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FISCAL IMPACT REPORT

ORIGINAL DATE 1/23/08

SPONSOR Gonzales LAST UPDATED _____ HB 216

SHORT TITLE Energy Efficient Appliance Credit SB _____

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	FY09	FY10		
	(\$894.0)	(\$904.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to SB35

SOURCES OF INFORMATION

LFC Files

Taxation and Revenue Department (TRD)

Responses Received From

Energy Minerals and Natural Resources Department (EMNRD)

Environment Department (NMED)

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 216 allows a credit against personal income tax (PIT) for purchase of eligible energy efficient appliances. The credit ranges from \$75 for an energy efficient water boiler to \$300 for an advanced evaporative cooler (“swamp” cooler) and is in effect from tax year 2008 to tax year 2015, when it expires (table 1). Energy Minerals and Natural Resource Department (EMNRD) will verify the eligibility of appliances and provide information and procedures to taxpayers. A taxpayer can claim up to \$300 against current tax year liability. The effective date is January 1, 2008, allowing appliances purchased prior to passage of HB216 to be eligible.

Table 1: Eligible Appliances for PIT Credit

	Energy use criteria	Credit amount
Furnace or hot water boiler	95% fuel efficient	75.00
Electric heat pump water heater	energy factor at least 2	150.00
Electric heat pump	Seasonal performance factor of at least 9; Seasonal energy efficiency ratio of at least 15; Total energy efficiency ratio of at least 13	150.00
Geothermal heat pump - closed loop	Energy efficiency ratio of 14.1 and heating coefficient of 3.3	150.00
Geothermal heat pump - open loop	Energy efficiency ratio of 16.2 and heating coefficient of 3.6	150.00
Geothermal heat pump - direct expansion	Energy efficiency ratio of 15 and heating coefficient of 3.5	150.00
Central air conditioner	Seasonal energy efficiency ratio of at least 15; Total energy efficiency ratio of at least 13	150.00
Energy/water efficient advanced evaporative cooling system (swamp cooler)	90% effectiveness	300.00

FISCAL IMPLICATIONS

TRD:

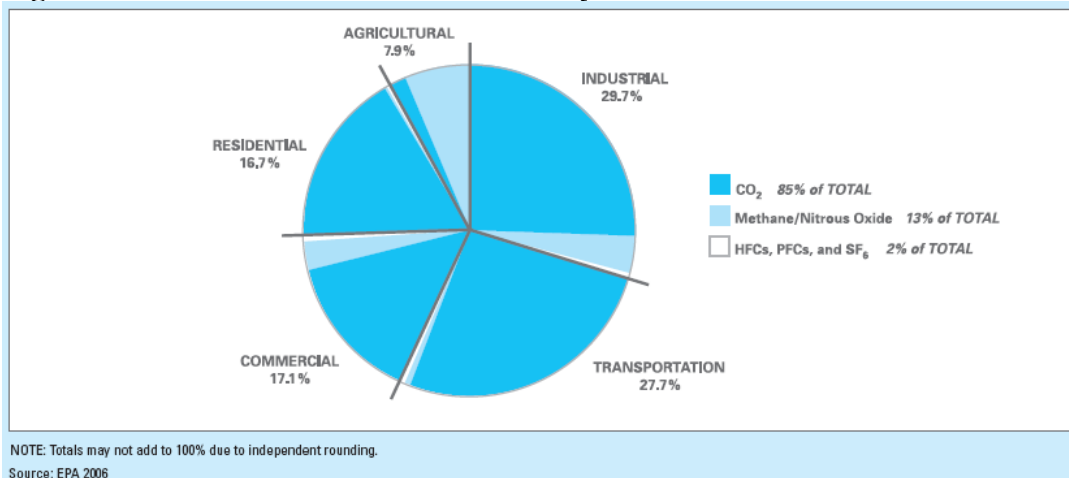
Provisions of the bill closely parallel those of the federal Internal Revenue Code Section 25C, except that the rates proposed in the bill are one-half the credit rates provided in federal statute. The Joint Committee on Taxation of the U.S. Congress estimates the credits would reduce federal revenues by \$275 million in FY 2007. Adjusting this amount by the .65% ratio of New Mexico to U.S. population and multiplying by .5 suggests revenue losses of approximately \$894 million in FY 2009. Subsequent years are adjusted by a population growth rate of 1.2%. As discussed in the “Other Issues” section below, Oregon recently enacted similar legislation. Calculations based on the Oregon data suggest the proposed New Mexico tax credits could generate a fiscal impact in the neighborhood of \$2.4 million. The \$900,000 figure is considered most probable, however.

The difference between the fiscal impact of this bill and SB 35 is negligible.

SIGNIFICANT ISSUES

According to the US Department of Energy, space heating and cooling, the subjects of this tax credit account for 56 percent of residential energy use. Targeting this category for increased efficiency should not only lower greenhouse gas emissions but also save money over the long run for residents. As Figure 1 shows, residential greenhouse gas emissions make up 16.7 percent of US emissions.

Figure 1: US Greenhouse Gas Emissions by Sector



EMNRD:

SB 35 will promote the purchase of energy efficient equipment over the less efficient models, which will result in reduced energy consumption throughout New Mexico. The tax credit will stimulate the demand for energy efficient equipment thereby helping to bring prices down in the future. Purchase of more energy efficient equipment will both lower the utility bills of participating taxpayers and help reduce New Mexico’s total greenhouse gas emissions.

NMED:

Offering incentives for consumers to purchase of energy-efficient appliances could reduce New Mexico’s demand for electricity generation and consumption of natural gas. That could result in decreased emissions of air pollutants, including sulfur dioxides, nitrogen dioxide (an ozone precursor), and greenhouse gases such as carbon dioxide and methane. Several areas of the state including San Juan County, Sandoval County and Doña Ana County, are very close to exceeding the U.S. EPA standard for ozone. If exceedances are measured, economic implications to these counties would ensue. Any effort to reduce air pollutant emissions can help to avoid that scenario. Reductions in greenhouse gas emissions will help in meeting the state’s greenhouse gas emissions reduction goals.

PERFORMANCE IMPLICATIONS

According to NMED, reducing emissions from power plants and natural gas operations would assist in meeting the air quality performance measure of improving visibility at Class I areas and the state’s greenhouse gas emissions reduction goals.

ADMINISTRATIVE IMPLICATIONS

There will be a minor fiscal impact on the Energy Conservation and Management Division (ECMD) of the Energy, Minerals and Natural Resources Department (EMNRD) for staff to verify HVAC equipment that meets the requirements of the tax credit and develop procedures. This will be a part of our existing energy efficiency and public outreach program. ECMD staff will work with industry to develop an equipment list that will be posted on ECMD’s website and through public outreach efforts provide this information to the general public.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB 216 relates to SB 35. However, HB 216 takes care of ECMD's inability to verify total energy use for the advanced main air circulation fan if not installed on a new furnace because it does not include a credit for the advanced main air circulation fan. In addition, HB 216 includes the identification for the water heater to be a gas water heater, which is needed to meet the energy factor requirement.

NF/nt