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

SPONSOR Keller **ORIGINAL DATE** 02/10/11 **LAST UPDATED** O3/02/11 **HB**

SHORT TITLE "Colleges in Energy Efficiency & Bonding Act" **SB** 237/aSFC

ANALYST Kehoe

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY11	FY12		
NFI	NFI	N/A	N/A

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
New Mexico Finance Authority (NMFA)
New Mexico Renewable Energy Transmission Authority (NMRETA)
Higher Education Department (HED)
Energy, Minerals & Natural Resources Department (EMNRD)

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee amendment reduces from 25 years to 15 years that the term of a contract may be entered into for the installation of energy efficiency measures identified in an energy efficiency assessment.

Synopsis of Original Bill

Senate Bill 237 amends the Energy Efficiency & renewable Energy Bonding Act to define and allow post-secondary education institutions (public two- or four-year state institutions of higher education) as eligible entities under the Act. The bill also extends from 10 to 25 years the term a contract may be entered into for the installation of energy efficiency measures identified in an energy efficiency assessment.

FISCAL IMPLICATIONS

The Energy Efficiency and Renewable Energy Bonding Act was established as a financing mechanism to fund energy efficiency and renewable energy renovations at existing state facilities, universities and public schools. The Act authorized the New Mexico Finance Authority (NMFA) to issue up to $20 million in bonds backed by the state's gross receipts tax to make loans for the purposes stated in the Act. The Authority issues bonds and purchases them into the public project revolving fund to minimize the issuance costs associated with the bonds. The state has committed to cover the debt service on the bonds by reducing the appropriate agency's operating budget by 90 percent of the estimated cost savings generated from the energy measures implemented. The Energy, Minerals & Natural Resources Department is responsible for determining project eligibility.

According to NMFA, "the rationale of the bill is that fiscal savings will exceed the debt service costs of the bonds used to finance projects. The fiscal savings are accrued by individual post-secondary entities while the tax revenues to service the bonds, though not specified as to source, appear to be more broadly based. Thus, overall, the fiscal implication is that net savings will be achieved but this may result in tax revenues being reduced for some other specific purposes."

SIGNIFICANT ISSUES

As of September, 2010, NMFA has issued one bond totaling approximately $368,000. An energy assessment is needed to determine potential savings that can be achieved by implementation of energy efficiency measures. Without the resources to pay for an energy audit, eligible entities may not be able to take advantage of the low-cost bonds. The financing mechanism established by the Act does not currently provide a method for recovering the cost of an energy assessment. As stated by NMFA, "The greater burden will be on the Department that must evaluate projects to determine costs savings." Higher educational institutions are currently considered eligible for financing under the Energy Efficiency and Renewable Bonding Act if the institutions first go through the Higher Education Department to be considered by the Energy, Minerals & Natural Resources Department.

PERFORMANCE IMPLICATIONS

The Higher Education Department analysis states, "Although this is an additional funding source for institutions to use to implement energy efficiency measures, there are other considerations that may prevent them from using this funding:

- Determination of estimated energy cost savings may not be easily quantified, due to dynamic environments, for example: weather, changing conditions in the buildings and utility bill increases.
- Most institutions do not sub meter buildings to determine cost savings
- Measures need to be long term, but the equipment that would be replaced does not have the same life span.
- The current operational funding for post-secondary educational institutions is not evaluated per building, but is given as one total amount.

Due to unforeseen budget issues, institutions may not be acquiring the full amount of operational expenses and may not be able to reimburse the fund."

LMK/bym:svb