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FISCAL IMPACT REPORT

ORIGINAL DATE 2/25/19

SPONSOR Garcia, MP LAST UPDATED _____ HB 555

SHORT TITLE Low-Income Home Energy Assistance Fund SB _____

ANALYST Iglesias

APPROPRIATION (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY19	FY20	FY21	FY22	FY23		
\$0.0	\$5,900.0	\$6,000.0	\$4,400.0	\$3,100.0	Recurring	NEW Low-Income Home Energy Assistance Fund (to Human Services Department)
\$0.0	\$1,500.0	\$1,500.0	\$1,100.0	\$800.0	Recurring	NEW Low-Income Home Energy Assistance Fund (to NM Mortgage Finance Authority)

Parenthesis () indicate expenditure decreases

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY19	FY20	FY21	FY22	FY23		
\$0.0	\$7,300.0	\$7,500.0	\$5,600.0	\$3,900.0	Recurring	NEW Low-Income Home Energy Assistance Fund
\$0.0	(\$7,300.0)	(\$7,500.0)	(\$5,600.0)	(\$3,900.0)	Recurring	Tax Stabilization Reserve (General Fund Reserves)

Parenthesis () indicate revenue decreases

Relates to HB 602, SB 45, and SB 280.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

Mortgage Finance Authority (MFA)

SUMMARY

Synopsis of Bill

House Bill 555 creates the low-income home energy assistance fund and provides for it to receive a distribution from the oil and gas emergency school tax if year-to-date school tax

net receipts exceed the previous five-year average. Currently, Section 7-1-6.61 NMSA 1978 provides for 100 percent of the excess of the five-year average to be distributed to the tax stabilization reserve (a general fund reserve also known as the “rainy day fund”). This bill amends that distribution such that 5 percent of the excess will go to the new low-income home energy assistance fund and the remaining 95 percent of the excess will go to the tax stabilization reserve. If there is not an excess amount, no distribution shall be made to either the tax stabilization reserve or the low-income home energy assistance fund. This new fund is nonreverting and any interest earnings of the fund will be credited to the fund.

The bill appropriates 80 percent of the balance of the new fund to the Human Services Department (HSD) for expenditure for the low-income home energy assistance program (LIHEAP) and appropriates the remaining 20 percent to the Department of Finance and Administration (DFA) for the New Mexico Mortgage Finance Authority (MFA) to use for the weatherization of homes eligible for low-income home energy assistance programs. The bill states MFA may use no more than 5 percent if its appropriation for administrative expenses. The effective date of this bill is July 1, 2019.

FISCAL IMPLICATIONS

The fiscal impact estimates use the December 2018 consensus revenue forecast as the starting point, which estimated the excess of the five-year average of the oil and gas emergency school tax for FY20 to FY23 to be the following:

**Table 1: Excess Revenues from the Oil & Gas Emergency
School Tax (\$ millions)**

	<u>FY20</u>	<u>FY21</u>	<u>FY22</u>	<u>FY23</u>
Excess of 5-year average	\$146.6	\$149.7	\$111.7	\$77.3

Under current law, all of this excess goes into the state’s rainy day fund (the tax stabilization reserve). This bill would instead send 5 percent of this amount to the new low-income home energy assistance fund, with the remaining 95 percent going to the rainy day fund. These estimates are based on the December consensus estimate for oil and gas prices and volumes; however, if prices or volumes come in above or below the estimate, the revenue to be distributed could be higher or lower. If there is no excess above the five-year average of the school tax, then no distribution would be made to the rainy day fund or the new low-income home energy assistance fund.

The bill also appropriates all the revenue going into the new energy assistance fund, with 80 percent (estimated at \$5.9 million in FY20) going to HSD for the low-income home energy assistance program (LIHEAP) and 20 percent (estimated at \$1.5 million in FY20) going to MFA’s New Mexico EnergySmart program, which weatherizes and makes energy efficiency improvements for low-income households.

Because the bill diverts revenues that would otherwise go to the tax stabilization reserve, it would reduce estimates for general fund reserve balances for FY20 by \$7.3 million. The Taxation and Revenue Department (TRD) provides the following discussion regarding the state’s rainy day fund:

“The tax stabilization reserve, often referred to as a ‘rainy day fund’ provides an additional level of reserves during serious economic downturns. As the [consensus revenue estimating group] has highlighted recently, the state’s heavy reliance on direct and indirect oil and gas revenue places the state under greater risk of fiscal volatility. Distributing excess revenue from the oil and gas emergency school tax effectively captures revenue windfalls from the oil and gas industry to build up the reserve. The distribution to the reserve also moderates the volatility of revenue distributed into the general fund from the oil and gas school tax.”

This bill creates a new fund and provides for continuing appropriations. 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

MFA provides the following discussion regarding the NM EnergySmart program:

NM EnergySmart completes whole-house weatherization for low-income households throughout New Mexico, at an average cost of \$6,000 per home. Weatherization and energy efficiency work also results in job creation and significant cost and energy savings for low-income households. Many low-income families live in homes with inadequate heat, leaky or missing windows and unsafe living conditions. As a result, low-income households may spend up to 16 percent of their monthly budgets on utility costs compared to four percent for homeowners with higher incomes.

Weatherization through NM EnergySmart results in utility bill cost savings of between \$250 and \$550 per year for low-income households. [U.S. Department of Energy (DOE) research shows that for every one dollar invested in weatherization, \$2.51 is returned to households and the local economy.

There are consistently 2 thousand or more households on the NM EnergySmart waiting list statewide, indicating that MFA can easily expend this appropriation.

Currently, MFA weatherizes approximately 1,000 homes per year using funds from DOE’s weatherization assistance program, LIHEAP, local utilities and other sources. In the past, the state appropriated funds for NM EnergySmart. MFA did not request state appropriations after 2010 because it received substantial funding from the American Recovery and Reinvestment Act (ARRA) during that period. ARRA funds have been fully and successfully expended, yet the state has not reinstated funds for NM EnergySmart to date.

Based on income and disability eligibility, more than 200 thousand New Mexico households are eligible for weatherization through NM EnergySmart. NM EnergySmart is especially important for seniors living on fixed incomes, low-income families with children, and rural areas of the state where housing stock tends to be older and in greater need of weatherization.

ADMINISTRATIVE IMPLICATIONS

According to TRD, the Financial Distributions Bureau will create SHARE distribution accounts for the new fund and work with the Department of Finance and Administration to complete changes in distributions.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 45 proposes a \$2 million appropriation to fund MFA’s NM EnergySmart program.

Senate Bill 280 includes \$1 million in capital outlay funding to weatherize and improve energy-efficiency for low-income households. MFA would perform this work through its NM EnergySmart program.

House Bill 602 seeks to distribute 1 percent of the receipts of the oil and gas emergency school tax to the county in which that revenue was generated.

Does the bill meet the Legislative Finance Committee tax policy principles?

- 1. Adequacy:** Revenue should be adequate to fund needed government services.
- 2. Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
- 3. Equity:** Different taxpayers should be treated fairly.
- 4. Simplicity:** Collection should be simple and easily understood.
- 5. Accountability:** Preferences should be easy to monitor and evaluate

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