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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/31/07

SPONSOR Feldman LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Residential Energy-Efficiency Loan Program SB 404

ANALYST Leger

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	\$2,500.0	Nonrecurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Department of Finance and Administration (DFA)

New Mexico Mortgage Finance Authority (MFA)

### SUMMARY

#### Synopsis of Bill

Senate Bill 404 appropriates \$2.5 million from the general fund to Department of Finance and Administration (DFA) for disbursement to the New Mexico Mortgage Finance Authority (MFA) to create and implement a residential energy-efficiency improvement loan program for low and moderate income households. Energy-efficiency improvements may include conversion of existing utility systems to solar systems and other energy-efficient retrofits. No more than ten percent of the appropriation may be used by the MFA for administrative expenses.

### FISCAL IMPLICATIONS

The appropriation of \$2.5 million contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of 2010 shall revert to the general fund.

## SIGNIFICANT ISSUES

Analysis by MFA indicates that energy costs comprise up to 30% low and moderate income homeowners' monthly budgets. It is estimated average households spend between \$1,300 and \$1,500 annually on energy bills, roughly half of which is attributable to heating and cooling costs. By year 2010, residential energy use is expected to increase by 9%.

MFA provided the following statistics:

- In New Mexico's climate, spectrally selective low-e windows can cut cooling costs by as much as 38%.
- Appropriate insulation for your climate (based on R-ratings) can increase your comfort and reduce your heating and cooling costs up to 30%.
- An Energy Star furnace or air conditioning system, when properly sized and installed, can save consumers 30 - 40% on heating and cooling bills.

In addition to helping state homeowners New Mexico's environment will too realize significant benefits:

- The U.S. Environmental Protection Agency estimates an average house releases 22,000 pounds of carbon dioxide (CO<sub>2</sub>) annually compared to a typical car's 11,500 pounds of CO<sub>2</sub>.
- Energy production and use account for nearly 80 percent of air pollution, more than 88 percent of greenhouse gas emissions, and more environmental damage than any other human activity.
- Every kilowatt-hour (kWh) of electricity a consumer avoids using saves more than 1-1/2 pounds of CO<sub>2</sub> from being pumped into the atmosphere. If Americans bought only Energy Star products over the next 15 years, we would shrink our energy bills by more than \$100 billion and eliminate as much greenhouse gas pollution as is produced by 17 million cars for each of those 15 years.

## PERFORMANCE IMPLICATIONS

MFA has indicated the appropriation would be used to work with valued lender and builder partners to administer the funding through three different loan pools:

- One pool will be available to new low- and moderate income home buyers
  - Home Energy Rating System (HERS) certification rebates for newly constructed and existing homes under contract
  - Interest rate buy-downs on energy efficient mortgages
  - Low-interest rate loans for new energy efficient systems and/or energy efficiency retrofits (in conjunction with Fannie Mae's Homestyle loan product)
- A second pool will be available to current low- and moderate income homeowners
  - Low-interest rate loans for energy efficiency retrofits
- A third pool will be available to builders
  - Low-interest rate loans for new energy efficient systems for affordable single family for-sale housing development
  - Low-interest rate loans for new energy efficient systems for affordable rental housing development

As loans are repaid, funds will be recycled back into the loan program to provide future loans to builders, homebuyers, and homeowners.

MFA recognizes the obstacles in enacting a new program. The agency indicates the program will be unable to launch until it received appropriated funds from DFA. Marketing and outreach efforts will be needed to target audiences. Once launched however, MFA anticipates the various types of loans will complement existing products MFA offers; what is more, MFA has an extensive network of lenders, builders, and housing rehabilitation providers that will be anxious to utilize this program. It also complements federal and state tax credit incentives for solar energy system installation and conversion, etc.

#### **ADMINISTRATIVE IMPLICATIONS**

Senate Bill 404 states no more than ten percent of the appropriation may be used by MFA for administrative expenses.

#### **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

Low and moderate income families in New Mexico will continue to spend a significant amount of their income on home energy costs, and the state will forgo an opportunity to realize environmental benefits.

JL/csd