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FISCAL IMPACT REPORT

ORIGINAL DATE 02/24/11

SPONSOR Smith LAST UPDATED _____ HB _____

SHORT TITLE Severance Tax Bonds for Road Projects SB 434

ANALYST Burrows

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
(\$50,000.0)	\$0.0	\$0.0	Nonrecurring	Severance Tax Bonding Capacity
\$50,000.0	\$0.0	\$0.0	Nonrecurring	State Road Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to SB218

SOURCES OF INFORMATION

LFC Files

Responses Received From

Attorney General's Office (AGO)

Department of Transportation (NMDOT)

SUMMARY

Synopsis of Bill

Senate Bill 434 authorizes the State Board of Finance (BOF) to sell short-term severance tax notes in FY11 in an amount not to exceed \$50 million for capital projects related to the construction, improvement or maintenance of state highways and bridges.

Because no effective date is provided in the bill, its provisions will become effective 90 days after the 2011 Legislative Session adjourns, on June 17, 2011.

FISCAL IMPLICATIONS

Short-term severance tax bonding (STB) capacity for FY11 is estimated at \$84.2 million. Senate Bill 434 would decrease total senior STB capacity by \$50 million. This would result in a loss of \$5 million to the Water Project Fund, which receives 10 percent of senior STB capacity.

Supplemental severance tax bond capacity (SSTB), which funds public school capital projects, will not be affected by this proposal. The figure below illustrates the impact on STB capacity of Senate Bill 434.

	Current	SB434	Difference
Senior Long-Term Issuance	\$180.6	\$180.6	
Senior Sponge Issuance	\$84.2	\$84.2	
<i>Road Fund</i>	<i>\$0.0</i>	<i>(\$50.0)</i>	<i>(\$50.0)</i>
Senior STB Capacity	\$264.9	\$214.9	(\$50.0)
Authorized Unissued	(\$0.4)	(\$0.4)	
Water Project Fund	(\$26.5)	(\$21.5)	\$5.0
Net Senior STB Capacity	\$238.0	\$193.0	(\$45.0)
Supplemental Long-Term Issuance	\$0.0	\$0.0	
Supplemental Sponge Issuance	\$149.2	\$149.2	
Supplemental STB Capacity	\$149.2	\$149.2	
Total STB Capacity	\$387.2	\$342.2	(\$45.0)

The Department of Transportation (NMDOT) notes that the additional funds will assist NMDOT in meeting deferred road improvements.

SIGNIFICANT ISSUES

The state road fund is funded primarily through earmarked revenues, including transportation taxes and motor vehicle registration fees, with few additional appropriations. These revenue sources tend to experience relatively flat growth, which may not be consistent with expenditure growth. Road fund revenue is forecast to grow at an average rate of roughly 3.5 percent through FY15, which is close to the 10-year average inflation rate of 2.5 percent.

NMDOT’s Pavement Preservation Program has accumulated a four-year funding gap of \$213 million, which impacts 10,450 lane miles of state roads. The number of statewide deficient miles has also increased to 3,171 lane miles. Deficient miles generally indicate areas in need of reconstruction or rehabilitation that are beyond pavement preservation. NMDOT anticipates the number of deficient miles will increase in future fiscal years because of declines in preventive maintenance funding.

PERFORMANCE IMPLICATIONS

NMDOT's annual performance target for chip sealing of public roads is 2,500 lane miles statewide. This annual accomplishment is necessary to maintain a five to seven year cycle for chip sealing state roadways. The recent budget reductions have forced NMDOT into a twelve to fifteen year cycle. As a result, NMDOT faces an increased cost of chip sealing. NMDOT estimates \$29.5 million will be needed to fund its current annual chip seal program, as compared to \$10.0 million in FY97.

RELATIONSHIP

HB 477 authorizes the issuance of up to \$150 million in severance tax bonds for road projects.

SB 218 authorizes \$100 million for appropriation to the state road fund for state highway improvements, including pavement preservation treatments, pavement overlay, rehabilitation and highway reconstruction statewide.

OTHER SUBSTANTIVE ISSUES

Since 2006, NMDOT has experienced increased liability for vehicle damage from \$500 thousand to \$1 million due to inadequately maintained roads.

Severance tax bond proceeds are limited by statute to fund *only* capital projects. These funds cannot be used to fund operating budgets.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The BOF will not be authorized to issue severance tax bonds in the amount of \$50 million to the state road fund. Other revenue sources may have to be identified to supplement the state road fund.

LKB/mew

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc