amendment

The House Transportation and Public Works Committee amendment changes the reporting date for the study to October 15,2007 from January 15, 2008.

Synopsis of Bill

House Memorial 35 requests that the Secretary of NMDOT appoint a technical committee for the purpose of developing data and information regarding influences on the future outlook of transportation in NM and alternative funding strategies to be available for use by decision makers to aid in addressing sustainable transportation systems for NM. The study results are to be reported to the governor and legislature no later than January 15, 2008.

FISCAL IMPLICATIONS

This study will provide the basis for determining alternatives for funding transportation within NM into the future.

SIGNIFICANT ISSUES

GRIP was initiated in response to a study conducted by the 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 decrease 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 upon the size of debt remaining on the GRIP bonds.

Alternative funding mechanisms need to be explored by the department that will provide options to the state to be able to handle not only the vast statewide needs but also the very different and costly needs found in the growing metropolitan area found in tri-county area of Bernalillo, Sandoval and Valencia counties.

Consideration needs to be given to how post GRIP the state will handle the expensive major projects in metropolitan areas without significantly depleting the STIP statewide. The LFC recommended in its report to the legislature that the NMDOT should initiate a serious study of this issue sooner rather than later. This proposed memorial moves in that direction.

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

In December of 2005 the department reported to the LFC that it had experienced 12 percent inflationary growth on all GRIP projects. The department prognosticated at that time that inflation in FY06 would be closer to a 3.5 percent growth rate. 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 the 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 as New Mexico regarding the continued funding of their programs.

However, the impact of these increased costs to the department raises questions regarding its ability to assess and address these increases in a timely fashion rather than after the fact. Nine months after the department had advised the LFC that FY06 inflation should be at 3.5 percent the department advised the state transportation commission that prices for FY06 showed a growth rate of 24 percent over FY05, twice the level experienced in FY05.

The department anticipates continued adjustments will need to be made to both GRIP and STIP projects with the expected continuation of this inflationary trend. This may result in projects being delayed even further as they are moved into other plan years, and/or redesigned. The department continues to stress that projects within the STIP will be completed but may be delayed in order to meet the new funding requirements. The management of these projects and the restrictions on resources makes this a perennial juggling act within STIP.

Maintenance costs for FY06 also accelerated dramatically. In addition to oil and material costs other major factors contributing to these high costs are the remote areas and the cost of mobilization of materials and equipment. 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.

This program is a major component of the maintenance program of the department. Chip sealing resurfaces existing roads thus prolonging their life. Between FY99 and FY06 costs have increased 92.3 percent with a 42.6 percent decrease in miles per year able to be sealed. In 1999 the 2,400 miles that were chip-sealed equated to a 5-6 year cycle as compared to 1378 miles at over $7 thousand per which equates to a 9-10 year cycle. By moving to a 9-10 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.

The state has 256 bridges that are 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 FY04/05 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.

Continued high fuel prices subject the State Road fund (SRF) to significant risk. The tax of $0.17 per gallon is a unit tax based upon the quantity of gallons sold and not the price of a gallon of gasoline, and it is not indexed to inflation. Thus, as prices for gasoline rise, demand/consumption decreases, resulting in fewer gallons being sold and less tax revenue for the SRF. In the decade since the gasoline tax (1995) was last adjusted, inflationary increases to the price of gas coupled with decreasing fuel consumption, both as a result of lower utilization and more fuel efficient vehicles, have impacted the purchasing power of gas tax revenues. After adjusting for inflation, the purchasing power of the gasoline tax has declined from $0.17 per gallon in 1995 to approximately $0.13 cents per gallon representing a 22 percent decrease in revenue potential for the state.

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, FHWA funding accounts for 61 percent of the debt servicing requirements of the department.

OTHER SUBSTANTIVE ISSUES

Submittal of a report NLT January 15, 2008 to the Governor and the Legislature will make it difficult to study and develop appropriate legislation, if needed. Changing the date to October 15th and having the report submitted to the Governor and the Legislative Finance Committee will allow sufficient time to complete analysis and develop any requisite legislation

This committee will be composed of members of NMDOT, the NM division of the federal highway administration, associated contractors of NM, American council of engineering companies of NM, NM passenger transportation association, regional planning organizations, municipal planning organizations and other transportation and aviation associations

GM/csd