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FISCAL IMPACT REPORT

SPONSOR HGEIC **ORIGINAL DATE** 02/15/22 **CS/CS/6/HENRCS/**
LAST UPDATED _____ **HB** HGEICS
SHORT TITLE Clean Future Act **SB** _____
ANALYST Wan

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

| | FY22 | FY23 | FY24 | 3 Year Total Cost | Recurring or Nonrecurring | Fund Affected |
|--------------|------|---------------|---------------|----------------------|------------------------------|------------------|
| Total | NFI | \$0-\$1,100.0 | \$0-\$1,100.0 | \$0-2,200.0 | Recurring | General Fund |

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Environment Department (NMED)

No Response Received

Energy, Minerals and Natural Resources Department (EMNRD)

SUMMARY

Synopsis of Bill

The House Government, Elections and Indian Affairs Committee Substitute for House Bill 6 (CS/CS/HB6/HENRCS/HGEICS) establishes statewide greenhouse gas (GHG) emissions limits under the Air Quality Control Act as follows: by 2030, statewide direct emissions shall be 50 percent less than 2005 levels; by 2050, statewide direct emissions shall be 90 percent less than 2005 levels using direct emissions reductions; and remaining emissions in 2050 and subsequent years shall be at least matched with offsets to achieve at least net-zero emissions. Offsets can be generated by biological, technological, chemical, or geologic means from a source, facility, or entity that is not otherwise subject to the emissions reduction requirements of the bill.

All regulated sectors are required to meet the limits by reducing direct emissions or using excess emissions reduction credits. The bill defines “regulated sector” as “any sector or source that is regulated and owned or operated, in whole or in part, by any person and includes electricity generation, both imported and produced in-state; heating, transportation and other fuels combusted in New Mexico; buildings, structures and distribution systems; residential, commercial, institutional and industrial waste management; agricultural and silvicultural practices; and extractive, industrial or other manufacturing processes.”

Beginning April 15, 2023, CS/CS/HB6/HENRCS/HGEICS requires state entities (defined as cabinet departments of the executive branch, the Regulation and Licensing Department, the State Land Office, the Public Regulation Commission, the Department of Agriculture, the Board of Regents of the University of New Mexico, and the Board of Regents of New Mexico State University) to report annually to the Environment Department (NMED) and Energy, Minerals and Natural Resources Department (EMNRD) on

- 1) the impacts of climate change on the state entity's programs and operations and, to the extent known, on disproportionately impacted communities;
- 2) the ways in which the state entity is able to integrate climate change adaptation and mitigation practices into its programs or operations;
- 3) to the extent known, the current and projected future direct GHG emissions from sources or sectors within the state entity's regulatory jurisdiction and the progress being made toward meeting the GHG emissions limits of HB6; and
- 4) any additional resources, statutory or regulatory authority, or programs needed to reduce direct GHG emissions from sources or sectors within the state entity's regulatory jurisdiction to meet the emissions limits established in HB6.

CS/CS/HB6/HENRCS/HGEICS requires NMED and EMNRD to annually publish a joint report on the state's progress toward meeting the legislation's emissions limits to include an emissions inventory, policies and strategies either in place already or necessary to achieve the required emission limits, programs needed to reduce GHG emissions from light-, medium- and heavy-duty vehicles sold in the state and other sources, budgetary resources needed for program implementation, and opportunities to increase energy efficiency investments and targets for electric utilities.

The legislation authorizes NMED and EMNRD to coordinate the efforts needed in the state and among state agencies and to take any action authorized by law that is deemed necessary or appropriate by the secretaries of the departments for the state to meet the GHG emissions limits.

CS/CS/HB6/HENRCS/HGEICS creates new duties and powers for the Environmental Improvement Board (EIB), including statewide rulemaking to reduce direct emissions subject to the Air Quality Control Act per the limits in Section 3 of the bill. Such rules shall, at a minimum, require emissions reporting and disclosure; emissions reductions; protocols for the requirement, approval, and transfer of offset credits; and the assessment of reasonable fees on sources of emissions, revenue from which will be deposited in the general fund.

There is no effective date of this bill. It is assumed that the effective date is 90 days following adjournment of the Legislature.

FISCAL IMPLICATIONS

NMED has provided several different figures for the agency's annual budget and staffing needs to implement this legislation, ranging from \$340 thousand for the introduced version of HB6 to \$1.75 million for the HGEIC substitute, despite that the agency's responsibilities have been nearly identical under each iteration. NMED now estimates a need of \$750 thousand annually for contractual services to support calculation of the 2005 emissions inventory baseline; the annual emissions inventory; rule-drafting legal assistance, including review of regulations from other states; an economic impact analysis; the development of the offset market trading rules and

software platform; credit certification; and compliance with the legislation's requirements/new rules issued by the EIB. Despite initially stating the requirements of HB6 could be met with two existing NMED staff, the agency now states it will require 10 new FTE at an annual cost of \$1 million to develop proposed rules, conduct stakeholder and public outreach, including a focus on disproportionately impacted communities, petition the EIB, participate in the rulemaking hearing process, and implement the new regulations.

House Bill 2 adds \$650 thousand to NMED's operating budget for a Climate Bureau, which would cover most of the personnel costs associated with implementing this legislation. The agency's HB2 appropriation is taken into account in the operating budget impact shown on page 1, as are the range of cost estimates the agency has provided.

SIGNIFICANT ISSUES

Per Executive Order 2019-003, Addressing Climate Change and Energy Waste Prevention, state agencies are already implementing strategies that address climate change to meet the goal of reducing GHG emissions by 45 percent by 2030. CS/CS/HB6/HENRCS/HGEICS would codify emissions limits and give NMED and EMNRD the statutory responsibility and authority to enforce rules and strategies to comply with those limits. NMED argues CS/CS/HB6/HENRCS/HGEICS would lessen the severity of climate change impacts on New Mexico, such as water scarcity, more frequent wildfire activity, and stressed agricultural systems.

PERFORMANCE IMPLICATIONS

By lowering GHG emissions, CS/CS/HB6/HENRCS/HGEICS will lower polluting air emissions, resulting in improved air quality, which is one of NMED's key performance measures. CS/CS/HB6/HENRCS/HGEICS would also help NMED's performance on metrics specifically regarding the amounts of nitrogen oxides and volatile organic compounds emitted statewide.

ADMINISTRATIVE IMPLICATIONS

NMED will use 2 FTE that currently do similar work in the Climate Change Task Force to develop proposed rules, conduct stakeholder and public outreach, petition the EIB, and participate in the rulemaking hearing process. NMED anticipates it will need to contract with outside technical experts to conduct additional analyses and assist in the preparation of hearing exhibits and testimony. The agency states additional staff and contractors will be required to support policies and strategies to meet the 2030 and 2050 emissions limits including advanced clean car standards, clean fuel standards, and bringing clean hydrogen production and energy generation to New Mexico.

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