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

SPONSOR Feldman **ORIGINAL DATE** 1/21/08 **LAST UPDATED** 2/05/08 **HB**

SHORT TITLE Energy Efficient Appliance Credit **SB** 35

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	FY09	FY10		
	(894.0)	(904.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department (TRD)

Responses Received From
Energy Minerals and Natural Resources Department (EMNRD)
Environment Department (NMED)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 35 allows a credit against personal income tax (PIT) for purchase of eligible energy efficient appliances. The credit ranges from $25 for an energy efficient circulation fan to $300 for an advanced evaporative cooler ("swamp" cooler) and is in effect from tax year 2008 to tax year 2015, when it expires (table 1). Energy Minerals and Natural Resource Department (EMNRD) will verify the eligibility of appliances and provide information and procedures to taxpayers. A taxpayer can claim up to $300 against current tax year liability. The effective date is January 1, 2008, allowing appliances purchased prior to passage of SB35 to be eligible.

Table 1: Eligible Appliances for PIT Credit

	Energy use criteria	Credit amount
Advanced air circulation fan	No more than 2% of total energy of attached furnace	$ 25.00
Furnace or hot water bilier	95% fuel efficient	75.00
Electric heat pump water heater	energy factor at least 2	150.00
Electric heat pump	Seasonal performance factor of at least 9; Seasonal energy efficiency ratio of at least 15; Total energy efficiency ration of at least 13	150.00
Geothermal heat pump - closed loop	Energy efficiency ration of 14.1 and heating coefficient of 3.3	150.00
Geothermal heat pump - open loop	Energy efficiency ration of 16.2 and heating coefficient of 3.6	150.00
Geothermal heat pump - direct expansion	Energy efficiency ration of 15 and heating coefficient of 3.5	150.00
Central air conditioner	Seasonal energy efficiency ratio of at least 15; Total energy efficiency ration of at least 13	150.00
Energy/water efficient advanced evaporative cooling system (swamp cooler)	90% effectiveness	300.00

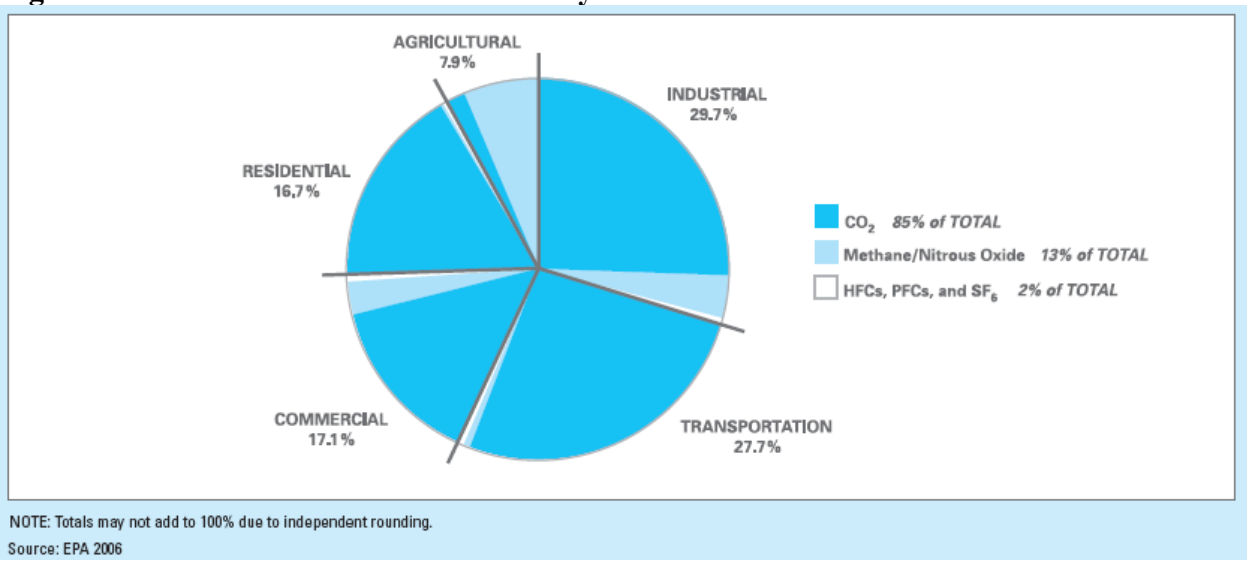
FISCAL IMPLICATIONS

According to TRD, the provisions of the bill closely parallel those of the federal Internal Revenue Code Section 25C. The credit rates proposed in the bill are one-half the credit rates provided in federal statute. The Joint Committee on Taxation of the U.S. Congress estimates that the federal credits will reduce revenues by $275 million in FY 2007. Adjusting this figure for New Mexico's share of the U.S. population and for the reduced credit rate yields an estimate of approximately $900 thousand. Given the limit of $300 per taxpayer implies that at least 3,000 taxpayers per year would take advantage of the credits.

