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FISCAL IMPACT REPORT

ORIGINAL DATE 1/23/07

SPONSOR M.P. Garcia LAST UPDATED _____ HB 121

SHORT TITLE Low-Income Energy Assistance Funds SB _____

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	(10,184.0)	(3,514.0)	Recurring	General Fund
	\$10,184.0	\$3,514.0	Recurring	Low Income Home Energy Assistance Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to Appropriation in the General Appropriation Act
 Relates to SJM3, HB372, SB323, SB325

SOURCES OF INFORMATION

LFC Files
 Taxation and Revenue Department (TRD)
 Human Services Department (HSD)

Responses Received From

Taxation and Revenue Department (TRD)
 Human Services Department (HSD)

SUMMARY

Synopsis of Bill

House Bill 121 creates a low income home energy assistance fund and diverts a portion of oil and gas emergency school severance tax revenues to the new fund. The amount of distribution depends on the “surplus” amount from a base year that is defined as fiscal year 2004.

The money in the fund is appropriated to the human services department for expenditure for the low-income home energy assistance program (LIHEAP).

HSD:

LIHEAP is a grant from US Department of Health and Human Services (HHS) that helps NM low-income families meet the costs of home heating and cooling one time per year and increase energy self-sufficiency and reduce vulnerability resulting from energy needs. House Bill 121 adds general fund to supplement the federal funds available for this purpose.

There is no effective date so it is assumed that the effective date is June 15, 2007.

FISCAL IMPLICATIONS

House Bill 121 would reduce general fund revenues by \$19 million in FY08 and \$13 million in FY09. The reduction would be recurring and depend on the amount of revenue generated by oil and natural gas mining, which is largely determined by price. The new fund, the low-income home energy assistance fund, would be positively impacted by the identical amount. The amount of fiscal impact is determined by the amount above a baseline amount determined by the FY04 revenues and the consumer price index. The bill requires that the consumer price index for the calendar year preceding the current fiscal year as published by the US Bureau of Labor Statistics be used. The 2006 CPI was 210 and the 2003 CPI was 184 (CPI Base 1982-1984 = 100) making the inflation factor 1.14. TRD has provided a table:

Year	2004 School Tax	Base Year CPI	CPI Index	Adjustment Factor	Base CPI Adjusted	Estimated School Tax	Base	Distribution
2008	\$318,229	1.84	2.10	1.14	\$362,380	\$413,300	\$50,920	\$10,184
2009	\$318,229	1.84	2.13	1.16	\$369,229	\$386,800	\$17,571	\$3,514

Source: Taxation and Revenue Department

If the calculated distribution results in a negative number, the amount is zero. As the table indicates, the amount in FY09 is much less than in FY08. This is due to declining oil and natural gas prices and declining production. It is not inconceivable that the amount in a future year will be zero because the revenues have not kept up with inflation. Since the balances at the end of each fiscal year do not revert to the general fund, there may be some opportunity to accumulate reserves. However, LIHEAP is already under-funded and considered by many to be chronically under-funded so the likelihood of any reserves building up is slim.

Continuing Appropriations language

This bill creates a new fund and provides for continuing appropriations. The LFC has concerns with including continuing appropriation language in the statutory provisions for newly created funds, as earmarking reduces the ability of the legislature to establish spending priorities.

SIGNIFICANT ISSUES

In the 2005 special session, \$25 million was appropriated to Human Services Division (HSD) to administer LIHEAP. The session also created the Gasoline and Home Heating Relief Fund as a vehicle for contributions, appropriations and gifts but the fund has never had a non-zero balance.

Two important features of the LIHEAP program is that HSD will capture 10 percent of the appropriation for administration and 15 percent of the appropriation will be expended for weatherization.

HSD:

According to 2006 Fisher, Sheehan & Colton publications, the Home Energy Affordability Gap for low income households is \$600. Although only 71,794 NM households received LIHEAP in FFY 2006, there are approximately 180,530 households that meet the LIHEAP income eligibility limit of 150% of Poverty (2000 Decennial Census 2/2005). Using the Home Energy Affordability Gap of \$600, the total approximate energy need for 180,530 households is \$108,318,000. Receiving an undetermined amount in general funds would help to reduce the unmet need.

HSD has provided a table of the payments shown below. This proposal would fit under the \$10 million column and depending on the level of “point value option” HSD could serve 33 thousand to over 100 thousand households. At the FY06 level of benefit of \$65 per point, the program would serve 40,709 households in FY08. A point value is based on the available funding and a household’s points are determined by income and family size.

