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

SPONSOR Garcia, M. **ORIGINAL DATE** 3/2/15 **LAST UPDATED** 3/3/15 **HB** 572

SHORT TITLE Low-Income Home Assistance Distributions **SB**

ANALYST Graeser

APPROPRIATION (dollars in thousands)

Appropriation					Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17	FY18	FY19		
$0.0	$4,840.0	$7,730.0	$8,620.0	$8,960.0	Recurring	HSD/LIHEAP
$0.0	$1,210.0	$1,930.0	$2,150.0	$2,240.0	Recurring	MFA/Weatherization

Parenthesis ( ) indicate expenditure decreases

HB-572 relates to SB 110, which provides an appropriation to the mortgage finance authority for low income residential energy conservation.

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17	FY18	FY19		
	($6,050.0)	($9,660.0)	($10,770.0)	($11,200.0)	Recurring	General Fund
	$6,050.0	$9,660.0	$10,770.0	$11,200.0	Recurring	Low-Income Home Energy Assistance Fund

(Parenthesis ( ) indicate revenue decreases

These estimates are congruent with the February revision to the revenue estimates developed by the Consensus Revenue Estimate Group.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		**	**	**		MFA/Weatherization

Parenthesis ( ) indicate expenditure decreases

** The bill allows MFA to expend up to 5% of the amount of transfer for administration. MFA indicates that this 5% allowance will be sufficient. Although TRD and DFA/FCD have administrative duties pursuant to the provisions of this bill, there should not be any additional operating budget impacts. There are no accountability or separate reporting requirements for this bill.

SOURCES OF INFORMATION

LFC Files
HIS/Global Insight CPI forecasts for January 2015
December Revenue Estimate by the Consensus Revenue Estimating Group

Responses Received From
Mortgage Finance Authority (MFA)
Energy, Minerals, Natural Resources Department (EMNRD)
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

House Bill 572 proposes a recurring source of earmarked revenue for the Low Income Home Energy Assistance Program (LIHEAP). The bill proposes a formulaic amount of revenue from the Emergency School Tax with 80 percent transferred to Human Services for the direct LIHEAP assistance to low-income individuals for home heating and 20 percent transferred to Department of Finance and Administration for the LIHEAP home weatherization program managed by New Mexico Mortgage Finance Authority. The formula establishes a "base amount" which is the amount collected in a particular month of FY13 adjusted by the lesser of the percentage increase in the CPI for all commodities, all US urban consumers for the month or the percentage increase in the CPI for energy, all US urban consumers. Specifically, the numerator is the CPI (all commodities or energy) for the calculation month of the current year and the denominator is the CPI for the corresponding month of FY13. Money would only be transferred when the calculation month's actual emergency school tax collections exceeded the indexed base amount. The distribution to the newly created low-income home energy assistance fund would be calculated as 20 percent of the difference between actual collection for the month and the base amount. 80 percent of the amount in the low-income home energy assistance fund would be appropriated to Human Services Department (HSD) for the LIHEAP program and 20 percent would be used by the New Mexico Mortgage Finance Authority for weatherization of homes occupied by LIHEAP eligible individuals.

The effective date of the act is July 1, 2015. The bill provides instructions on timing of the provisions of the bill. There is no sunset date.

FISCAL IMPLICATIONS

The revenue estimate assumes the Emergency School Tax future estimate in the February Consensus Revenue Estimating Group would be received equally in all months of the fiscal year. Because of the effective date, there would be no transfer in FY 2015. The FY 2013 base month receipts were corrected for advanced payments.

LFC staff have built a spreadsheet model including all of the provisions of this bill. Both CPI-U all commodities and CPI-U energy indices have been downloaded and the forecasted values obtained from the HIS/Global Insight January Forecast. The monthly base amounts were obtained from ONGARD distribution month database and the ONGARD advanced payment data. The totals of these two items were confirmed against the audit-adjusted General Fund report provided by the Financial Control Division of DFA. Only the ONGARD distribution month data were used in calculating the effect of the provisions of the bill.

The monthly future amounts of the Emergency School Tax collections were modeled directly from the February revised Consensus Revenue Estimate.

For the forecast period, all of the monthly transfer amounts were calculated using the CPI-U energy indices. Using the CPI-U all commodities index resulted in a lower amount of transfer for all months in the calculation.

This spreadsheet is available by request from the LFC.

MFA notes that MFA will expend the funds by including them in its existing residential energy conservation program, NM Energy$mart, to weatherize homes for low-income households. Based on current and prior years of administering the NM Energy$mart program, there should be no additional operating budget impact on MFA that is not covered by the appropriation in HB 572. The bill explicitly provides for 5 percent administrative fees to be retained by MFA.

This bill does not create a tax expenditure, since taxes do not change pursuant to the provisions of this bill. However, the bill does create an earmarked fund that reduces revenues to the general fund. This feature may be counter to the LFC tax policy principles of adequacy, efficiency, accountability and equity. Due to the increasing cost of tax expenditures and earmarks, revenues may be insufficient to cover growing recurring appropriations.

SIGNIFICANT ISSUES

This same concept was introduced as HB 280 in 2012, HB 331 in 2013 and HB 104 in 2014. This bill, however, apparently addresses several of the criticisms of the previous bills.

