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FISCAL IMPACT REPORT

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| SPONSOR <u>Hochman-Vigil</u> | LAST UPDATED <u>2/13/2023</u> |
| SHORT TITLE <u>Department of Transportation Appropriation Act</u> | ORIGINAL DATE <u>02/06/2023</u> |
| | BILL NUMBER <u>House Bill 3/aHTPWC</u> |
| | ANALYST <u>Simon</u> |

APPROPRIATION* (dollars in thousands)

| Appropriation | | Recurring or Nonrecurring | Fund Affected |
|---------------|-------------|------------------------------|-----------------------|
| FY23 | FY24 | | |
| | \$716,169.0 | Recurring | State Road Funds |
| | \$10,300.0 | Recurring | Interagency Transfers |
| | \$504,389.6 | Recurring | Federal Funds |
| | \$197,000 | Nonrecurring | General Fund |

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Duplicates appropriation in the LFC recommendation

Sources of Information

LFC Files

SUMMARY

Synopsis of HTPWC Amendment to House Bill 3

The House Transportation, Public Works and Capital Improvements Committee Amendment to House Bill 3 (HB3/aHTPWC) includes the FY24 operating budget appropriations for the Department of Transportation (NMDOT), as adjusted based on consensus reached by the technical group comprised of staff from the Department of Finance and Administration, Legislative Finance Committee, House Transportation, Public Works and Capital Improvements Committee, and NMDOT. This amendment also includes performance measures and targets.

HB3/aHTPWC appropriates \$1.26 billion, including \$716 million from state revenues and \$504.4 million from federal funding sources, to support the operational activities of NMDOT in FY24. In addition, the amendment adds \$197 million in special transportation appropriations for projects statewide.

Synopsis of Original Bill

House Bill 3 (HB3) includes the FY24 operating budget appropriations for the Department of Transportation (NMDOT) based on the Legislative Finance Committee's FY24 budget recommendation and includes recommended performance measures and targets.

HB3 appropriates \$1.2 billion, including \$671.5 million from state revenues and \$504.4 million from federal funding sources, to support the operational activities of NMDOT in FY24. 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/aHTPWC appropriates state funds totaling \$913 million including \$609 million from the state road fund, \$107 million in restricted use state funds, and \$197 million from the general fund balance as shown in the appropriations table. In addition, HB3 appropriates \$504.4 million in federal funds, and \$10.3 million from the weight distance permit identification fund and grants transferred to the agency.

SIGNIFICANT ISSUES

NMDOT forecasts state road fund revenue every January and July, budgeting projected revenue in the request. For FY24, NMDOT expects a 2.4 percent increase from the road fund. The largest sources of revenue to the road fund are fuel taxes, generating 46 percent of total revenue; fees on commercial trucking, accounting for 22 percent of revenue; and taxes on vehicle sales and registration fees, amounting to 26 percent of revenue.

Prior to FY22, federal funding stagnated for several years; however, the state saw a significant increase 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 state road fund is used to provide these matching funds.

Despite the increase in federal funds, NMDOT staff have noted construction bid costs have been increasing over the past year, with average bids coming in significantly higher than previously estimated. In FY22, quarterly average bid-over-estimates amounts ranged from 18 percent in the first quarter to 36 percent in the fourth quarter. Collectively, NMDOT estimated the cost of the 42 projects let to bid in FY22 at \$348.9 million, but actual bids came in at \$436.1 million, an underestimate of \$87.2 million, or 25 percent. While gaps between estimates and bid prices have narrowed in FY23, this is largely because of upward revision to engineers' estimates to reflect price increases, rather than a reduction in bid pricing.

The department currently has \$1 billion in outstanding debt obligations, including the issuance of \$234.6 million in debt authorized during the 2021 session. In FY24, the department will spend \$194 million to service debt. This amount includes \$138.4 million from federal sources and \$41.4 million from the state road fund. For FY25 and subsequent years, debt service payments will fall dramatically, to \$111.6 million, and the state will have retired all debt by the end of FY32.

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