FISCAL IMPACT REPORT

		LAST UPDATED	2/22/2023
SPONSOR	Rubio/Ortez/Serrato/Allison/Johnson	**ORIGINAL DATE**	2/2/2023
SHORT TITLE	Economic Transition Division	**BILL NUMBER**	House Bill 188/a
		ANALYST	Dick-Peddie

APPROPRIATION*
(dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY23	**FY24**		
	$885.0	Recurring	General Fund
	$2,500.0	Nonrecurring	General Fund
	$10,000.0	See Fiscal Impact	General Fund
TOTAL	**$13,385.0**		

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

REVENUE*
(dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY23	**FY24**	**FY25**		
	$10,000.0	$0.0	See Fiscal Impact	Economic Transition Fund (NEW)

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

Relates to Senate Bill 62, House Bill 8 and House Bill 118

Sources of Information

LFC Files
United Nations "Sustainable Development" Policy Paper (May, 2021)

Responses Received From
Economic Development Department (EDD)
New Mexico Attorney General (NMAG)
Higher Educations Department (HED)

SUMMARY

Synopsis of HGEIC Amendment to HB188

The House Government, Elections and Indian Affairs Committee amended House Bill 188 to make minor technical changes, and to include pre-apprenticeships and integrated education programs as eligible entities. The amendment also adds language specifying that workers affected by a power plant closure would be covered by the legislation.

Synopsis of Original Bill

House Bill 188 appropriates a total of $13.385 million from the general fund to the Economic Development Department for the purpose of creating an Economic Transition Division. The new division would be tasked with providing programmatic, funding, administrative, and logistical support for communities and workers in economic transition. The Division's support would be targeted to aid disproportionately impacted communities and workers transitioning from natural resource extraction industries. The division is also responsible for preparing and publishing an economic transition action plan with 15 components.

House Bill 188 amends existing legislation to change the roles, responsibilities, and number of representatives on the Sustainable Economy Advisory Council (SEAC) and allows members of SEAC to receive per diem. The legislation also increases administrative support for the Sustainable Energy Taskforce (SET).

The bill creates a nonreverting economic transition fund designed for grants and loans, as well as administrative and reimbursable costs incurred by EDD, subject to legislative appropriation. It requires an annual report on the grants and loans approved, status of repayment obligations, money used for administrative and reimbursable costs, and status of the overall fund.

The effective date of this bill is July 1, 2023

FISCAL IMPLICATIONS

House Bill 188 contains the three following appropriations:

- An $885 thousand recurring expense to the general fund for the purpose of establishing a new Economic Transition Division within the Economic Development Department. Any unexpended or unencumbered balance remaining at the end of FY24 shall revert to the general fund.
- A $2.5 million nonrecurring expense to the general fund for two existing taskforces focused on economic transition. Any unexpended or unencumbered balance remaining at the end of FY24 shall not revert to the general fund.
- A $10 million nonrecurring expense to the general fund to establish a nonreverting economic transition fund, which may provide administrative support to EDD as well as grants, loans, or other programming to workers transitioning away from extractive industries. Although this bill does not specify future appropriations, multiyear appropriations, particularly if used to fund services, create an expectation the program will continue in future fiscal years; therefore, this cost could become recurring after the funding period.

The appropriations contained in this bill are not included in either the Legislative Finance Committee or executive budget frameworks.

Section 61-18-1 NMSA 1978 through Section 62-18-23 NMSA 1978 create the Energy Transition Act (ETA). The ETA sets a statewide renewable energy standard of 50 percent by 2030 for New Mexico investor-owned utilities and rural electric cooperatives and a goal of 80 percent by 2040, in addition to setting zero-carbon resources standards for investor-owned utilities by 2045 and rural electric cooperatives by 2050.

The laws create three funds – managed by the Indian Affairs Department (IAD), the Economic Development Department (EDD), and the Department of Workforce Solutions (DWS) to be used to assist communities affected by the transition, funded through transition bonds issued by "qualifying utilities." When the Public Service Company of New Mexico closed the San Juan Generating Station, funding from transition bonds amounted to approximately $2 million to the Indian Affairs Department fund, $6 million to the economic development fund, and $12 million to the department of workforce solutions fund, all subject to legislative appropriation. The Economic Development Department created the Energy Transition Act Committee (ETAC) in compliance with statute to consult with tribal and community entities to determine how to spend the funds. Though the committee has held three public meetings, as of January 6, 2023, no plan to spend EDD's $6 million allocation has been published.