These previous bills were criticized on at least two design points:
- The amounts of funds in the LIHEAP fund could not be BARed until September or October of the fiscal year following the tax collection. Emergency School Tax collections are somewhat volatile and the revenues cannot be estimated with any certainty until they are "in the bank."
- By using the CPI-U, all items, there is only a rough correspondence between need and resource.

This bill addresses these criticisms and addresses other technical issues.
- This bill changes the distribution from essentially a fiscal year calculation to a monthly calculation. The FY 2013 base month amount of emergency school tax is documented (net of any advanced payments). The FY 2013 base CPI-U, all items and CPI-U, energy amounts are well-documented. The current month CPI-U, all items and the CPI-U, energy indices are published well before the tax returns for the product sales month are required to be filed. Therefore, TRD should be able to calculate the amount of each month's transfer to the LIHEAP fund and the residual amount, plus any advanced payments to the General Fund. Since it is a monthly calculation, it can be automated and a low error rate encountered. TRD will have to change its spreadsheets to exclude the advanced payments prior to calculating any distribution to the low income home energy assistance fund.

- When there is a large increase or decrease in the CPI, both the need and resource increase or decrease together. High crude oil and natural gas prices drive the CPI-U, energy index up, but the high prices result in higher amounts of emergency school tax collections.
- Need is best measured by a combination of the CPI-U, all items **and** the CPI-U, energy index. The weatherization program has a relatively long lead time. The time to weatherize is before the cold weather hits. Weatherization projects have a very high return in energy (and energy cost) savings per dollar of program expenditures.
- The bill also addresses a subtlety, which is that the oil and gas advanced payments for Emergency School Tax are not General Fund revenues. They are transferred to DFA by TRD each month, but the advanced payments are excluded at audit as "Due to Taxpayers." The provision in this bill for TRD to exclude advanced payments from the monthly calculation improves the accuracy of the match between need and resource. It will also smooth out the monthly variation in calculated transfer amounts.

While solving a number of previous criticisms, it possibly adds a new criticism. There is no "catch-up" feature. Calculating this transfer as the sum of 12 independent monthly calculations will always result in more money transferred to the LIHEAP fund than if the calculation were made at the end of the fiscal year.

MFA notes that this bill provides additional funding to the NM Energy$mart program to complete whole-house weatherization for low-income households throughout New Mexico, resulting in job creation and significant cost and energy savings for low-income households. Many low-income families live in homes with inadequate heat, leaky or missing windows and unsafe living conditions. As a result, low-income households may spend up to 17 percent of their monthly budgets on utility costs compared to four percent for homeowners with higher incomes. Weatherization through the NM Energy$mart program has resulted in savings up to $400 per year in the energy bills of low-income households. DOE research shows that for every one dollar invested in weatherization, the community receives $2.51 in additional benefits.

On previous year's bills, HSD has commented, "… HSD administers the Low Income Home Energy Assistance Program (LIHEAP) which helps low income New Mexicans pay for home heating and cooling costs one time each program year. … HSD receives funding from a federal LIHEAP grant. HSD received $14,669,509 and $13,360,803 for FFY13 and FFY14, respectively. In FFY13, HSD assisted 68,462 individuals, with an average benefit amount of $122/per household. Year to date in FFY14, HSD has assisted 28,281 individuals with an average benefit amount of $128/per household."

PERFORMANCE IMPLICATIONS

MFA provided the following commentary:

> "MFA administers the NM Energy$mart program using a combination of DOE weatherization and LIHEAP funds, with some additional funding from local utilities and other sources. From 2005-2009, the state appropriated funds on an annual basis for NM Energy$mart. MFA did not request state appropriations in 2010 or 2011 because it received substantial funding for NM Energy$mart from the American Recovery and Reinvestment Act (ARRA) during that period. ARRA funds have been fully and successfully expended. However, the state has not reinstated funds for NM Energy$mart to date."
> "Reinstating state appropriations for NM Energy$mart is more important than ever be-

cause of expected federal budget cuts and urgent unmet need. The program 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.”

“ … Costs for whole-house weatherization average $5,000 per home. “

ADMINISTRATIVE IMPLICATIONS

HSD has planned to convert some of its LIHEAP positions to other programs in the FY16 request.

				FY 13 Base				
Accrual Month	ONGARD	CPI_U, All	CPI_U, energy	All	Energy	All Transfer	Energy Transfer	
FY 2010	$332.17	216.8	206.5					
FY 2011	$376.10	221.1	227.8					
FY 2012	$394.31	227.6	245.9					
FY 2013	$385.18	231.4	245.7					
FY 2014	$500.61	235.0	246.4	$391.24	$386.94	~~$21.87~~	~~$22.73~~	Note: prior to effective date
FY 2015	$370.00	236.4	216.8	$393.49	$338.68	~~$7.29~~	~~$9.62~~	Note: prior to effective date
FY 2016	$347.00	239.8	205.7	$399.36	$323.11	$	**$6.05**	
FY 2017	$387.00	245.4	217.2	$408.68	$341.18	$0.75	**$9.66**	
FY 2018	$412.00	251.4	229.4	$418.56	$360.40	$2.02	**$10.77**	
FY 2019	$437.00	257.7	243.8	$429.05	$382.92	$3.80	**$11.20**	
FY 2020	$464.00	264.0	256.8	$439.56	$403.51	$6.36	**$12.51**	

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