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

SPONSOR Altimarano **ORIGINAL DATE** 01/27/07 **LAST UPDATED** 2/22/07 **HB**

SHORT TITLE Severance Tax Bond Transportation Projects **SB** 512

ANALYST Moser

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
$50,000.0	$50,000.0	Recurring through FY2012	Severance Tax Bond

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates to: HB 496
Relates to: HB 1235

SOURCES OF INFORMATION
LFC Files

Responses Received From
NM Department of Transportation (NMDOT)
NM Finance Authority (NMFA)

SUMMARY

Synopsis of Bill

Senate Bill 512 proposes a new section of the Severance Tax Bonding Act that authorizes the State Board of Finance to issue and sell up to two hundred and fifty million dollars ($250,000) in severance tax bonds for transportation projects. The bill imposes a restriction that no more than fifty million dollars ($50,000) of severance tax bonding capacity may be used in a single fiscal year between fiscal years 2007 and 2012. Proceeds from the sale are appropriated to the Severance Tax Transportation Fund for distribution as directed by the Department of Transportation, subject to administration by the New Mexico Finance Authority (NMFA), for projects pursuant to Section 6-21-6.12. Money from the bonds cannot be used to pay indirect costs. The purpose of the bonds is to partially fund transportation access to provide funding for only the 116 local government transportation projects specifically identified in the bill. The bill specifically states that "…money in the fund shall be distributed to the local governments for projects specifically authorized by the legislature." Unlike the GRIP legislation this bill specifically identifies projects and the maximum dollars allowed for each project. The bill declares an emergency and will take effect immediately.

FISCAL IMPLICATIONS

The $250 million appropriation contained in this bill is a recurring expense to the severance tax bond fund through fiscal year 2012 as a result of the issuance of severance tax bonds in the amount not to exceed $50 million in any given fiscal year. Any unexpended or unencumbered balance remaining at the end of FY 2012 shall revert to the Severance Tax Bond Fund.

SIGNIFICANT ISSUES

The bill establishes that the NMDOT, rather than the legislature, is responsible for establishing funding priorities and qualifications for the 117 transportation projects. Projects may only qualify for funding if the local government submitted through NMDOT's regional or metropolitan planning organizations.

The NMDOT indicates that the bill provides funding to integrate the state and local transportation network. The projects were identified and proposed as critical projects for safety, economic development and mobility by local and tribal governments.

The bill also creates a project statewide for up to five hundred thousand dollars ($500,000) to be expended by the Department of Transportation for engineering and design services for the specified projects.

The NMDOT asserts that the 117 locally-identified projects contained within the bill were submitted through the Regional and Metropolitan Planning Organizations with active participation from local and tribal governments.

The local match, which NMDOT indicates may be in-kind services, federal funds, local government road fund appropriations, grants, or loans, required for these projects depends on the total project cost as follows:

- a project of one million dollars ($1,000,000) or less requires a ten percent match;
- a project greater than one million dollars ($1,000,000) but less than or equal to six million dollars ($6,000,000) requires a twenty percent match; and
- a project with a total cost greater than six million dollars ($6,000,000) requires a 30% match.

The NMDOT has indicated that it is also reviewing and developing criteria for hardship matching options.

The bill includes funding up to twenty-five million dollars ($25,000,000) to be distributed between FY2007 and FY2010 for the development of transportation access to the spaceport in Sierra and Dona Anna Counties without requiring local match. The Bill does not restrict distribution of these funds over a period of years. Accordingly, the spaceport if drawn in one year would use fifty percent of the available funding.

The Department of Transportation may use earnings from investing the fund to pay for administrative costs associated with the fund and engineering costs.

The bill specifies the local projects, listing the dollar amount, purpose, and location. The attached table provided by NMDOT lists the projects, provides a brief description, dollar amounts and match requirements (See Attachment). The costs associated with these projects will require a local matching requirement of about approximately $64.6 million.

The NMDOT acknowledges that there is no schedule for these projects. Funds will be disbursed dependent upon project readiness and the availability of match. The bill allows for any amount not certified by the NMDOT for issuance in a fiscal year to be carried forward and credited against the amount to be certified in subsequent years.

The remainder of the bill specifies the other local projects, listing the dollar amount, purpose, and location.

The bill declares an emergency and will take effect immediately.

ADMINISTRATIVE IMPLICATIONS

NMFA indicates that The Severance Tax Transportation Fund will be administered pursuant to criteria set out in the bill that include match requirements by local government. Upon certification by the Department of Transportation that a project has been approved for payment, money in the fund would be distributed by the New Mexico Finance Authority to local governments for projects specifically authorized by the Legislature.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This Bill is a duplicate of House Bill 496 and is related to HB1235. Passage of HB 1235 would require that the Legislature set the priority for any projects funded by the Local Transportation Infrastructure Fund. GRIP II funding match required from local governments will in part be coming form this fund. Senate Bill 512 will conflict with HB 1235 in that it provides for the NMDOT to prioritize projects and not the Legislature

TECHNICAL ISSUES

As pointed out, this bill allows the NMDOT to use earnings from investing the fund to pay for administrative costs associated with the fund and engineering costs. The bill does not identify what these administrative costs are or who would be eligible to receive them. Nor, does the bill differentiate between the engineering costs eligible under this language from the engineering and design services for specified projects as outlined in the prior paragraph. This should be clarified.

OTHER SUBSTANTIVE ISSUES

This bill provides for a fifty million dollar <u>recurring</u> appropriation of severance tax bonds for a five fiscal year period in which there is uncertainty of the state's revenues.

ALTERNATIVES

The GRIP program, in 2005 and again in 2006, experienced substantial inflationary pressure due to increased costs of highway construction materials. This inflationary pressure will result in the GRIP program being approximately $250 million under funded. This inflationary pressure, while hopefully not at the 2006 level of 26 percent, is expected to continue in the near future. If these expectations are realized, there may be insufficient funding to complete all GRIP II projects as planned. An alternative would be to use existing general fund revenues to pay for all or some of these projects and to then bond the remaining projects over a shorter time frame. The local governments will not have sufficient resources to meet their needs and will continue to look for alternative funding sources. Additionally it must be noted that the utilization of existing capital fund revenue to fund either all or part of this initiative will have a significant impact upon the availability of future capital funding to the state in those years in which state revenues may not meet expectations. There is significant concern that capital funding availability will diminish in the near future with the state's availability to address other priorities being severely restricted by multi-year commitments. Perhaps an alternative to consider would be to base the amount of capital outlay available for GRIP II each year as a percentage of the total capital available. This is especially evident when one reviews the most current forecast/scenario of capital outlay funding availability developed by LFC economists.

FORECAST OF CAPITAL OUTLAY AVAILABLE

	FY07	FY08	FY09	FY10
STB Capacity	**328.3**	**285.7**	**269.4**	**256.2**
December 2006 Note and Authorized Unissued	*(33.8)*			
Spaceport (Funded in FY08/FY08 rather than FY07/FY08)		*(66.0)*	*(34.0)*	
GRIP I	-	*(50.0)*	*(50.0)*	*(50.0)*
GRIP II (Exec. Rec.)	*(50.0)*	*(50.0)*	*(50.0)*	*(50.0)*
Water Project Fund (Statutory 10% of STB)	*(32.8)*	*(28.6)*	*(26.9)*	*(25.6)*
Commuter Rail (Exec. Rec.)	*(35.0)*	-	-	-
NET STB CAPACITY	**176.7**	**91.2**	**108.4**	**130.5**
GENERAL FUND AVAILABLE				
	FY07	**FY08**	**FY09**	**FY10**
Recurring Revenues	**5,662.3**	**5,836.0**	**6,032.6**	**6,259.0**
Tax Cuts	(40.0)	(115.0)	(85.0)	(88.4)
NET REVENUES	**5,622.3**	**5,721.0**	**5,947.6**	**6,170.6**
% Growth		***2%***	***4%***	***4%***
Recurring Appropriations	**5,144.0**	**5,702.7**	**5,947.6**	**6,170.6**
% Growth		***11%***	***4%***	***4%***
Specials, Supplementals, Deficiencies & IT *	258.9	40.0	40.0	40.0
GF Capital Outlay	504.5	100.0	100.0	-
Other Items (Reserve transactions not detailed)	1.8	-	-	-
Ending Balance	**514.5**	**392.8**	**252.8**	**212.8**
Reserve as Percent of Recurring Appropriations	10.0%	6.9%	4.3%	3.4%

*** Over last four years, specials have averaged $82 million.**

TOTAL CAPITAL OUTLAY	681.2	191.2	208.4	130.5

GM/mt