LIHEAP Projections				2	4	6	8	10	15	23
				\$2 M State Funds	\$4 M State Funds	\$6 M State Funds	\$8 M State Funds	\$10 M State Funds	\$15 M State Funds	\$23 M State Funds
Projected Federal Grant				\$ 9,392,231	\$ 9,392,231	\$ 9,392,231	\$ 9,392,231	\$ 9,392,231	\$ 9,392,231	\$ 9,392,231
Add Allowable Carry Forward 10%				\$ 1,155,469	\$ 1,155,469	\$ 1,155,469	\$ 1,155,469	\$ 1,155,469	\$ 1,155,469	\$ 1,155,469
Deduct for Allowable Admin Costs 10%				\$ 939,223	\$ 939,223	\$ 939,223	\$ 939,223	\$ 939,223	\$ 939,223	\$ 939,223
Deduct for Weatherization at 15%				\$ 1,408,835	\$ 1,408,835	\$ 1,408,835	\$ 1,408,835	\$ 1,408,835	\$ 1,408,835	\$ 1,408,835
Add State Funds				\$ 2,000,000	\$ 4,000,000	\$ 6,000,000	\$ 8,000,000	\$ 10,000,000	\$ 15,000,000	\$ 23,000,000
Deduct for State Admin Costs 10%				\$ 200,000	\$ 400,000	\$ 600,000	\$ 800,000	\$ 1,000,000	\$ 1,500,000	\$ 2,300,000
Balance Available for Benefits				\$ 9,999,642	\$ 11,799,642	\$ 13,599,642	\$ 15,399,642	\$ 17,199,642	\$ 21,699,642	\$ 28,899,642
Point Value Options	Benefit Range 2 - 12 Points	Avg Benefit @ 8.5 points	Potential Households That Could Be Served							
			▼	▼	▼	▼	▼	▼	▼	▼
A	\$ 80	\$160 - \$960	\$ 520.00	19,230	22,692	26,153	29,615	33,076	41,730	55,576
B	\$ 75	\$150 - \$900	\$ 487.50	20,512	24,204	27,897	31,589	35,281	44,512	59,281
C	\$ 70	\$140 - \$840	\$ 455.00	21,977	25,933	29,889	33,845	37,801	47,692	63,516
D	\$ 65	\$130 - \$780	\$ 422.50	23,668	27,928	32,189	36,449	40,709	51,360	68,402
E	\$ 60	\$120 - \$720	\$ 390.00	25,640	30,255	34,871	39,486	44,102	55,640	74,102
F	\$ 55	\$110 - \$660	\$ 357.50	27,971	33,006	38,041	43,076	48,111	60,698	80,838
G	\$ 50	\$100 - \$600	\$ 325.00	30,768	36,307	41,845	47,384	52,922	66,768	88,922
H	\$ 45	\$90 - \$540	\$ 292.50	34,187	40,341	46,495	52,648	58,802	74,187	98,802
I	\$ 40	\$80 - \$480	\$ 260.00	38,460	45,383	52,306	59,229	66,152	83,460	111,152
J	\$ 35	\$70 - \$420	\$ 227.50	43,954	51,867	59,779	67,691	75,603	95,383	127,031
K	\$ 30	\$60 - \$360	\$ 195.00	51,280	60,511	69,742	78,973	88,203	111,280	148,203
L	\$ 25	\$50 - \$300	\$ 162.50	61,536	72,613	83,690	94,767	105,844	133,536	177,844
M	\$ 24	\$48 - \$288	\$ 156.00	64,100	75,639	87,177	98,716	110,254	139,100	185,254
N	\$ 23	\$46 - \$276	\$ 149.50	66,887	78,927	90,968	103,008	115,048	145,148	193,309
O	\$ 22	\$44 - \$264	\$ 143.00	69,928	82,515	95,102	107,690	120,277	151,746	202,095
P	\$ 21	\$42 - \$252	\$ 136.50	73,257	86,444	99,631	112,818	126,005	158,972	211,719
Q	\$ 20	\$40 - \$240	\$ 130.00	76,920	90,766	104,613	118,459	132,305	166,920	222,305
R	\$ 19	\$38 - \$228	\$ 123.50	80,969	95,544	110,119	124,693	139,268	175,706	234,005

ADMINISTRATIVE IMPLICATIONS

TRD reports that there will be only minor changes needed. HSD reports that they will need 10 percent of the appropriation to administer the program.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

The Legislative Finance Committee recommendation for the general appropriation act included a \$4 million appropriation to HSD (\$2 million in the base budget and \$2 million as a special appropriation) for LIHEAP and the Executive recommended \$1 million in HSD’s budget.

House Bill 372 appropriates \$9 million to HSD for LIHEAP to the gasoline and home heating relief fund, a fund already established for distribution of heating assistance.

Senate Joint Memorial 3 calls on the Federal government to maintain and increase funding for LIHEAP.

TECHNICAL ISSUES

TRD:

The overall concept related to recognizing a new fund distribution from the extraction tax suspense fund is flawed. The Extraction Tax Suspense Fund is basically a “holding deposit account” whereby the money is further distributed into the main fund accounts or refunded from the main fund accounts based upon tax detail that is supplied by taxpayers. In reality, no money should remain in this account if taxpayers filed timely and filed correctly. If money is needed to support a Low Income Home Energy Assistance Fund account, a better way of allocating such money is directly from the Oil and Gas Emergency School Tax fund account. This can be done in the same way 7-1-6.21 handles an allocated amount from the Oil and Gas Conservation Tax fund into the Oil and Gas Reclamation fund that supports Energy and Minerals functions of plugging wells and reclaiming oil and gas well sites.

The bill should specify which version of the consumer price index the Department should use in making calculations (i.e. "consumer price index" means the average of the consumer price index for all urban consumers published by the United States department of labor for the twelve-month period ending July 31 of the calendar year.").

OTHER SUBSTANTIVE ISSUES

HSD reports that some of the LIHEAP payments are made directly to recipients and may be considered income for the purposes of other social assistance programs, particularly the food stamp program.

ALTERNATIVES

There already exists a Gasoline and Home Heating Relief Fund that can be used for this purpose though an amendment would be required to allow for distributions from a tax revenue source.

A direct appropriation to HSD or to the gasoline and home heating relief fund is an option that would maintain legislative authority over appropriations.

POSSIBLE QUESTIONS

Is this the best way to provide funds for LIHEAP?

Is this a sufficient source of revenue that future appropriations will be unnecessary?

NF/csd