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FISCAL IMPACT REPORT

SPONSOR <u>HTPWC</u>	LAST UPDATED _____
	ORIGINAL DATE <u>2/25/2023</u>
	BILL <u>House Bill</u>
SHORT TITLE <u>Transportation Trust Fund</u>	NUMBER <u>428/HTPWCS</u>
	ANALYST <u>Simon</u>

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
		No fiscal impact	No fiscal impact			
Total						

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Relates to House Bills 321 and 412 and Senate Bills 22 and 184

Sources of Information

LFC Files

Responses Received From

State Investment Council (SIC)

Department of Transportation (NMDOT)

SUMMARY

Synopsis of Substitute Bill

The House Transportation, Public Works, and Capital Improvements Committee substitute for House Bill 428 would create the transportation trust fund, to be invested by the State Investment Council (SIC) and make distributions to the state road fund, beginning in FY27, for transportation projects aligned with the Department of Transportation's (NMDOT) long-range plans.

The effective date of this bill is July 1, 2023.

FISCAL IMPLICATIONS

HB428 does not include an appropriation.

The bill would create a new trust fund to benefit transportation infrastructure projects. Beginning in FY27, the state road fund would receive an amount equal to 5 percent of the average value of the trust fund for the three preceding calendar years. Because HB428 does not include an

appropriation, possible distributions from the fund are unknown. Any distributions from the trust fund would be deposited in the state road fund and available to the Legislature for appropriation as part of the annual budget process.

As with other trust funds created by the Legislature, HB428 would allow amounts in the trust fund to be used to avoid an unconstitutional deficit, but only after all other authorized revenues and transfers have been exhausted.

SIGNIFICANT ISSUES

HB428 seeks to address significant need for infrastructure investment identified by the Department of Transportation (NMDOT). NMDOT's operating budget primarily comes from two sources: formula funding from the U.S. Department of Transportation and revenue from gasoline and diesel taxes, fees on commercial trucking, and vehicle registration fees deposited into the state road fund. For several years, these revenues grew at a slow pace, with any additional revenue largely offset by increasing costs. Between FY14 and FY21, annual revenue into the state road fund grew by an average of 2.3 percent.

Recent passage of the federal Infrastructure Investment and Jobs Act and state legislation dedicating a portion of the motor vehicle excise tax to the state road fund have led to increased resources for state roads. Additionally, since 2019, the Legislature has appropriated \$995 million in nonrecurring general fund revenue for state road projects, including funds for road maintenance, new road construction, bridge replacement, and other projects.

Despite significant increases in state and federal funding for road projects, the department has reported a total of \$5.75 billion in unfunded road projects across the state. Notably, the department reports a large number of high-cost projects, in part due to recent increases in construction costs. According to the Federal Highway Administration, highway construction costs are up by 30 percent from FY20, reflecting rising materials and labor costs seen across many industries.

NMDOT revenue projections continue to forecast modest growth for the road fund; however, economists with the department have noted recent increases have been mostly due to commercial trucking, which can be subject to large swings in a volatile economic environment. NMDOT reports state road fund growth could stall if high inflation causes consumer spending to decline or to shift from goods to services.

PERFORMANCE IMPLICATIONS

The conditions of state roads are key performance measures for NMDOT's performance-based budget. NMDOT assesses all New Mexico roads each calendar year using a pavement condition rating (PCR) score to measure roadway conditions. For calendar year 2021, road condition data shows significant improvement in New Mexico's roadways, which the department partially credits to significant additional resources appropriated by the Legislature for road maintenance activities. NMDOT notes there is a direct correlation between deteriorating road conditions and the cost of maintenance on those roadways.

	CY17 Actual	CY18 Actual	CY19 Actual	CY20 Actual	CY21 Target	CY21 Actual	Rating
CY21 Road Condition Survey							
Interstate miles rated fair or better	93%	95%	90%	88%	>90%	97%	G
National highway system miles rated fair or better	89%	97%	88%	84%	>86%	97%	G
Non-national highway system miles rated fair or better	79%	84%	85%	76%	>75%	95%	G
Lane miles in poor condition	4,606	3,783	4,420	6,805	<5,425	1,451	G
Program Rating	G	G	G	Y			G

A PCR score of 45 or less indicates a road in poor condition. In 2021, the average PCR score for the state was 72.1, up from the average 2020 score of 54.9 and average 2019 score of 57.4. The number of lane miles with a rating of below 45 fell by nearly 80 percent, from 6,805 in 2020 to 1,451 in 2021. However, to continue recent gains, the department has noted a need for additional resources to keep up with routine maintenance needs. NMDOT estimates a gap of \$266.4 million between the department’s FY23 operating budget and estimated need for routine maintenance.

ADMINISTRATIVE IMPLICATIONS

HB428 requires money in the fund to be managed by the SIC, in consultation with the secretary of transportation and the state treasurer. Funds distributed by the trust fund to be prioritized through a cooperative and comprehensive process that incorporates national planning goals, aligns with the department’s long-term plans, and addresses multimodal needs. Federal guidelines require NMDOT to produce a fiscally constrained, four-year statewide transportation improvement program. Presumably, money in the fund would benefit projects from that program where the department has been unable to identify a funding source.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Several bills have proposed increases in revenue to the state road fund to support investments in transportation infrastructure. These include

- **House Bill 321**, which would increase the distribution of the motor vehicle excise tax from 21.86 percent to 50 percent, generating an additional \$78 million in FY24 for the state road fund;
- **House Bill 412**, which would generate an estimated \$570 thousand in FY24 (increasing in future years) for the state road fund through additional registration fees on electric and plug-in hybrid vehicles;
- **Senate Bill 22**, which is similar to HB412, but includes higher registration fees than HB412, raising an estimated \$850 thousand; and
- **Senate Bill 184**, which would increase the distribution of the motor vehicle excise tax from 21.86 percent to 60 percent for the state road fund.
- **Senate Bill 275**, which would generate an estimated \$17.7 million per year for the state road fund by increasing motor vehicle registration fees.