SIGNIFICANT ISSUES

According to the US Department of Energy, space heating and cooling, the subjects of this tax credit, account for 56 percent of residential energy use. Targeting this category for increased efficiency should not only lower greenhouse gas emissions but also save money over the long run for residents. As Figure 1 shows, residential greenhouse gas emissions make up 16.7 percent of US emissions.

Figure 1: US Greenhouse Gas Emissions by Sector



EMNRD:

SB 35 will promote the purchase of energy efficient equipment over the less efficient models, which will result in reduced energy consumption throughout New Mexico. The tax credit will stimulate the demand for energy efficient equipment thereby helping to bring prices down in the future. Purchase of more energy efficient equipment will both lower the utility bills of participating taxpayers and help reduce New Mexico's total greenhouse gas emissions.

NMED:

Offering incentives for consumers to purchase of energy-efficient appliances could reduce New Mexico's demand for electricity generation and consumption of natural gas. That could result in decreased emissions of air pollutants, including sulfur dioxides, nitrogen dioxide (an ozone precursor), and greenhouse gases such as carbon dioxide and methane. Several areas of the state including San Juan County, Sandoval County and Doña Ana County, are very close to exceeding the U.S. EPA standard for ozone. If exceedances are measured, economic implications to these counties would ensue. Any effort to reduce air pollutant emissions can help to avoid that scenario. Reductions in greenhouse gas emissions will help in meeting the state's greenhouse gas emissions reduction goals.

TRD:

- Oregon also enacted similar legislation in 2006. The Oregon Department of Energy, which administered the program, commissioned ECONorthwest to estimate the "Economic Impacts of Oregon Energy Tax Credit Programs" (2007, May 30). They found that in 2006 energy tax credits stimulated Oregon's economy, producing significant positive net impacts on output, wages, business income, jobs, and tax revenues. The Oregon legislation was more comprehensive than the bill under consideration, but ECONorthwest found that appliances accounted for 79 percent of the installations, 43 percent of the total tax credits, and 37 percent of the energy cost savings achieved through the program. Multiplying Oregon's total tax credits for the program of $10,987,000 by this 43 percent and then multiplying that figure by 50 percent to adjust for the relative population sizes of New Mexico and Oregon indicates that the program

could cost as much as $2.36 million in FY 2009. The complete study can be found at http://www.oregon.gov/ENERGY/CONS/docs/EcoNW_Study.pdf

- The Oregon Legislation also provided for comprehensive Business Energy Tax Credits. Findings of the economic impact of these credits were reported separately from those of the Residential Energy Tax Credits. Under the Oregon Residential Energy Tax Credit (RETC), residents could receive a maximum credit of $1,000 per year for efficient appliances and a maximum credit of $1,500 per year for installation of renewable energy equipment and $1,500 per year for the purchase of an alternative fuel or hybrid vehicle. Products and technologies eligible for the RETC included appliances (clothes washers, dishwashers, and refrigerators), heating and air conditioning systems (various heat pump systems, heat/energy recovery ventilation systems, furnaces and boilers, air ducts, and combination space and water heating systems), solar (water and space heaters and electric or photovoltaic systems), water heaters (combination space and water heaters and wastewater heat recovery systems), vehicles (hybrid and alternative fuel), wind systems, fuel cells, geothermal systems, and hydroelectric systems. A summary of the study, "Economic Impacts of Oregon Energy Tax Credit Programs" (ECONorthwest. 2007, May 30.), as it pertains to the Residential Energy Tax Credit program, can be obtained by calling the Tax Research Office at (505) 827-0690.

- The bill under consideration grants the credit to "residents" regardless of the amount of time the taxpayer has domiciled in the state. Thus, a person who is a part-time resident as defined in 3.3.1.9 NMAC would also be qualified for the full credit.

PERFORMANCE IMPLICATIONS

According to NMED, reducing emissions from power plants and natural gas operations would assist in meeting the air quality performance measure of improving visibility at Class I areas and the state's greenhouse gas emissions reduction goals.

ADMINISTRATIVE IMPLICATIONS

There will be a minor fiscal impact on the Energy Conservation and Management Division (ECMD) of the Energy, Minerals and Natural Resources Department (EMNRD) for staff to verify HVAC equipment that meets the requirements of the tax credit and develop procedures. This will be a part of our existing energy efficiency and public outreach program. ECMD staff will work with industry to develop an equipment list that will be posted on ECMD's website and through public outreach efforts provide this information to the general public.

TECHNICAL ISSUES

EMNRD has identified the following that may need consideration:

On page 2, line 1 to line 4 provides a technical and administrative challenge to ECMD staff for verification. If the advanced main air circulation fan is not installed on a new furnace the percent of total energy use cannot be verified.

On page 3, line 10 the water heater should be identified as a gas water heater to meet the energy factor requirement.

NF/bb