While the funds created by the ETA are similar to the transition fund created in House Bill 188, the ETA fund revenues were generated from the closures of the San Juan and Four Corners generating stations to provide one-time relief programs for affected workers. In contrast, the fund created by HB188 would provide ongoing grants, loans, and training opportunities to transitionary workers across the state, including in the Permian basin.

SIGNIFICANT ISSUES

According to a policy paper on renewable energy transmission published by the United Nations, transitioning workers away from extractive industries is one of the biggest obstacles facing "net zero" initiatives, such as that mandated by the Energy Transition Act. The paper notes, "the green transition will involve a challenge for countries and regions that rely heavily on revenues and jobs generated by fossil fuel production, especially as the skills required for the energy transition do not necessarily match existing skills in the sector […] leading to lower production and job losses in vulnerable communities heavily reliant on [these industries]. New Mexico saw this when the Public Service Company of New Mexico closed the San Juan Generating Station. The city of Farmington, which held a 5 percent ownership stake in the generating plant, lost approximately $70 million in the closure, in addition to the loss of approximately 450 jobs and a key power source for the city.

The Economic Development Department noted in agency analysis that it is "extremely supportive of efforts of the statewide strategic plan and objectives of the SEAC and SET to transition the state away from its reliance on natural resources and diversify the economy." The department notes that broadening membership of the SEAC and SET would add a diversity of expertise and background to help EDD technical staff administer loan and grant programs.

Currently, EDD has a Justice, Equity, Diversity, and Inclusion office already involved in some of these transition efforts. EDD also has representative employees within the Workforce Solutions Department that work to promote the state's strategic 20-year plan and assist with connecting transitionary workers, business, and industries with developing workforce program recommendations. The department notes it would need to ensure the new division worked with these existing entities closely to avoid duplicating efforts.

PERFORMANCE IMPLICATIONS

EDD notes that it may not be able to produce the transition plan outlined in the bill until FY25. The department has concerns the data needed to assess how many workers are displaced by transitionary economies might be difficult to collect, as some industries may view it as proprietary or may be otherwise unwilling to release it.

ADMINISTRATIVE IMPLICATIONS

HB188 includes an appropriation of $885 thousand to establish, staff, and support the new division. EDD notes that is can support an additional 1 to 2 FTE, however, the passage of HB188 in combination with other proposed legislation (see Duplication and Relationship section) would overly strain EDD administration. The agency currently does not have the office space to support more than 2 additional FTE, and moving locations would incur increased lease costs in addition to moving costs. The agency also notes that it does not have the administrative staff, including human resource and all services division personnel to manage more than one new program in the agency.

EDD noted the following concerns with the expansion of SEAC:

> The expansion of duties for SEAC members might be problematic for some currently serving members because of the additional time requirements; however, the new per diem and mileage would significantly aid in the involvement by members representing disproportionately impacted communities across the state.
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> Since the legislative enactment of SEAC and SET, bringing the representative groups to fruition and achieving their existing duties and objectives has been incredibly difficult. Though the legislation was thoughtfully designed to include representation from a wide variety of demographic groups, actually creating and finding members who fit the criteria for the membership was arduous and time consuming.
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> SEAC and SET are already tasked with updating, contributing and guiding the implementation of the 20-year strategic plan published by the department in 2021. Those objectives have been slow to achieve and are still underway, and both groups need much more additional administrative support than the agency is able to provide due to its small staffing and large programmatic operations. Additional funding and staffing provided through this legislation might aid that effort.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 188 relates to House Bill 118 and Senate Bill 62 which both create an Office of Entrepreneurship within the Economic Development Department.

House Bill 188 also relates to House Bill 8, which creates a Creative Industries Division in the Economic Development Department.

TECHNICAL ISSUES

The Economic Development Department notes that money appropriated to the new economic transition fund is not appropriated to the department, necessitating annual legislative appropriations. EDD worries that without authority to expend funds outside of annual legislative sessions it will be difficult to administer the funds to industries in need in a timely fashion.

ALTERNATIVES

EDD notes that with additional funding, the Justice, Equity, Diversity and Inclusion office could administer the objectives of the legislation without creating a new division.

ADP/al/ne