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FISCAL IMPACT REPORT

ORIGINAL DATE 2/24/09
 LAST UPDATED 3/4/09 HB _____

SPONSOR Jennings

SHORT TITLE Rural Electrification Acceleration Project SB 498/aSCORC

ANALYST Francis

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY09	FY10		
	\$4,319.9	Recurring	REAP Project Fund
	\$5,000.0	Recurring	Severance Tax Bonding Fund

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	\$4,319.9		Recurring	REAP Debt Service Fund
	\$133.6		Recurring	General Fund- TRD

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
 Public Regulation Commission (PRC)

Responses Received From
 New Mexico Finance Authority (NMFA)

No Response Received From
 Taxation and Revenue Department (TRD)
 Public Regulation Corporation (PRC)

SUMMARY

Synopsis of SCORC Amendment

The Senate Corporations and Transportation Committee amended Senate Bill 498, changing the rate to \$0.0002 per *kilowatt* hour (KWh) and expanding the definition of electric service infrastructure to remove the restriction to renewable energy generation facilities.

Synopsis of Original Bill

Senate Bill 498 enacts the Rural Electrification Acceleration Project (REAP) Act which creates a financing mechanism to extend electric transmission lines to rural areas. The financing consists of using bond proceeds to fund grants administered and awarded by the PRC for electric infrastructure that will provide electric service to areas not being served. The bonds will be repaid with a fee on electricity used by retail customers of \$0.02 per megawatt hour per month and \$5 million from severance tax bonds annually. TRD can intercept 3 percent of the electricity tax for administration which will be deposited in the general fund.

When evaluating grant applications, the PRC will look at need for electrical service, cost effectiveness of the electric infrastructure and the cost of the service to be provided. The PRC will award the grant if there is a fifty percent commitment and the grant is a prudent use of state money.

The effective date is July 1, 2009.

FISCAL IMPLICATIONS

According to data provided by PRC, there are 892,093 retail customers in New Mexico, 86 percent residential and 14 percent commercial and industrial. However, residential customers only use 29 percent of the electricity. At \$0.0002 per KWh, the electricity fee will generate \$4.3 thousand for the REAP debt service fund and \$133.6 thousand for the general fund.

	<u>Total</u>	<u>Residential</u>	<u>Share</u>	<u>Other</u>	<u>Share</u>
Customers *	892,093	768,394	86.1%	123,699	13.9%
Megawatt Hours **	22,267,394	6,387,363	29%	15,880,031	71%
Kilowatt houts	22,267,394,000	6,387,363,000		15,880,031,000	

* Source PRC; ** Source Energy Information Agency (2007)

Rate	\$ 0.0002	per kilowatt hour
Revenue Generated	\$ 4,453,479	
To REAP debt service fund	\$ 4,319,874	
To TRD (General Fund)	\$ 133,604	

SIGNIFICANT ISSUES

The US Department of Agriculture has a Rural Energy Program that may be used to match the financing here to increase the size of projects:

Providing reliable, affordable electricity is essential to the economic well-being and quality of life for all of the nation's rural residents. The Electric Programs provide leadership and capital to upgrade, expand, maintain, and replace America's vast rural electric infrastructure. Under the authority of the Rural Electrification Act of 1936, the Electric Programs make direct loans and loan guarantees to electric utilities to serve customers in rural areas.

The loans and loan guarantees finance the construction of electric distribution, transmission, and generation facilities, including system improvements and replacement required to furnish and improve electric service in rural areas, as well as demand side management, energy conservation programs, and on-grid and off-grid renewable energy systems. Loans are made to corporations, states, territories and subdivisions and agencies such as municipalities, people's utility districts, and cooperative, nonprofit, limited-dividend, or mutual associations that provide retail electric service needs to rural areas or supply the power needs of distribution borrowers in rural areas.

Through the Electric Programs, the Federal government is the majority note holder for approximately 700 electric systems borrowers in 46 states.

The Electric Programs also provide financial assistance to rural communities with extremely high energy costs to acquire, construct, extend, upgrade, and otherwise improve energy generation, transmission, or distribution facilities.

-- <http://www.usda.gov/rus/electric/>

The USDA Rural Energy Program granted \$3,000,000 in 2008 to the Sacred Power Corporation (a Navajo corporation) for solar power stations for remote tribal homes.

NF/mc:mt

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