

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the Legislature. LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

FISCAL IMPACT REPORT

SPONSOR <u>SFC</u>	LAST UPDATED <u>2/13/24</u> ORIGINAL DATE <u>2/8/24</u>
SHORT TITLE <u>Transportation Project Bonds</u>	BILL NUMBER <u>CS/Senate Bill 300/SFCS</u> ANALYST <u>Carswell/Simon/Torres, Ismael</u>

APPROPRIATION* (dollars in thousands)

FY24	FY25	Recurring or Nonrecurring	Fund Affected
	Up to \$205,800.0	Nonrecurring	Severance Tax Bonding Fund
	Up to \$322,000.0	Nonrecurring	State Road Fund

Parentheses () indicate expenditure decreases.
 *Amounts reflect most recent analysis of this legislation.

REVENUE* (dollars in thousands)

Type	FY24	FY25	FY26	FY27	FY28	Recurring or Nonrecurring	Fund Affected
Capital Outlay		Up to (\$205,800.0)	Up to (\$205,800.0)			Nonrecurring	Severance Tax Bonding Capacity Available for Appropriation

Parentheses () indicate revenue decreases.
 *Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

Agency/Program	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
NMDOT		\$16,100.0 to \$48,300.0	\$16,100.0 to \$48,300.0	\$32,200.0 to \$96,600.0	Recurring	State Road Fund

Parentheses () indicate expenditure decreases.
 *Amounts reflect most recent analysis of this legislation.

Relates to House Bills 153, 231, 286, and 300; Senate Bill 104 and appropriations House Appropriations and Finance Committee Substitute for House Bills 2 and 3.

Sources of Information

LFC Files

Agency Analysis Received From
 Board of Finance (BOF)
 Department of Transportation (NMDOT)

Agency Analysis was Solicited but Not Received From
Taxation and Revenue Department (TRD)
New Mexico Finance Authority (NMFA)

SUMMARY

Synopsis of SFC Substitute for Senate Bill 300

The Senate Finance Committee substitute for Senate Bill 300 (SB300) authorizes up to \$205.8 million in bonding capacity from the severance tax bonding fund to support specified road projects and up to \$247 million in state transportation bonds to support specified road projects.

The bill authorizes the State Board of Finance to issue severance tax bonds for the following projects: improvement of N.M. Highway 213 and N.M. Highway 404 interchange (up to \$45 million); improvement of the Interstate 25 corridor from milepost 276 to 291 (up to \$40 million); improvement of the bridge on Interstate 40 east of Gallup from milepost 28.7 to 30.7 (up to \$62.8 million); construction of an interchange in Los Lunas to access Interstate 25 (up to \$8 million); transportation projects identified in Section 11 of the General Appropriation Act of 2024 (up to \$50 million).

The bill provides conditions that must be met before the Board of Finance issues the bonds, including a finding by the board that the project can proceed to a contract within a reasonable time. If the Department of Transportation has not certified the need for severance tax bond proceeds for the projects authorized in the bill by the end of fiscal year 2026, the authorization is void.

The bill authorizes the Transportation Commission and the New Mexico Finance Authority to issue \$322 million in state transportation bonds for the following projects: improvement of U.S. Highway 380 from Roswell to the Texas state line (\$45 million); improvement of the Interstate 25 and U.S. Highway 64 interchange (\$25 million); improvement of U.S. Highway 180 from milepost 128.27 to 142.5 (\$70 million); improvement of N.M. Highway 128 from milepost 28.8 to 50.5 (\$75 million); improvement of Rio Bravo Boulevard in Albuquerque and Bernalillo County (\$107 million). Additionally, the bill imposes a number of reporting requirements on the Department of Transportation related to the projects authorized for state transportation bonds.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or May 15, 2024, if enacted.

FISCAL IMPLICATIONS

SB300 would increase the severance tax bonding fund's authorized but unissued commitments in FY25 and FY26 until NMDOT certified to the Board of Finance the need for bond proceeds to advance the authorized projects. Any issuances would reduce overall revenue available for appropriation in the same fiscal year. The overall effect would be to reduce bonding capacity available for appropriation to capital projects by the Legislature in FY25 and FY26, or in the 2025 and 2026 legislative sessions, by up to \$205.8 million. The impact on capacity in FY26 would decrease with any issuances made in FY25 pursuant to SB300. This fiscal impact report assumes no issuance would occur in FY24 due to the certification and readiness requirements

imposed in the bill and the short period of time between the bill's effective date and the end of the fiscal year. If any issuances did occur in FY24, the negative impact to future bonding capacity would be reduced by the issuance amount.

SB300 could increase annual debt service payments in NMDOT's annual operating budget, limiting the ability of future Legislatures to appropriate these funds for projects or other operating expenses. The exact impact would depend on the terms NMFA negotiates on behalf of NMDOT. Recent debt issued by NMDOT carries an interest rate of 5 percent, but the department typically receives a premium on the sale of debt, meaning the department receives more revenue than the face value of the issued bonds. For example, in 2021, NMDOT sold \$234.6 million in bonds at an interest rate of 5 percent but received \$302.4 million in revenue for road projects. This effectively reduces the agency's overall borrowing costs. It should be noted that interest rates have increased substantially since 2021 and NMDOT may not be able to get the same premium on debt issued in 2024.

Based on historical practice it is expected any bonds issued by the Transportation Commission and NMFA would carry an interest rate of 5 percent. An interest-only payment on \$322 million in debt with an interest rate of 5 percent would be \$16.1 million per year. NMDOT typically structures debt to pay relatively small amounts of principal in the initial years, with larger payments in later years. For example, in 2018 the department issued \$420 million in debt, with annual payments between \$21 million and \$34 million in FY19 through FY22. But in FY23 those payments rose to \$104 million and in FY24 the payment rose to \$158 million, with more than half of the total principal of the loan being paid in those years. Were NMDOT to pay off roughly 10 percent of the principal each year, that could raise debt service payments by \$48.3 million per year. NMDOT estimates eight years of debt payments at an annual amount of \$45 million, on the top end of the estimate range.

SB294 provides for continuing appropriations. LFC has concerns with including continuing appropriation language in statutory provisions because it reduces the ability of the Legislature to establish spending priorities in the future and commits future Legislatures to the spending decided on by the current membership.

SIGNIFICANT ISSUES

NMDOT has reported significant need for major road projects across the state. For projects named in SB300, NMDOT's online Statewide Transportation Improvement Program includes projects with estimated total costs of at least \$694 million, with many of the projects yet to secure an identified funding source.

Bonds issued for road projects are typically paid back through a combination of different road funding sources. For example, NMDOT's FY24 debt service payments of \$194 million are predominantly from federal revenue deposited into the state road fund (\$138.4 million), with smaller amounts from the state revenue deposited into state road fund (\$41.4 million) and the highway infrastructure fund (\$14.3 million). For FY25 and future fiscal years, the department is planning to spend less of its federal apportionment on debt service, with only \$57.2 million allocated in FY25 and FY26. Federal revenue may be used to cover debt service payments on bonds issued by the Transportation Commission, depending on if those projects meet federal rules. NMDOT states it would use its best efforts to secure federal participation, but if it is unsuccessful in doing so, the bill could significantly impact future maintenance activities and

operations. Additionally, federal road funding would not be available to repay severance tax bonds, meaning the severance tax bonding approach to funding road projects would not leverage federal funds. NMDOT's federal apportionment is capped and does not increase with additional state spending.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Several bills have been proposed to make appropriations to specific projects mentioned in SB300. Those bills include House Bill 153 and Senate Bill 104, for improvements to US-380, House Bill 231, for improvements to NM-128, House Bill 286, for the Los Lunas corridor, and House Bill 300, for US-180 improvements.

CC/JS/IT/al/ne/ss