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

SPONSOR Altamirano

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HB

SHORT TITLE State Aviation Fund Disbursement & Uses

SB 222/aSFC

ANALYST Schardin

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	$1,855.2	Recurring	State Aviation Fund- GRT Distribution
	$149.8	Recurring	State Aviation Fund- Interest Earnings

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	($1,855.2)	($2,953.0)	Recurring	General Fund- GRT
	($149.8)	($187.8)	Recurring	General Fund- Interest Earnings
	$1,855.2	$2,953.0	Recurring	State Aviation Fund- GRT Distributions
	$149.8	$187.8	Recurring	State Aviation Fund Interest Earnings

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates HB 205
Conflicts with SB 432

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Department of Transportation (DOT)
New Mexico Municipal League (NMML)

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee amendment to Senate Bill 222 extends the sunset of a distribution of 0.046 percent of general fund gross receipts tax revenue from June 30, 2007 to June 30, 2012. This distribution is currently spent on the air service assistance program (ASAP).

Synopsis of Original Bill

Senate Bill 222 creates a new distribution to the state aviation fund from gross receipts tax revenue that would otherwise go to the general fund. This distribution will be $80 thousand per month in FY08, $167 thousand per month in FY09, and $250 thousand per month in FY10 and beyond. These distributions will be used for planning and program administration, construction, equipment, materials and maintenance of a system of airports, navigation aids and related facilities.

The bill also amends Section 64-1-15 NMSA 1978 so that earnings from investment of the state aviation fund will be credited to that fund and so that state aviation fund balances will no longer revert to any other fund. The bill also amends this statute so that expenditures from the state aviation fund will be made in accordance with budgets approved by DOT rather than the Department of Finance and Administration.

The effective date of these provisions is July 1, 2007.

FISCAL IMPLICATIONS

The original bill creates a new monthly distribution to the state aviation fund from gross receipts tax collections that are distributed to the general fund under current law. The distribution will total $960 thousand in FY08, $2.0 million in FY09, and $3 million in FY10 and beyond. All money in the state aviation fund is automatically appropriated to the Aviation Division of DOT.

The Senate Finance Committee amendment increases the bill's fiscal impact. According to the December 2006 consensus revenue estimate, general fund gross receipts tax revenues are expected to total $1,945.3 million in FY08, $2,062.0 million in FY09, and $2,179.5 million in FY10. Therefore, the fiscal impact of the bill would be to reduce general fund revenue by $895.3 thousand in FY08 and by proportionately higher amounts in FY09 through FY12. The Senate Finance Committee amendment has no fiscal impact in FY13 and beyond.

By preventing the state aviation fund and its interest earnings from reverting to the general fund, general fund interest earnings will fall somewhat. Based on average fund balances over the last two years adjusted for the new distribution created by this bill, general fund interest earnings are expected to fall by $149.8 thousand in FY08, $187.8 thousand in FY09 and $176.7 million in FY10 and beyond.

SIGNIFICANT ISSUES

According to DOT, the original provisions of Senate Bill 222 will help leverage additional matching funds from the Federal Aviation Administration (FAA) for use on statewide airport construction projects. These airport construction projects need only 5 percent in combined state and local funds to earn a 95 percent federal match.

In FY06, New Mexico received about $6.3 million in FAA discretionary funds, the lowest amount of all states in the FAA's southwestern region (Arkansas received $14.5 million, Louisiana received $34.4 million, Oklahoma received $16.2 million, and Texas received $127.9 million).

DOT reports that New Mexico's airport infrastructure capital needs are about $60 million per year, although only about $15 million per year is available. The New Mexico air transportation system capacity may be reduced due to lack of maintenance funding for existing infrastructure. At immediate risk are airports in Las Cruces, Moriarty and Zuni, while airports also at risk include Santa Rosa, Tatum, Fort Sumner, and Roswell.

According to DOT, states that dedicate a reliable revenue stream to aviation improvements are more likely to be considered by the FAA for block grant status, which leads to significantly higher federal funding. Texas, which received $127.9 million in FAA matching funds in FY06, is currently the only block grant state in the southwestern FAA region.

DFA notes that there are currently only two gross receipts tax earmarks in statute— the 0.046 percent earmark to the state aviation fund that will sunset on July 1, 2007 and another for the Public Employees Retirement Association (PERA). All other expenditures are funded instead through the appropriation process. The argument cited by DOT is that an appropriated revenue stream is not stable enough for FAA to award block grant status to New Mexico. DFA suggests that if a stable funding stream is necessary a sunset clause should be added in case federal funds are permanently reduced or eliminated.

Regarding the Senate Finance Committee amendment, DOT reports that the state aviation distribution funding extended by this bill is used to maintain the air service assistance program (ASAP). ASAP funds are used to offset startup costs incurred by airlines to begin air service to small communities in New Mexico. Loss of ASAP funds will result in loss of air service to small communities.

The ASAP program provides a one-time grant of up to $200 thousand that must be matched by an additional $200 thousand by local communities. So far, Taos, Roswell, Los Alamos, Ruidoso, Las Cruces, Carlsbad, Gallup, Artesia, Hobbs and Clovis have participated in the program.

DOT reports that the following projects will fail if the 0.046 percent gross receipts tax distribution is allowed to sunset:

- Roswell is requesting a $200 thousand grant to help start service to Dallas/Forth Worth or Houston. The city believes that an airline is interested in the providing service.
- Ruidoso is recruiting service to Houston.
- Air service from Gallup to Phoenix will resume in spring 2007 if grant funding is available.

- Taos and Los Alamos are working on a grant to help secure air service to Denver.

PERFORMANCE IMPLICATIONS

DOT notes that the FAA currently ranks New Mexico as a "poor performer" in terms of providing airport infrastructure. New Mexico's main weakness is not having a stable funding stream for aviation improvements. Without dedicating funding to aviation infrastructure, it will be difficult for New Mexico to increase its performance ranking and attract additional federal funding.

ADMINISTRATIVE IMPLICATIONS

If New Mexico qualifies for FAA block grant status DOT's Aviation Division will assume greater administrative responsibilities including underrating financial management, processing federal reimbursements, conducting environmental impact studies, and preparing aviation infrastructure action plans.

DFA notes that DOT's Aviation Division currently has seven FTE, and that an influx of funding provided by this bill may require additional FTE.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 222 duplicates House Bill 205.

Senate Bill 222 conflicts with Senate Bill 432, which extends the sunset date of the 0.046 percent distribution of general fund gross receipts tax revenues to the state aviation fund from June 30, 2007 to June 30, 2010 but does not provide a dedicated funding stream to the state aviation fund for FAA-related improvements.

OTHER SUBSTANTIVE ISSUES

The bill changes the requirement in Section 64-1-15 NMSA 1978 that all state aviation fund expenditures is made in accordance with budgets approved by DFA so that approval will be given by DOT. DFA is concerned about this change because of findings that state road fund revenue for the "100 percent state" construction program was not used exclusively for that purpose.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Without a dedicated funding stream for FAA funds, DOT suggests that New Mexico's backlog of airport improvement projects will continue to grow, and the state's construction sector will not benefit from the stimulus of federal matching funds available for airport construction. New Mexico's airport system will continue to deteriorate and airport safety may be compromised.

DOT believes that if the 0.046 gross receipts tax distribution to the ASAP program sunsets scheduled air service improvements in small communities in New Mexico will not take place.

SS/mt